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RISKY BUSINESS? ENVIRONMENTAL EXPOSURE AND THE BANKING INDUSTRY

OLAF WEBER

As banks know all too well, lending money is inherently a risky business. Dozens of factors influence whether commercial customers will be able to repay the money they borrow - and among those factors is environmental performance.

After all, eco-conscious consumers may boycott companies with a reputation for pollution. Heavy carbon emitters could well face regulations, carbon taxes or cap-and-trade schemes in the future. And environmental disasters, if they occur, can cost millions of dollars.

But are Canadian banks paying enough attention to environmental risk? Olaf Weber set out to answer that question. The researcher at UW's School of Environment, Enterprise and Development examined environmental and sustainability reports issued by Canada's six major commercial banks, as well as two credit unions and Export Development Canada, and compared their performance to other financial institutions around the world.

The good news? All the Canadian institutions studied - which together account for more than 90 per cent of the country's assets - systematically examine environmental risks for credits, loans and mortgages.

Weber does identify room for improvement. Not all banks appear to conduct environmental examinations for all commercial loans. Nor are the reports as transparent as they could be. According to Weber, none of the institutions provide enough detail for stakeholders to understand the financial risks of environmental issues or the financial benefits of managing those risks. He calls for banks to include more in-depth data, such as trend analysis and benchmarking, and to disclose the indicators they use for risk assessments.

Compared with their global peers, however, Canadian banks are best in class when it comes to scrutinizing environmental risk. Perhaps not coincidentally, Canadian banks are also among the soundest in the world. As Weber points out, environmental leadership and financial security can go hand in hand.

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