

JOINT LETTER

Prevent a 'Climate Lehman Moment'

The collapse of Lehman Brothers triggered the last global financial crisis. There's a new threat on the horizon, yet a simple way to step back from the point of no return.

Brussels, 27 October 2021

To,

Ursula von der Leyen, President of the European Commission

Charles Michel, President of the European Council

Joe Biden, President of the United States of America

Boris Johnson, Prime Minister of the United Kingdom

A copy of this letter has been sent to key decision makers within each region:

In the European Union

Frans Timmermans, Vice-President of the European Commission

Valdis Dombrovskis, Executive Vice President of the European Commission, European Commissioner for Trade.

Mairead McGuinness, European Commissioner for Financial Stability, Financial Services and the Capital Markets Union

José Manuel Campa, Chairperson of the European Banking Authority

Petra Hielkema, Chairperson of the European Insurance and Occupational Pensions Authority

In the United States of America

Janet Yellen, United States Secretary of the Treasury

John Kerry, U.S. Special Presidential Envoy for Climate

Brian Deese, Director of the National Economic Council

Jerome Powell, Chair of the Board of Governors of the United States Federal Reserve System

Michael Hsu, Acting Comptroller of the Currency

In the United Kingdom

Andrew Bailey, Governor of the Bank of England

Mark Carney, Adviser for the UK presidency of the United Nations Climate Change Conference (COP26)

Rishi Sunak, Chancellor of the Exchequer

Kwasi Kwarteng, Secretary of State for Business, Energy and Industrial Strategy of United Kingdom

Sam Woods, Deputy Governor for Prudential Regulation, CEO of the Prudential Regulation Authority

Dear Leaders,

Right now, we run the risk of another financial crisis, this time caused by climate change. Climate scientists from around the world warn that global warming is dangerously close to being out of control.¹ There is global recognition that this crisis also threatens the stability of our financial system.² And yet, despite net-zero emission pledges, **most banks and insurers remain on a self-destructive path.**³ **They perpetuate the risks of climate change by financing and insuring fossil fuel-related activities.**⁴

As the climate meltdown unfolds, financial institutions will face losses stemming from disruptive weather events, which intensify and increase in frequency. Examples abound, such as recent heavy flooding in Europe, a terrible instance of multi-billion dollar damages from catastrophic, climate change-related forces.⁵ Such events are leading to huge unexpected payouts by insurance companies and to the destruction of assets and business operations that banks and insurers are exposed to. Moreover, frequent natural disasters are driving up premiums for insurance coverage, leaving citizens, businesses and financial institutions exposed to climate change related risks.⁶

Furthermore, with the transition to a low-carbon economy, fossil fuel assets of banks and insurers will rapidly diminish in value or become entirely worthless. This will lead to massive losses for financial institutions, which could result in them requiring bailouts, where the public is the one to pay.

The truth is: we already have six times more fossil fuel reserves than we can afford to burn.⁷ **Even the International Energy Agency (IEA) stated that if we want to meet the goals of the Paris Agreement, investments in new fossil fuels must stop immediately.**⁸ This was recently echoed by United Nations Secretary-General Antonio Guterres.⁹

Therefore, any financing and insurance of new fossil fuel exploration and production is:

- **extremely risky, as new fossil fuels will lose their value.**
- **at odds with the Paris Agreement.**

An immediately feasible solution¹⁰

If a bank or insurer still wants to venture into an activity that explores and produces *new fossil fuels*, they should be constrained to take the entire risk of funding this activity on their shoulders. Policymakers should introduce a **One-for-One rule for stability**: Every euro/dollar/pound etc. of financing provided must be matched by one euro/dollar/pound of institutions' own funds, to be held liable. Their own funds should be sufficient to fully absorb losses without exposing depositors, policyholders and ultimately tax payers and society to the losses they will inevitably incur.¹¹

Capital requirements for *existing* fossil fuel financing should also be increased, albeit to a lesser extent than that for new fossil fuels. This will allow the financing for existing fossil fuels to be phased out gradually, without jeopardising financial stability.

Such prudential regulation would:

- protect those who entrust their money with financial institutions, and prevent a potential financial crisis
- protect taxpayers, whose funds would otherwise be used in a bail-out scenario
- mitigate the risks of climate change in the first place, as the incentive in current prudential rules to finance fossil fuels, which equates to a subsidy, would be removed

Capital regulations for banks and insurers already mandate higher capital charges for high risk exposures. All we need to do is to make sure that fossil fuel exposures are recognised as high-risk within the existing rules.

This idea has been endorsed by a panel of 50 sustainable finance experts from across academia, civil society, commercial banks, central banks and the investor community.¹²

At the moment, financing and insuring coal, oil and gas projects remains artificially cheap.

The capital levels that banks and insurers must maintain to cover potential future losses do not match the risks of these exposures. The lack of action so far is grounded in a paradox: Policy-makers and supervisors recognise the near impossibility of modelling climate-related risks due to the radical uncertainty of climate events.¹³ But they say they need such modelling to be done before intervening. By waiting for these impossible calculations, **financial regulators extend an indirect subsidy to climate change-causing industries.**

We cannot wait. The climate clock is ticking. Other interventions on their own will not have the impact we need to prevent irreversible devastating impacts of climate change on the financial system.

During the United Nations Climate Change Conference (COP26), you will frame the global ambitions to prevent a climate crisis. We urge you to recognise the role of capital rules to avert a possible ‘Climate Lehman moment’, and act jointly to trigger decisive action.

Please incorporate the aforementioned ideas in your prudential rules for banks and insurers and promote this solution at the international level. It is only with the support of prominent economies that this pivotal proposal can come into force.

Yours Sincerely,

111 organisations and **60** individuals, including civil society, ethical banks associations, economists and citizens (see full list below)

Annotations

1. IPCC (2021) [*Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change*](#)
2. See for example: Villeroy de Galhau, F. (2020) [*The green swan*](#), Foreword; LAGARDE, C. (2020) [*It is difficult to disagree that climate change is a threat to financial stability*](#); and CARNEY, M (2015) [*Breaking the tragedy of the horizon – climate change and financial stability*](#).
3. Nagrawala et al (2021) [*Countdown to COP26*](#) and [*Insuring Disaster*](#), ShareAction
4. The world's largest banks have [*provided*](#) \$3.8 trillion to the fossil fuel industry since the Paris Agreement. For insurers, data [*shows*](#) that the largest U.S. and European insurers currently have invested around \$600 billion in fossil fuels and the international insurance market for oil and gas totalled premiums of \$17.3 billion in 2018.
5. Sheehan, M. (2021) [*Europe floods largely uninsured, despite multi-billion industry loss: Aon*](#), Reinsurance News.
6. German Insurance Association (GDV) (2021) data, for example, [*shows*](#) that 54% of properties in Germany lack any insurance coverage against weather phenomena.
7. Carbon Tracker (2018) data [*shows*](#) that existing fossil fuel reserves amount to 2910 gigatonnes of carbon dioxide emissions, whereas the calculated carbon budget of our planet is 495 gigatonnes.
8. International Energy Agency (IEA) (2021) [*Net Zero by 2050 - A Roadmap for the Global Energy Sector*](#), pg 222; [*World Energy Outlook 2021*](#)
9. Guterres, A (2021) [*Secretary-General's statement on the IPCC report*](#)
10. For banks: Philipponnat, T. (2020) [*Breaking the climate-finance doom loop*](#), Finance Watch; For insurers: Norwood, P. (2021) [*Insuring the Uninsurable*](#), Finance Watch
11. In terms of prudential rules, this means that banks and insurers should be required to finance activities related to new fossil fuel reserves entirely out of equity (own funds). Equity acts as a buffer that absorbs losses from banks' and insurers' financing activities.
12. Vaccaro, J. and Barnes, D. (2021) [*Financial Stability in a Planetary Emergency*](#), Climate Safe Lending Network, Positive Money, in partnership with EIT - Climate KIC and the UN Environment Finance Initiative.
13. For example: Watts, J. (2021) [*Climate scientists shocked by scale of floods in Germany*](#), The Guardian.



Signatories of our joint letter:

111 organisations and **60** individuals,
including civil society, ethical banks
associations, economists and citizens





Organisations

1. Finance Watch
2. The Sunrise Project
3. Climate Safe Lending Network
4. Public Citizen
5. New Economics Foundation
6. Reclaim Finance
7. ClientEarth
8. 350.org
9. E3G
10. Positive Money UK
11. Transport & Environment
12. Insure Our Future
13. Bürgerbewegung Finanzwende
14. ShareAction
15. WWF European Policy Office
16. Cop26climateactionplan.Com
17. Change Finance
18. National Campaign for Sustainable Development Nepal
19. WEED - World Economy, Ecology & Development
20. Profundo
21. Fondazione Finanza Etica
22. ATTAC Liège
23. etika
24. Indigenous Peoples Global Forum for Sustainable Development, IPGFforSD
25. Clean Air Action Group
26. 350 Seattle
27. Connecticut Citizen Action Group (CCAG)
28. Fundacja Rozwój Tak – Odkrywki Nie
29. Re-set: platforma pro sociálně-ekologickou transformaci
30. ASUFIN
31. Climate Alliance Switzerland / Klima-Allianz Schweiz / Alliance climatique suisse
32. Revolving Door Project
33. Positive Money US
34. Majority Action
35. Sisters of St. Dominic of Caldwell, NJ
36. Sisters of Charity Federation
37. Ekumenická akademie (Ecumenical Academy)
38. BankTrack
39. Association of Ethical Shareholders Germany
40. As You Sow
41. KOTHOWAIN (Vulnerable Peoples Development Organisation)
42. Basel Institute of Commons and Economics
43. Rethinking Economics Australia

44. Fair Finance Institute
45. Debt Observatory in Globalisation (ODG)
46. Eerlijke Geldwijzer (Fair Finance Guide Netherlands)
47. Attac Togo (Lemou)
48. Attac Spain
49. Change Partnership
50. Freedom from Debt Campaign Pakistan
51. WEAll - the Wellbeing Economy Alliance
52. Association For Promotion Sustainable Development
53. Gestos (soropositividade, comunicação, gênero)
54. Fondation Nicolas Hulot
55. Attac Germany, Financial Markets & Tax Working Group
56. Rural Area Development Programme (RADP)
57. RIHRDO (Rural Infrastructure and Human Resource Development Organization)
58. Positive Money Europe
59. Global Policy Forum
60. Attac Austria
61. Institut Veblen pour les réformes économiques
62. Grands-parents pour le climat / Klima-Grosseltern CH
63. Galway One World Centre
64. Observatorio Mexicano de la Crisis
65. Financité
66. revo Prosperidad Sostenible
67. Waterkeeper Alliance
68. FracTracker Alliance
69. Polish Zero Waste Association
70. Both ENDS
71. Nipe Fagio
72. Finance Innovation Lab
73. NOVACT
74. Ban SUP (Single Use Plastics)
75. Servicios Ecumenicos para Reconciliacion y Reconstruccion Millersville University
76. Talousdemokratia – Economic Democracy Finland
77. Africa Europe Faith & Justice Network
78. European Federation of Ethical and Alternative Banks and Financiers
79. Fund Our Future
80. Lithuanian Consumers Alliance
81. Our New Economy
82. AfroLeadership
83. Jamaa Resource Initiatives
84. Iraqi Journalists Rights Defence Association
85. Institut Rousseau
86. Jovens para os Direitos Humanos Portugal / INCUB Portugal
87. Bio Vision Africa (BIVA)
88. Escape-jobs pour l'emploi sans carbone
89. Zukunftskonvent, Germany
90. The Gaia Foundation
91. Centre for Financial Accountability
92. Attac Norway
93. Development Alternatives with Women for a New Era (DAWN)
94. Global Justice Now
95. Fair Finance International
96. Agir pour le Climat
97. ZERO - Associação Sistema Terrestre Sustentável

98. European Trade Union Confederation
99. urgewald
100. Sustainable Value Investors
101. KoalaKollektiv
102. Leave it in the Ground Initiative (LINGO)
103. Global Peace and Development Organization
104. Les Amis de la Terre France / Friends of the Earth France
105. Fundación Finanzas Éticas
106. Campax
107. NOAH- Friends of the Earth Denmark
108. Rainforest Action Network
109. Global Alliance for Banking on Values
110. ZEF: Cooperative for ethical financing
111. Better Markets

Individuals

1. **Benoît Lallemand**, Secretary General, Finance Watch
2. **Adam Tooze**, Professor of History at Columbia University
3. **Stephany Griffith Jones**, Economist
4. **Ann Pettifor**, Economist
5. **Ian Dunlop**, Co-author, "Degrees of Risk", Breakthrough National Centre for Climate Restoration
6. **Steve Keen**, Economist
7. **Marc Chesney**, Professor of Mathematical Finance, Faculty of Economics, University of Zurich
8. **Annavajhula J C Bose**, Professor of Economics, Shri Ram College of Commerce
9. **Josh Ryan-Collins**, Economist, UCL Institute for Innovation and Public Purpose
10. **Laurence Scialom**, Professor of Economics, University Paris Nanterre
11. **Susana Martín Belmonte**, Economist - Monetary Innovator
12. **Aimilia Koukouma**, Economist
13. **Andrew Denis**, Fellow Emeritus in Economics
14. **Brent Bleys**, Associate Professor of Economics, Ghent University
15. **Brett Scott**, Author
16. **Christoph Scherrer**, Professor and Director of the International Center for Development and Decent Work
17. **Edgar Blaustein**, Economist
18. **Jakob Kapeller**, Professor of Economics
19. **Jeff Tan**, Associate Professor of Political Economy, Aga Khan University
20. **Lucas Trentin Rech**, Adjunct Professor of Economics, Federal University of Bahia
21. **Maud Abdelli**, Initiative lead for greening financial regulation, WWF
22. **Neil Lancaster**, Senior Lecturer for Business and Law, De Montfort University
23. **Nicolas Franka**, Economist
24. **Pierre Ozer**, Professor of Environmental Sciences and Management, University of Liege
25. **Helena Paul**, Researcher of biodiversity and climate change, EcoNexus

26. **Roberto Veneziani**, Professor of Economics,
Queen Mary University of London
27. **Tomas Rotta**, Lecturer in Economics, Goldsmiths
University of London
28. **Yamina Tadjeddine**, Professor of Economics,
Université de Lorraine
29. **Eren Can Ileri**, Citizen
30. **Giuseppe Montalbano**, Citizen
31. **Rainer Geiger**, Citizen
32. **Patrick Hebert**, Citizen
33. **Patrick Mulvany**, Citizen
34. **Thomas Lines**, Citizen
35. **Thomas Dorizzi**, Secretary, Citizen
36. **Venugopal Rajamani**, Citizen
37. **Lolanda Fresnillo**, Citizen
38. **Wester Van Gaal**, Citizen
39. **Alain Minczeles**, Citizen
40. **Andy Philpott**, Citizen
41. **Anna Püschel**, Citizen
42. **Christian Nicol**, Citizen
43. **Corentin Sastre**, Citizen
44. **Diego Pedraza Lahoz**, Citizen
45. **Dony Vincent**, Citizen
46. **Elizabeth Hallworth**, Citizen
47. **Eric Schutz**, Citizen
48. **Felix Kobelt**, Citizen
49. **Fernando José López**, Citizen
50. **Henriette Hettinga**, Citizen
51. **Jiri Silny**, Citizen
52. **Josep Xercavins**, Citizen
53. **Kayleigh Woods Harley**, Citizen
54. **Marc-Olivier Leclercq**, Citizen
55. **Michel Becker**, Citizen
56. **Odile Hélier**, Citizen
57. **Toni Reichmuth Arzt**, Citizen
58. **William Colwell**, Citizen
59. **Yves Pace Teather**, Citizen
60. **Ysanne Choksey**, Citizen

**... among a growing number of economists,
influencers, citizens and campaigners who
support us.**