CENTER FOR CLIMATE AND ENERGY SOLUTIONS

BUSINESS

The State of Net-Zero Finance

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While finalizing research for the Center for Climate and Energy Solutions' (C2ES) analysis, Navigating the Finance Sector Net-Zero Transition: Levers for Decarbonizing in a Complex Landscape, the financial sector underwent a wave of transformative developments. In the United States, legal challenges to the use of climate and Environmental, Social, and Governance (ESG) factors intensified, and the political landscape shifted with the arrival of a new presidential administration. At the same time, voluntary climate alliances across the global finance sector experienced a surge in high-profile departures. **Together, these developments have ushered in a new reality for financial institutions—particularly in the United States—where advancing climate goals must be balanced against growing legal, political, and reputational risks in an increasingly complex operating environment.**

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HIGHLIGHTS

Shifting Political and Legal Landscape
Regulatory shifts and political backlash are reshaping interpretations of fiduciary duty and climate risk, prompting investors to navigate an increasingly nuanced, uncertain, and complex environment.

Evolving Architecture of Voluntary Initiatives
The landscape of voluntary climate cooperation is undergoing a fundamental restructuring as leading initiatives respond to external pressures and reevaluate existing models to meet shifting expectations and demands.

Divergence in Finance Subsector Ambition
Stark contrasts are emerging across financial subsectors, with some actors rising to meet the moment, while others retreat and stall.

The Road Ahead
In a stalled policy environment, the road ahead will depend on the finance sector leading by demonstrating that effective climate risk and opportunity management is fundamental to long-term value creation.

Legal and Political Pressure

In one key case, a U.S. District Court in Texas ruled that American Airlines breached its fiduciary duty of loyalty by selecting BlackRock as an investment manager for its $26 billion retirement plan. The decision was based solely on BlackRock's association with ESG goals—even though the plan had no exposure to BlackRock's ESG investment offerings. Meanwhile, Texas and ten other states have filed antitrust lawsuits against BlackRock, State Street, and Vanguard, alleging that their climate policies and participation in climate coalitions constitute anticompetitive behavior.[1] Adding to this scrutiny, the House Judiciary Committee has launched investigations into major asset managers and Climate Action 100+, questioning whether collaborative climate engagement violates antitrust laws.[2] These overlapping legal challenges have created significant uncertainty about how financial institutions can incorporate climate considerations while meeting their fiduciary obligations and avoiding regulatory scrutiny.

Shifting Alliances, *Diverging Strategies*

A shift in ambition for public association with voluntary climate initiatives is fundamentally reshaping voluntary finance sector alliances. Another apparent theme is the stark divergence between different finance sub-subsectors. This fragmentation reflects the increasing complexity of navigating climate strategies amid mounting political and legal pressures. The varying approaches across sectors underscore the challenges financial institutions face in maintaining a unified response to climate change while managing institutional risks and individual priorities.

Banks are confronting a critical inflection point in global climate finance, with dramatically different approaches emerging across regional markets. Climate change represents a systemic challenge for banks where they are both central to the problem and essential to the solution. This makes collaborative approaches through alliances like the Net Zero Banking Alliance (NZBA) logical for developing consistent industry-wide responses. However, as political pressure mounts in the United States, participation in these alliances is seen as increasingly risky for American banks in contrast to more stable regulatory environments in Europe. This shifting landscape has triggered major changes in formal collaboration, with leading U.S. banks—including JPMorgan Chase, Goldman Sachs, Wells Fargo, Citigroup, Bank of America, and Morgan Stanley—exiting the NZBA. They were soon followed by major Canadian banks TD Bank, Bank of Montreal, National Bank of Canada, Canadian Imperial Bank of Commerce, and Scotiabank, all withdrawing in the wake of President Trump's return to office. By contrast, the largest European banks (e.g., HSBC, BNP Paribas, Crédit Agricole, Banco Santander, and Barclays) have maintained their commitments, representing a more consistent approach to climate strategy. Several departing U.S. banks, including Morgan Stanley, Citi, and Bank of America, have publicly reaffirmed their individual climate commitments and targets, suggesting a shift toward more individualized climate risk management. Globally, 134 banks remain in the NZBA, highlighting the complex and regionally varied landscape of climate finance.[3] This divergence within the NZBA reflects a broader reassessment of the alliance's commitment to the 1.5 degree C target, with some members advocating for more flexible, regionally appropriate approaches amid rising political and legal headwinds.

Asset management has experienced similar challenges with voluntary climate initiatives. Net Zero Asset Managers Initiative (NZAM) has weathered a series of high-profile departures over the past two years including from Vanguard, Alliance Bernstein, Franklin Templeton, JP Morgan Asset Management, Northern Trust Asset Management, and Nuveen. [4]These exits culminated in January of 2025 with Blackrock, the world's largest asset manager, exiting the initiative. Immediately following BlackRock's departure, NZAM announced suspension of all activities and removal of signatory commitments and case studies from its website pending a comprehensive review.[5] Reactions from major asset managers have been mixed.[6] Lombard Odier welcomed the pause as an opportunity to strengthen the initiative's governance structure and address political challenges, while Allianz Global Investors expressed concern that the suspension could slow momentum on climate action. State Street Global Advisors, one of NZAM's largest remaining members, has emphasized the need to balance collaborative climate efforts with evolving regulatory requirements and antitrust challenges. These reactions highlight the complexity of perspectives NZAM must consider as it evaluates its path forward.

The insurance sector was the first in the finance industry to face the unraveling of voluntary climate initiatives, with the Net Zero Insurance Alliance (NZIA) effectively dismantled in April 2024 amid political pressure. Similar to the recent exodus of banks from NZBA and asset managers from NZAM, the insurance sector faced scrutiny over potential market collusion and antitrust concerns due to participation in NZAI. The insurance sector's retreat is particularly significant given insurers' unique position in assessing and pricing climate risks.[7] The dissolution of NZAI has left a gap in coordinated industry responses to climate risks. This has contributed to a growing crisis in insurance markets, particularly evident in regions like California and Florida, where private insurers are pulling back coverage. As a result, the role of state-backed insurance programs like California's FAIR Plan[8] and Florida's Citizens Property Insurance Corporation[9] are shifting from their intended role as insurers of last resort to becoming primary providers of coverage. The sector has since attempted to rebuild collaboration through the Forum for Insurance Transition to Net Zero (FIT). This effort highlights the ongoing tension between the need for coordinated climate action and mounting legal and political pressures.[10]

Asset owners are the largest and most notable outlier in the trend of mass exodus from voluntary climate alliances. Large asset owners have notably strengthened their climate commitments against the backdrop of waning support and political headwinds. The Net Zero Asset Owner Alliance (NZAOA) welcomed the New York City Employees' Retirement System (NYCERS) and its $77 billion in assets in late 2023, while the CEO of California Public Employees' Retirement System (CalPERS) publicly reinforced the $444 billion fund's commitment to addressing climate risks regardless of political opposition. There are a few reasons why this may be playing out differently for asset owners.[11] As universal owners invested across the entire economy with multi-decade investment horizons, asset owners have greater freedom from political headwinds and are better placed to make the argument that addressing systemic climate risks falls directly into their fiduciary duty.

In January 2025, the Glasgow Financial Alliance for Net Zero (GFANZ) restructured its membership criteria for affiliated initiatives, including NZAM, NZAOA, and NZBA, allowing any financial institution working to mobilize capital and lower barriers to financing the energy transition to participate, regardless of whether they have made specific net-zero commitments.[12] This shift broadens participation by removing the requirement for strict net-zero alignment, prioritizing capital mobilization over prescriptive decarbonization pathways. While this change lowers entry barriers and may reduce risks for U.S. firms wary of political scrutiny, it also raises concerns about weakened accountability. Prioritizing financial flows runs the risk of signalling credibility without demonstrated progress. The restructuring reflects a broader retreat from collective accountability, reinforcing the trend of institutions distancing themselves from public net-zero commitments in favor of more discretionary approaches.

The Road Ahead

These recent shifts raise significant questions about how the finance sector can achieve 1.5-degree-C climate goals amid growing legal and political headwinds. While U.S. federal climate action faces uncertainty, states like California are moving forward with mandatory climate disclosure requirements, with New York, Illinois, Washington, and Colorado developing similar legislation.[13] These state-level actions, combined with the influence of EU regulations on U.S. companies operating globally, suggest a complex regulatory landscape where progress may continue despite federal resistance. The traditional model of voluntary climate initiatives faces fundamental challenges, particularly in the U.S. market, raising critical questions about how industry collaboration should be organized and who is best positioned to coordinate these efforts. The varying climate leadership demonstrated across financial institutions and jurisdictions raises questions about which actors within the finance sector are best positioned to drive continued progress and influence broader market behavior. These dynamics highlight the tension between increasing scrutiny in some markets and strengthening requirements in others, creating a challenging environment for financial institutions to navigate as they work to accelerate real economy emissions reductions. The stakes are high given that failure to resolve these questions could significantly slow the pace of decarbonization across both financial markets and the real economy.

> **“While policy support is essential for driving systematic change, in a stalled environment, the finance sector can advance decarbonization by demonstrating how effective climate-related risk and opportunity management is fundamental to long-term value creation.**

A few themes are evident from our analysis and recent external developments. The unraveling of voluntary alliances, mounting legal and political pressures, and the divergence in climate commitments across financial subsectors reflect a fundamental shift in how institutions are approaching decarbonization. The way forward will require grounding climate integration as a core component of fiduciary duty rather than as a separate environmental, social, and governance consideration. While policy support is essential for driving systematic change, in a stalled environment, the finance sector can advance decarbonization by demonstrating how effective climate-related risk and opportunity management is fundamental to long-term value creation. As political pressure mounts and collaborative platforms evolve, making the business case for climate action as a core strategic consideration will be crucial for maintaining momentum while navigating an increasingly complex landscape.

Endnotes

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