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# NAVIGATING THE FINANCE SECTOR NET-ZERO TRANSITION: EXECUTIVE SUMMARY

CENTER FOR CLIMATE AND ENERGY SOLUTIONS

The global finance sector occupies a unique position in the net-zero transition, sitting above the real economy and shaping capital flows that will determine the pace and scale of decarbonization. To stay on track for a 1.5-degree-C pathway, investment must increase nearly fivefold to $7.4 trillion annually by 2030, according to the Climate Policy Initiative.[1] Similarly, the London School of Economics' Grantham Research Institute estimates that global investment in climate action must reach $6.3 to $6.7 trillion per year by the decade's end.[2] Without this rapid financial mobilization, the world risks missing critical decarbonization targets, driving intensified climate disruptions, economic instability, and systemic financial risks. Bridging the climate finance gap requires action across the entire financial system. Asset owners, asset managers, private markets, banks, and insurers each have a distinct yet interdependent role in mobilizing capital and steering the net-zero transition. Each actor must adapt their strategies to align with a shifting landscape where risks and capital flows are deeply interwoven across markets and institutions.

## THE STAKEHOLDERS

**Asset owners** managing over $40 trillion globally through pension funds, single and multifamily offices, foundations and endowments, and sovereign wealth funds are redefining traditional interpretations of fiduciary duty to explicitly incorporate climate risk management as core to protecting beneficiary interests. This evolution moves beyond traditional interpretations focused solely on short-term returns to recognize climate change as a systemic risk requiring active mitigation through transition planning. Asset managers, with the 50 largest firms controlling approximately one-third of shares in climate-focused companies, must adapt their strategies to align with this expanded concept of fiduciary responsibility by developing their own transition plans and evaluating those of their portfolio companies.

**Private markets**, representing $13.1 trillion in assets, can increase funding for climate innovation and technology deployment through transition-aligned investment strategies. **Banks** serve as essential intermediaries and should rigorously integrate climate into credit risk assessments and proactively develop sustainable finance products to effectively support real economy decarbonization. Notably, **the insurance sector**, with $40 trillion in assets, exemplifies how climate risk and transition planning are already transforming core business models through enhanced underwriting practices and investment strategies.

## WHAT'S NEXT FOR THE FINANCE SECTOR

Investment philosophy is evolving to address climate challenges with expanded concepts of fiduciary duty that incorporate climate risks through a growing focus on universal ownership and systems-level investing. This approach includes a shift in emphasis from individual security selection (Alpha) to a focus on market-wide returns (Beta) recognizing that climate change poses portfolio-wide risks that cannot be diversified away. Alpha strategies traditionally seek to generate excess returns by identifying mispriced securities and timing market movements, tactics that optimize performance relative to benchmarks but fail to address systemic climate threats. Beta strategies, by contrast, seek to improve the performance of entire markets by addressing fundamental system-wide risks, making them better suited for large asset owners with broad economic exposure who recognize that their long-term returns depend on a stable climate system.

A successful transition for the finance sector will depend on enhanced data quality and standardized metrics, clear demonstration of financial materiality, holistic engagement strategies, and the development of resilient collaborative frameworks. These foundational elements enable near-term priorities of risk management and regulatory compliance, while advancing long-term objectives for system-wide transformation and sustainable value creation.

To drive meaningful climate action, the finance sector must balance voluntary initiatives with evolving regulatory requirements while maintaining focus on measurable impacts amid changing political and legal conditions. An effective transition requires both individual action by financial institutions and broader, more collective efforts to address systemic risks. When climate strategies are grounded in financial materiality and risk management, financial institutions can more effectively drive capital toward climate solutions while maintaining market stability. This ultimately serves the dual purpose of protecting long-term value while enabling the transition to a just and equitable low-carbon economy.

## ENDNOTES

1 Barbara Buchner et al., Global Landscape of Climate Finance 2023 (San Francisco, CA: Climate Policy Initiative, 2023), *https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2023*.

2 Amar Bhattacharya et al., Raising Ambition and Accelerating Delivery of Climate Finance (London: London School of Economics, 2024), *https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2024/11/Raising-ambition-and-accelerating-delivery-ofclimate-finance_Executive-summary.pdf*.

C2ES CENTER FOR CLIMATE AND ENERGY SOLUTIONS

The Center for Climate and Energy Solutions (C2ES) is an independent, nonpartisan, nonprofit organization working to secure a safe and stable climate by accelerating the global transition to net-zero greenhouse gas emissions and a thriving, just, and resilient economy.

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