

Lloyds Banking Group

Developing a climate
strategy in line with Net Zero
and business priorities



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Quotes attributable to Fiona Cannon, Group Sustainable Business Director at Lloyds Banking Group.

In January 2020, Lloyds Banking Group staked a strong claim to climate leadership by becoming the first major UK retail bank to commit to reducing the carbon emissions it finances by more than 50% by 2030. The announcement is tied to Lloyds' corporate purpose to 'Help Britain Prosper' and is supported by a series of targets closely linked to the UK's Clean Growth Strategy.

Why?

The shift to a zero-carbon economy has fundamental implications for the continued resilience of the businesses and households that Lloyds supports. The bank's insurance division is already seeing an increase in flood-related claims, for instance. The bank also recognises the emerging business opportunities to be had from meeting the banking needs of a new generation of low-carbon companies. Another factor motivating Lloyds' climate strategy was pressure from its own employees, who expressed an increasing desire for clarity on the bank's climate position. The bank was facing similar questions from external NGOs, investors and even regulators as well. Confirmation of all these issues came through a high-level internal review in 2017, which presented the bank's management with the hard evidence they needed to green-light the development of a group-wide strategy.

"Back in 2017, just two weeks into my current role, I had a meeting with a prominent investor who started asking tough questions about our response to climate change."

Challenge: Need for group wide strategy

Lloyds' Commercial Banking division had been actively supporting its customers to transition their businesses for some time. Between 2015-2020, for example, the bank led around £2.8bn of green bonds to UK corporates – more than any other UK bank. Even so, Lloyds lacked a cohesive climate strategy that covered all its banking activities. It felt that such a strategy would allow it to create greater alignment between its existing policies and practices, while also better coordinating its future climate actions. The challenge facing the bank was how to develop a climate strategy and accompanying targets from what was, more or less, a blank sheet of paper. The two conditions for the strategy was that it resonated with the business imperatives of the bank and that it addressed climate change in a substantive, credible and joined-up fashion.

"The question quickly stopped being one of whether we should develop a group-wide response, but became a question of the pace and strength of our response."

Action: gather internal allies

The decentralised way in which climate issues are managed within Lloyds meant that the team charged with developing the strategy (namely, the group sustainable business function) was relatively small. As a first step, therefore, the function's director set about developing a small group of strong trusted allies from different business units and management functions across the organisation. This 'virtual team' served as an internal sounding board throughout the strategy development process, as well as proving a useful conduit to key decision-makers within the respective divisions.

“Building allies across the business was a really important step . . . to start with this was a really small number of people who could advise on the strategic implications and also act as ambassadors within their parts of the business.”

Solution: consult extensively

The sustainable business team began by rolling out an extensive consultation process internally. Core to this was a series of workshops with every single executive team across all divisions of the group. The goal of these workshops was twofold. First, to raise awareness of the climate science and the potential implications for the UK economy in general and for Lloyds specifically. Here, the decision to involve external subject experts, including CISL, helped bring credibility and depth to the consultation process. The second objective was to build a collective understanding of what macro climate trends meant for each division of Lloyds' business. Individual units consequently came to see more fully the risks and opportunities for their specific markets. The sustainable business team also consulted with investor groups and environmental organisations such as ShareAction and WWF to learn where it was felt that the sector was falling short and where future efforts might be focused most productively.

“As well as internal allies, I found that external partners were vital – I couldn't have done this without trusted partners. At the outset CISL worked alongside me as a well-respected partner who was able to talk about this in a scientific and impartial way.”

Grounded in business realities

This lengthy process of internal dialogue and feedback brought to the surface a range of very important and practical insights from right across the bank. With the relevant information to hand, individual business divisions proved themselves capable of quickly discerning climate risks and opportunities for their specific markets. This, in turn, enabled them to start identifying strategic priorities for their particular divisions to take forward. The central team strongly encouraged this decision-making process, inviting all the bank's different business divisions to develop and refine their own specific leadership ambitions. This rooted the final strategy firmly in the day-to-day commercial and operational realities of the bank, thus giving it a strong internal resonance.

“It was important that we gave space to the divisions to tell us what they thought the implications [of climate] were for their parts of the business and share their ambitions.”

“It was important

Looking ahead

As a result of the above process, Lloyds now has a group-wide strategy that is highly material to its business and enjoys a sense of ownership from across the company. The level of ambition running through the strategy has also helped position the bank as a leader in its sector. Lloyds’ ranking in ShareAction’s influential annual ‘Banking on a Low Carbon Future’ index, for example, went from last place prior to the strategy’s publication to second place afterwards. The process of developing the strategy has also had helped kick-start considerable internal innovation, including a number of new sustainability propositions to support our clients on their own journey to Net Zero. Finally, the bank’s decision to closely link its strategic priorities to the UK government’s plan for clean growth creates a strong alignment with the country’s wider decarbonisation agenda.

“Supporting our clients and retail customers through the transition is a huge business opportunity. It is one of the key reasons we have put so much effort into doing the necessary internal work to position ourselves so that we can credibly take advantage of these opportunities.”

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