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# Climate Quantified™

Climate Resilience Hub, Willis Towers Watson

2 December 2020



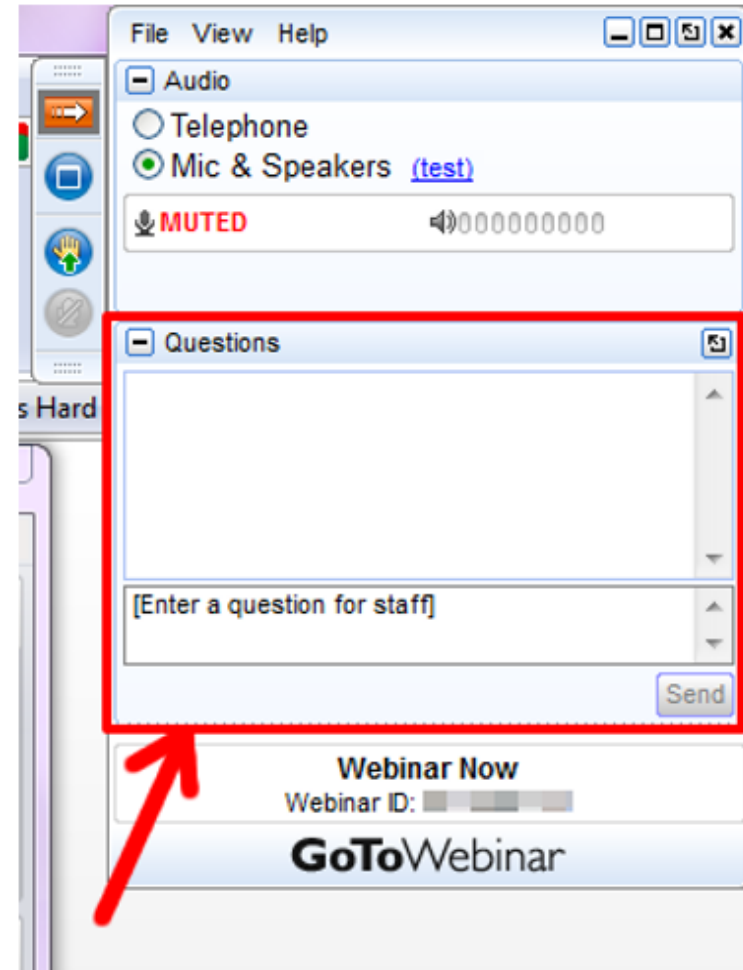
## Today's Objectives:

- Learn about why Climate Change should matter to organisations
- Understand what ESG means and where climate change fits
- Appreciate what the Task Force on Climate Related Financial Disclosure (TCFD) is and why it matters to risk professionals
- The WTW TCFD Pulse Survey explained
- Explore the Human Capital Dimension

## How to ask questions during the webinar

Use the questions panel in the GoToWebinar console

If the console is not visible, click the orange arrow to expand it



# Today's Speakers

Willis Towers Watson



Irem Yerdelen  
Director, Corporate Risk and Broking

[Irem.Yerdelen@WillisTowersWatson.com](mailto:Irem.Yerdelen@WillisTowersWatson.com)



Tony Rooke  
Director, Climate and Resilience Hub

[Tony.Rooke@willistowerswatson.com](mailto:Tony.Rooke@willistowerswatson.com)



Damian Carnell  
Senior Director, Talent and Reward

[Damian.Carnell@willistowerswatson.com](mailto:Damian.Carnell@willistowerswatson.com)

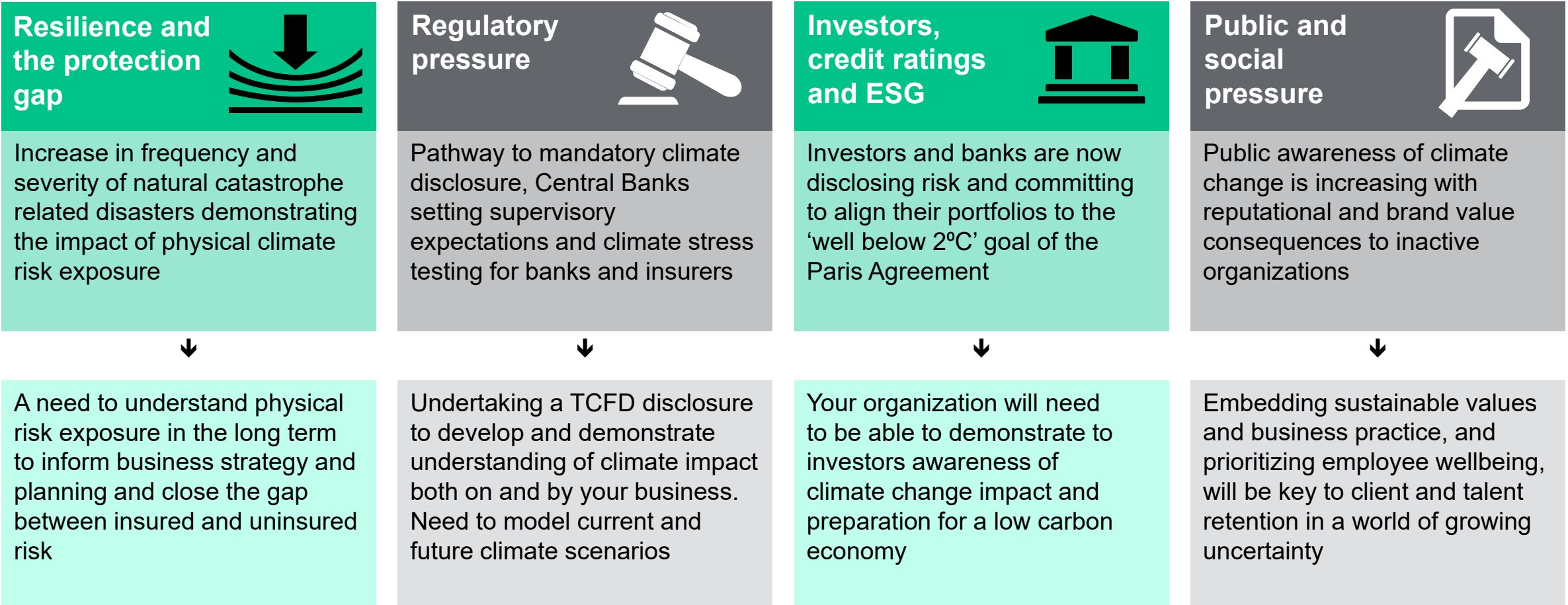


Megan Hunt  
Lead Associate, Climate and Resilience Hub

[Megan.Hunt@WillisTowersWatson.com](mailto:Megan.Hunt@WillisTowersWatson.com)

# Why climate change should matter to organisations

There is increasing pressure across these four areas for clients to understand and address their climate impact



## How climate resilience fits into the broader topic of ESG

Environmental, Social, Governance (ESG) is increasingly being viewed as an essential aspect of an organisations strategy, both from an investor and consumer perspective



### ENVIRONMENTAL

Issues connected to responsible use of natural resources, global warming, energy usage, pollution and the like



### SOCIAL

Factors such as how a company treats its workers, health and safety considerations, and community outreach



### GOVERNANCE

A focus on topics including business ethics, board structure and independence, executive compensation policies and accounting practices

- Climate is seen as the highest priority ESG issue affecting investors
  - **61% of the world's largest 75 asset managers** reference climate change in their investment policies, but just **21% have a dedicated policy** – ShareAction
- Climate change actually spans across all three ESG factors:
  - ☐ **E**: the impact of climate change on the environment
  - ☐ **S**: the impact of climate change on the health and wellbeing of individuals and the resilience of exposed communities
  - ☐ **G**: the increasing need for the integration of climate-related metrics and targets into an organization's governance structure

Making efforts to understand and enhance your resilience to climate related risks, as well as harness opportunities, aids in the formation of a stronger organizational ESG proposition



## Case study

### ***Introducing climate-related metrics into Executive Remuneration***

#### **Client objective:**

This large global company has announced a challenging Zero Carbon Ambition. In order to set the tone from the top, the Remuneration Committee has committed to including ESG metrics within its executive incentive plans, and was keen to identify how carbon reduction could be measured for these purposes.

#### **Scope of work and responsibilities:**

- Bringing the relevant stakeholders together – *HR and Reward, Sustainability Team, CoSec* – to support mutual education between these groups on the company's carbon reduction and ESG strategy, principles of target setting, and executive pay governance and disclosure
- Market practice review – looking at emerging trends on use of ESG Measures within peers, wider industry; and also guidance provided from other organisations on ESG metrics, such as World Economic Forum, UN.
- Bringing Remuneration Committee on a journey

#### **Outputs and client benefits:**

- Positioning the client as a market leader in meeting stakeholder expectations to align executive pay with carbon reduction and other ESG measures
- Underlining the importance of carbon reduction within broader workforce, by setting the tone from the top as part of the executives' remuneration, this helps to encourage all employees to take the necessary action to meet the zero carbon ambition.



# Task Force on Climate Related Financial Disclosure



## What is TCFD?

- The TCFD is a **voluntary** disclosure initiative founded in 2015, with recommendations report from the Financial Stability Board issues in June 2017
- The FCA is currently undertaking a consultation to make TCFD disclosures **mandatory for premium listed companies by 2022**
- It is supported by institutions representing over £100trn of assets

**TCFD** develops recommendations in 4 thematic areas that are applicable to organisations across sectors and jurisdictions, promoting transparency and financial stability

### Governance

Disclose the organisations governance around climate related risks and opportunities

### Strategy

Disclose the actual and potential impacts of climate related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material

### Risk Management

Disclose how the organisation identified, assesses and manages climate related risks

### Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate related risks and opportunities where such information is material

# TCFD Benefits

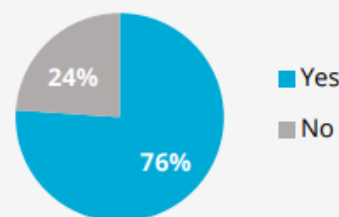
## Why is it important?

Undertaking a TCFD disclosure allows you to:

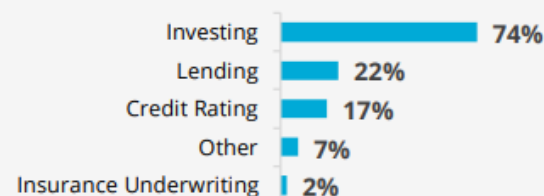
- ✓ Identify scope for improvement, gaining efficiency and devising a useful disclosure for stakeholders and investors
- ✓ Be an early adopter of best practice and not left behind
- ✓ Attract investment
- ✓ Encourage a strategic approach to managing climate change

## Use of Climate-Related Disclosures in Financial Decision Making

Percent of Respondents that Use Climate-Related Disclosures

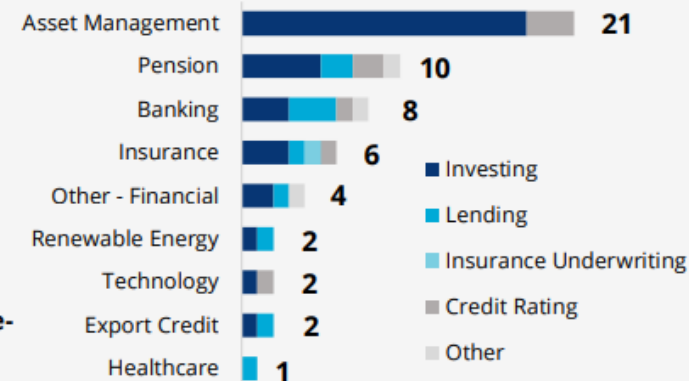


Types of Decisions in which Climate-Related Disclosures are Used\*\*



Base size (asked of all Users): 46

Uses by Industry\*



Number of Responses

\* Respondents could select multiple types of uses (investing, lending, etc).

\*\* Since respondents could select multiple options, the sum is greater than 100%.

TCFD 2019 status report

# A strategic approach to responding to TCFD disclosure



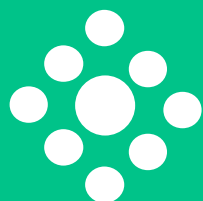
**TCFD is widely utilised to inform financial decisions, organisations can only benefit from familiarising themselves with the best process into a strong disclosure**



## WTW TCFD Pulse Survey - Key highlights

Three key trends have emerged from this initial set of survey responses

**WTW TCFD Pulse Survey is still open, please submit a response by clicking [Here](#).**



**UK companies are generally not well prepared for TCFD; financial institutions are generally better prepared**

**70%** have yet to publish a TCFD disclosure or begin the process of preparing for one

**63%** are still in the exploratory phase of how climate will impact business strategy and financial planning



**But climate is increasingly seen as a risk management and financial issue**

**87%** see investors as the key audience for climate disclosures

**66%** state that the risk management or finance function leads, or co-leads, responses to climate-related risks and opportunities



**Common challenges exist**

**70%** are concerned about defining the metrics used for TCFD reporting

Only **10%** are likely to make climate-related recommendations for remuneration in the next 12 months

# How to break down climate-related risks

Strategic alignment to risks and opportunities

Climate risk driver



## Physical

The immediate risks arising from weather-related events and slow onset climatic changes



## Transition

The financial risks arising from the transition to a lower-carbon economy



## Liability

The risk of actions initiated by claimants who have suffered loss and damage arising from climate change

Challenges for our clients

### Acute

- Change in frequency of weather events (Flooding, typhoons, wildfires)
- Change in severity of weather events

### Chronic

- Sea level rise
- Rising temperatures

- Arising from changes in policy, technology, societal pressure and consumer preference
- Some sectors of the economy face big shifts in asset values or higher costs of doing business

- Active litigation ranges from individuals, corporates and class actions
- New area of law being developed and tested in different jurisdictions

# Corporate 5-step glidepath to net zero

## 1. The “Realisation Horizon”

- Is it a big issue for us?
- What do we say, and to whom, right now?
- Are there early and easy steps to start ... if so, what are they?
- Are we planning to report under TCFD?

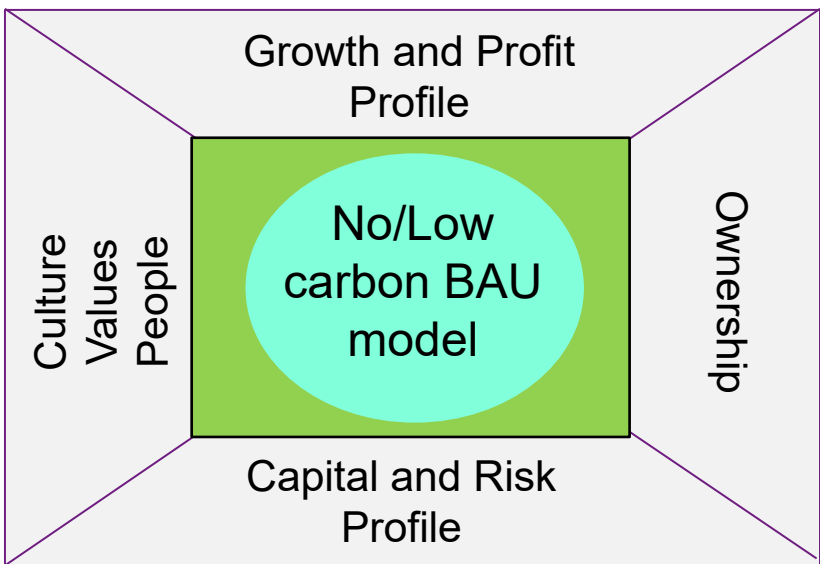
## 2. First cut assessment

- Do we know what we look like right now?
- What are the key risks for us?
- Business model risk?
- Balance sheet exposure?
- Physical and liability risks?
- What are our main choices for action?

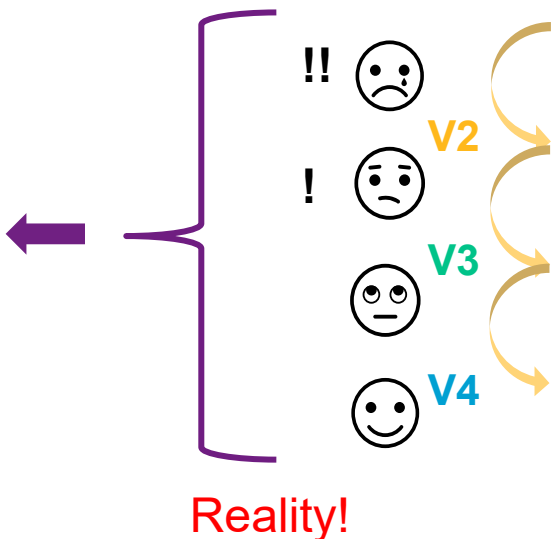
## 3. Evaluation and planning

- Data gathering and scenario analysis
- Main pros and cons of change choices
- Assumptions and responsibilities needed for TCFD Reporting
- Design of action plan in detail – steps, responsibilities, timeline and cost, etc.

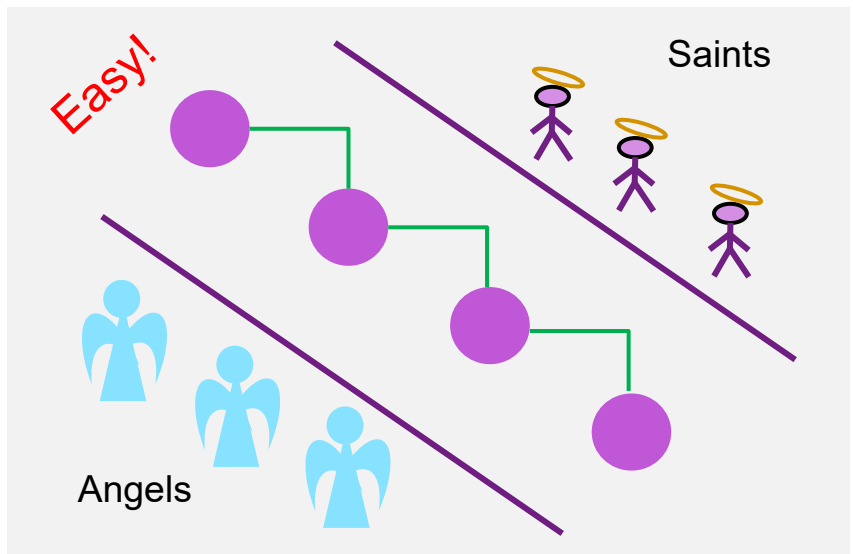
## 5. No/Low Carbon BAU Model



## PLAN – V2/3/4 etc



## 4. Transition Plan– V1





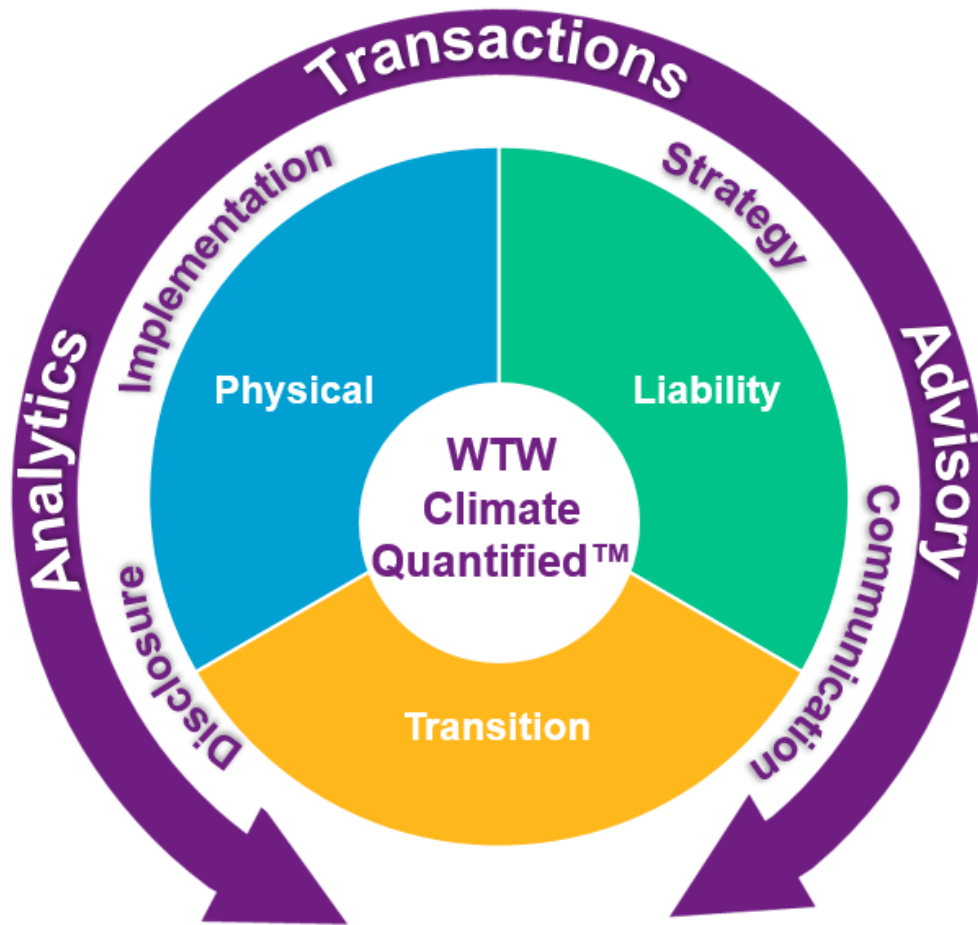
# How climate change impacts Human Capital

Spanning across different aspects of an organisation

Disclosure & Social, Governance	Talent	Rewards	Investment and Retirement
<ul style="list-style-type: none"><li>• Transition impact on employees and communities</li><li>• Regulation and policy changes around employment</li><li>• TCFD disclosure</li><li>• Climate adaption for employee wellbeing</li><li>• Establishing HR policies and guidelines</li><li>• I&amp;D assessment</li></ul>	<ul style="list-style-type: none"><li>• Reimagining work place</li><li>• Leadership training</li><li>• Communication</li><li>• Change Management</li><li>• Employee insights</li><li>• Culture assessment</li></ul>	<ul style="list-style-type: none"><li>• Incentive, remuneration &amp; reward strategy design</li><li>• Climate-related Human Capital metrics</li><li>• Advisory for ESG scoring &amp; outcomes</li><li>• Job architecture &amp; organisational structuring</li></ul>	<ul style="list-style-type: none"><li>• Resilient investment strategy</li><li>• Alignment of pension plan assets around sustainability goals</li><li>• Carbon journey planning</li><li>• Pension Fund solutions</li><li>• Mortality assessment based on climate change impact</li></ul>

# Benefits of a holistic approach

Unlocking through climate analysis



## ✓ Quantifying climate risk exposure and opportunities

Identifies the areas and perils which are driving your climate risk with focus on expected future climate risk exposure

Provides a basis for exploring alternative risk transfer solutions

Delivers mitigation actions to reduce cost of climate risk

## ✓ Inform disclosure

Enhances climate and/or ESG disclosure

Demonstrates awareness of climate impact, supporting a positive reputation

Compares with global peers where disclosure is becoming mandatory

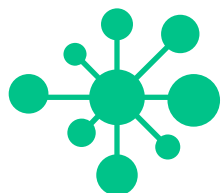
## ✓ Support strategy

Identifies and supports the implementation of strategic opportunities relating to climate change

Deepens understanding the impact of Climate Change on your organisation to inform long term strategic planning

Investor & consumer appeal and stakeholder engagement

# Why Willis Towers Watson are best positioned to help



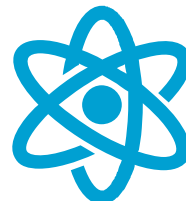
## Diverse expertise

- **Multi-disciplinary team:** engineers, modelers, natural catastrophe consultants and enterprise risk consultants
- Presence in a **range of sectors:** (Re)Insurance, Investment, Human Capital
- Specialist skills and **quantitative tools** enabling broad assessment of climate impact



## Investment

- Leading the **Coalition for Climate Resilient Investment** launched at the UN general assembly 2019
- Our Investments team is a **trusted partner** to over 1,200 clients and advises on over \$2.2 trillion of global assets
- Experts in sustainable investing around ESG



## Science & research

- **Willis Research Network (WRN)** is a collaboration between over 50 academic and global research organisations specialising in climate risk
- Provides access to the **latest developments** in climate risk modelling and research



## Industry leadership

- Leading position in establishing global climate risk frameworks
- Provided input into various climate initiatives:
- **Shaping the TCFD, Insurance Development Forum, UN Office for Disaster Reduction, World Bank** finance for Adaption and input to **McKinsey's Climate Report**



## Track record

- Worked with multiple organisations across different industries advising on TCFD including:
- Strategic climate exposure for a **large global bank's** mortgage portfolio
  - Physical & transition analysis for a **large UK Real Estate Company**
  - Quantification of current and potential climate impact for a **Pension Asset Manager**



# Climate Quantified™

## QUESTION & ANSWER

*THANK YOU*

**Willis Towers Watson TCFD Pulse Survey** is intended to support UK companies to gain insight into their readiness to implement TCFD requirements and to benchmark against peers.

You can [take the survey here](#), the link will be shared in the webinar chat too.



# Climate Change Forum



9 December 2020  
Digital Forum

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