

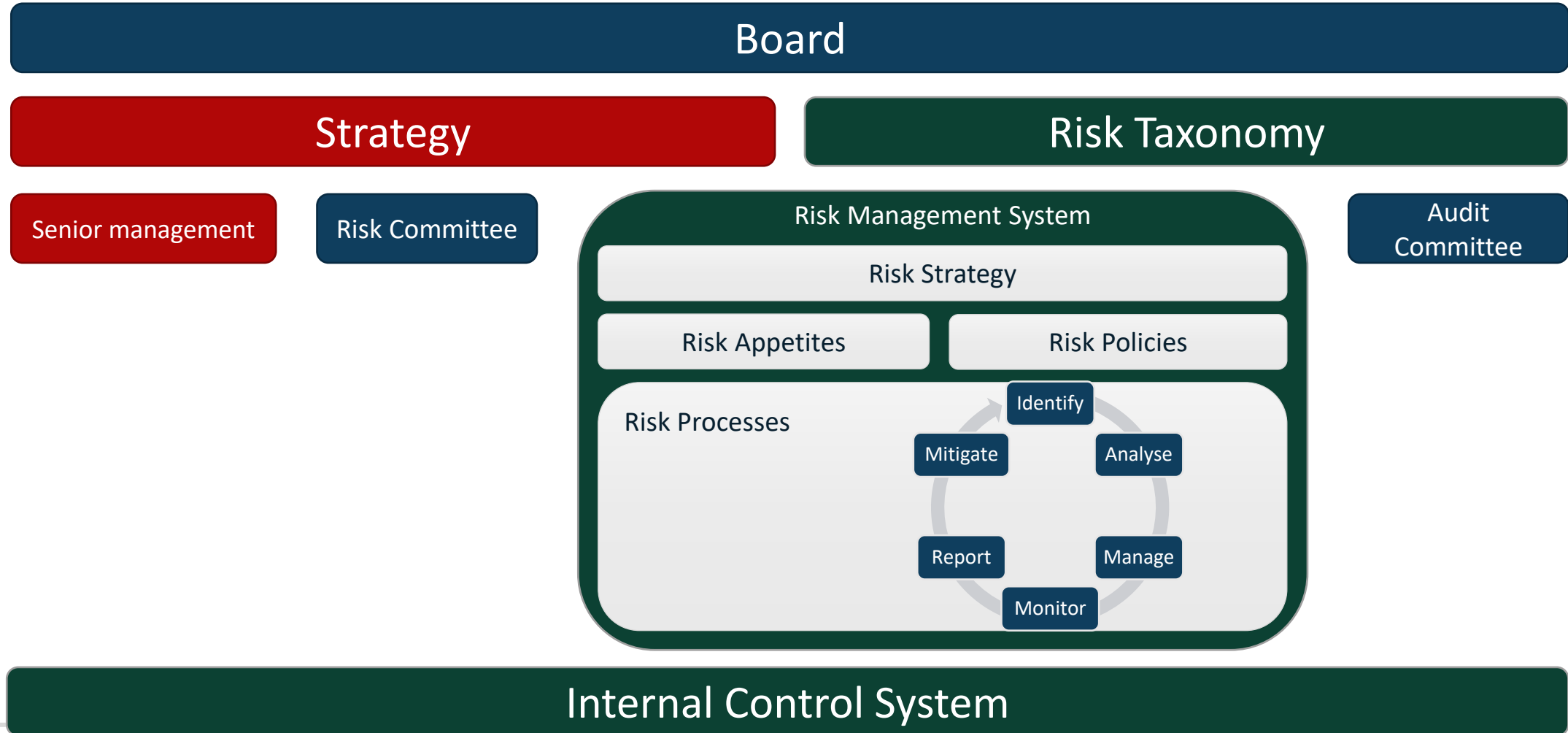
ASSA Sessional Embedding Climate Considerations into a Risk Management Framework

Adél Drew

5 June 2024



Risk Management Framework



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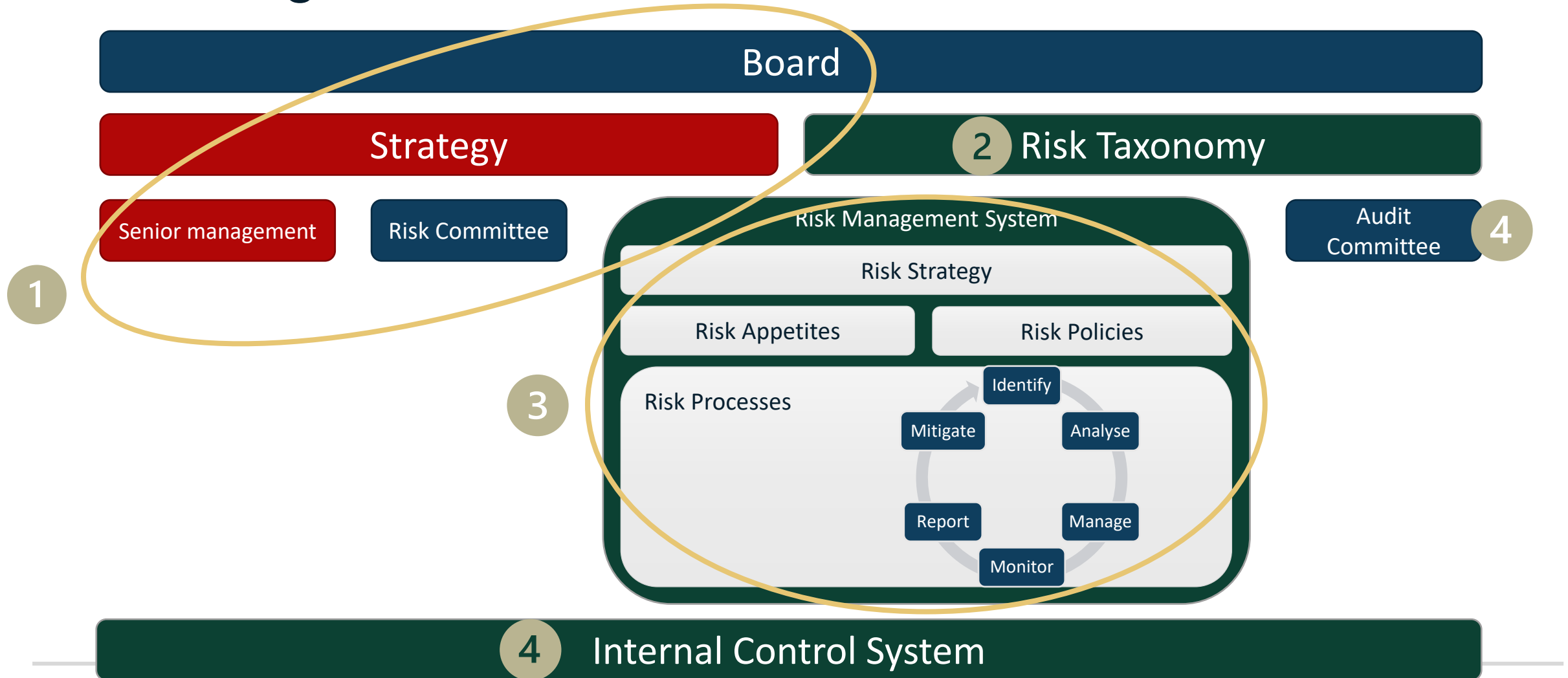


Where has your organisation started with embedding climate-related risks into a RMF?

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Risk Management Framework



Agenda

1. PA Guidance notes overview
2. Introduction to climate-related risks
3. Governance and climate strategy
4. Risk taxonomy
5. Risk management system
6. Internal control framework and the Audit committee



1. PA Guidance notes overview



Prudential Authority Guidance notes on climate

Governance

- Specified Board responsibilities for effective governance of climate-related risks
- Specified roles and responsibilities for senior management with regards to climate
- Embed climate-related risks in overall business strategy and risk appetites with relevant policies in place

Risk Management

- Incorporate and integrate into established risk and governance frameworks
- Specified responsibilities for the Risk Management Function, Compliance Function, Actuarial Function, Internal Audit Function and Control Functions
- Specific mention of outsourcing arrangements and transition planning as an important tool to manage climate-related risks

Integrating climate-related risks

ORSA

- Specific mention of the ORSA as a useful tool for insurers to assess the adequacy of its ERM and capital position relative to climate-related risks
- Additional guidance on time horizons, and stress testing and scenario analysis

Disclosure guidance on:

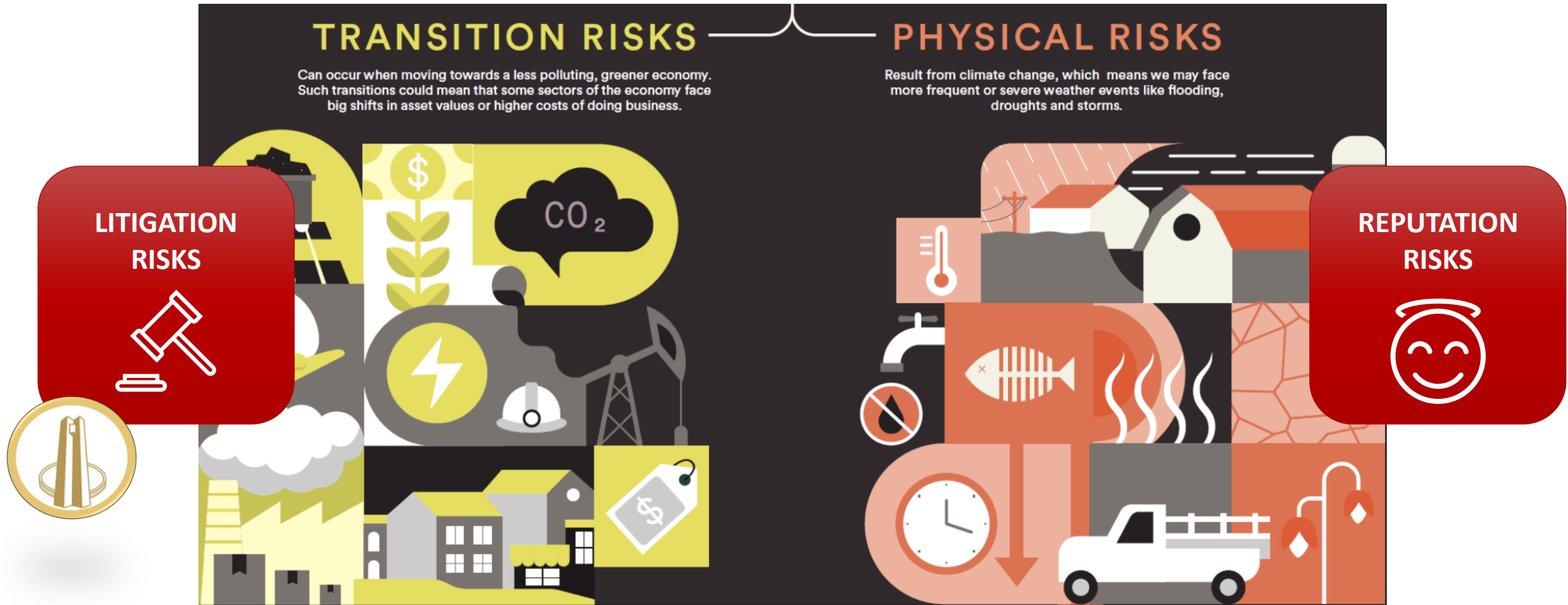
- Governance practices, processes, controls and procedures in maintaining oversight
- Current and anticipated impacts of climate-related risks and opportunities
- Metrics and targets that enable stakeholders to evaluate the insurer's exposure, measurement, and management of risks
- External assurance not required at this time



2. Introduction to climate-related risks



Introduction to climate-related risks



Source: x.com/AjayGambhir11



Why adopt a climate framework?

- Regulatory requirement
 - Corporate responsibility
 - Reputation
 - Reduce costs
 - Attract talent
 - Attract customers
 - Increase investment
 - New growth opportunities
-



Sustainability

Sustainability is concerned with protecting the planet, halting climate change and promoting social development, without endangering life on Earth or leaving anyone behind.

www.activesustainability.com



3. Governance and climate strategy



Board responsibilities related to climate





Senior management responsibilities related to climate





Embedding governance aspects of climate related-risks

- Understanding of key climate risks and opportunities and the ability to assess these at **Board level**
 - Clear **roles and responsibilities** assigned
 - **Adequate resources** with **sufficient skills**
 - **Effective oversight**, and demonstration of this
 - Climate considerations are integrated in **strategic business planning**
-



How does climate impact an organisation?

Organisations face potential risks (and opportunities) which arise from climate-related factors

As investors and product providers, organisations can choose to influence sustainability values on the firms they invest in and the customers who buy their products

As a buyer of services, organisations can impose sustainability values on their suppliers

Organisations can have a positive impact on sustainability through the way in which they run their business



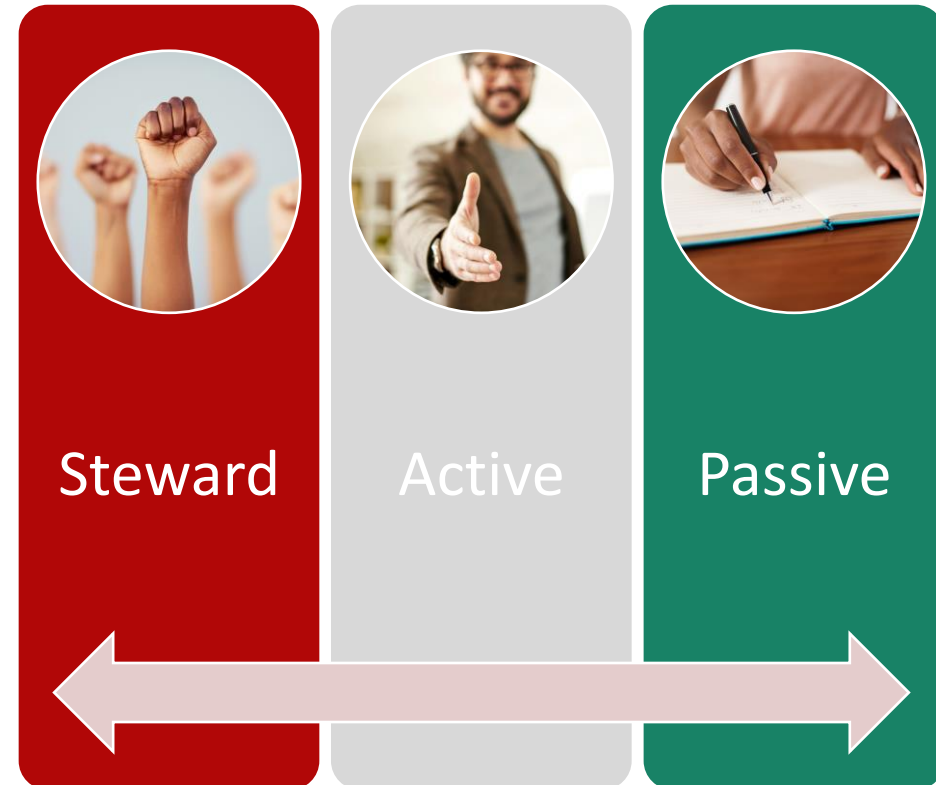
Defining a climate-related strategy

1. What is our climate landscape?
 2. Which financial risks and opportunities from climate are material to us?
 3. How does sustainability fit into our existing strategy?
 4. How will we measure our climate strategy?
 5. What is our sustainability ambitions and current maturity?
-



What is our sustainability ambition and current maturity?

- Core business ethos
- Cultural ambitions
- Current business strategy
- Investment capabilities





Examples of climate strategies



“At Nokia we believe that there is no green without digital. We believe that ESG is a driver of value creation and new revenue streams. **Our ambition as first movers** is to create new competitive opportunities while creating tangible environmental and social benefits.”

Source: [Nokia Sustainability Approach](#)



“At British Airways, we’re on a journey to create a better, more sustainable future. We call it BA Better World. It means we’re putting **sustainability at the heart of our business**. From creating a great place for people to work to reducing our emissions and waste and contributing to the communities we serve to build a thriving, resilient, responsible business.”

Source: [British Airways BA Better World](#)



We spoke with over 9,000 people: our customers, investors, intermediaries, employees and other organisations we work with, to understand how we can make the biggest impact. What they told us led to our sustainability ambition, which sets out our commitment to create a brighter future. This is focused on three core areas – **acting on climate change, building stronger, more resilient communities and embedding sustainability in our business**. It is complemented by clear governance and decision-making, transparent reporting and by proactively engaging our stakeholders.

Source: [Aviva's Sustainability Ambition](#)

A successful climate
strategy must be
auditable, purposeful
and authentic.



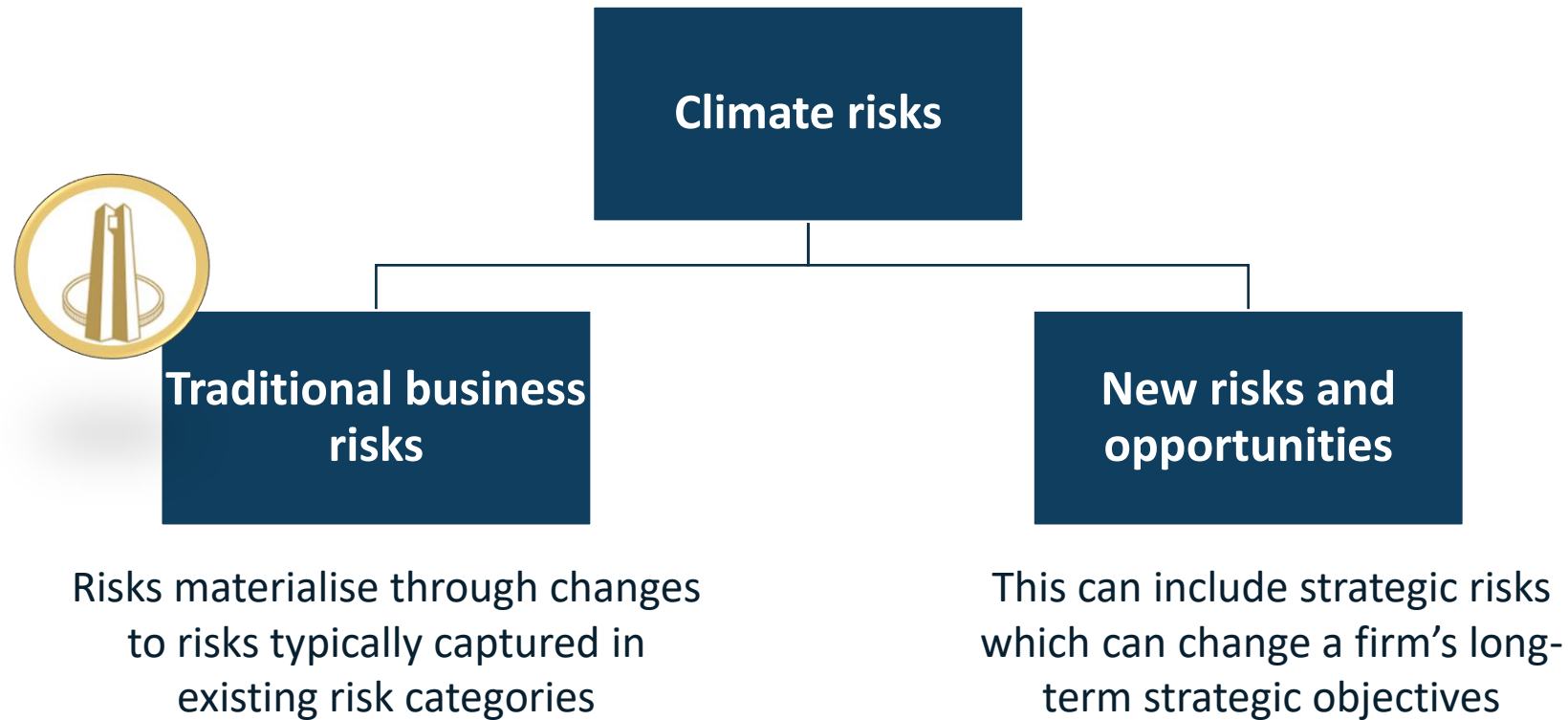


4. Risk taxonomy





Risk taxonomy

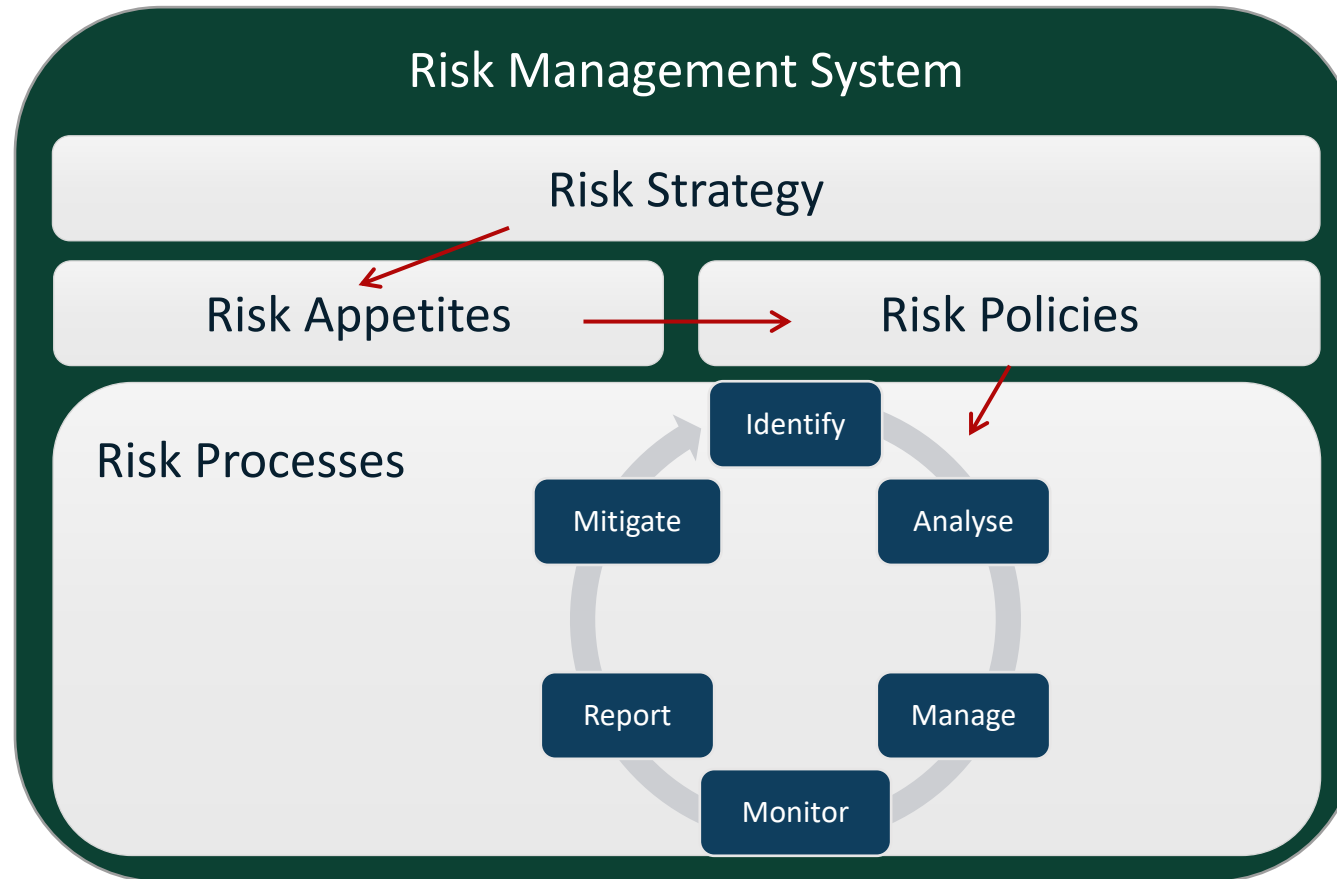




5. Risk management system



Cascade into the Risk Management System

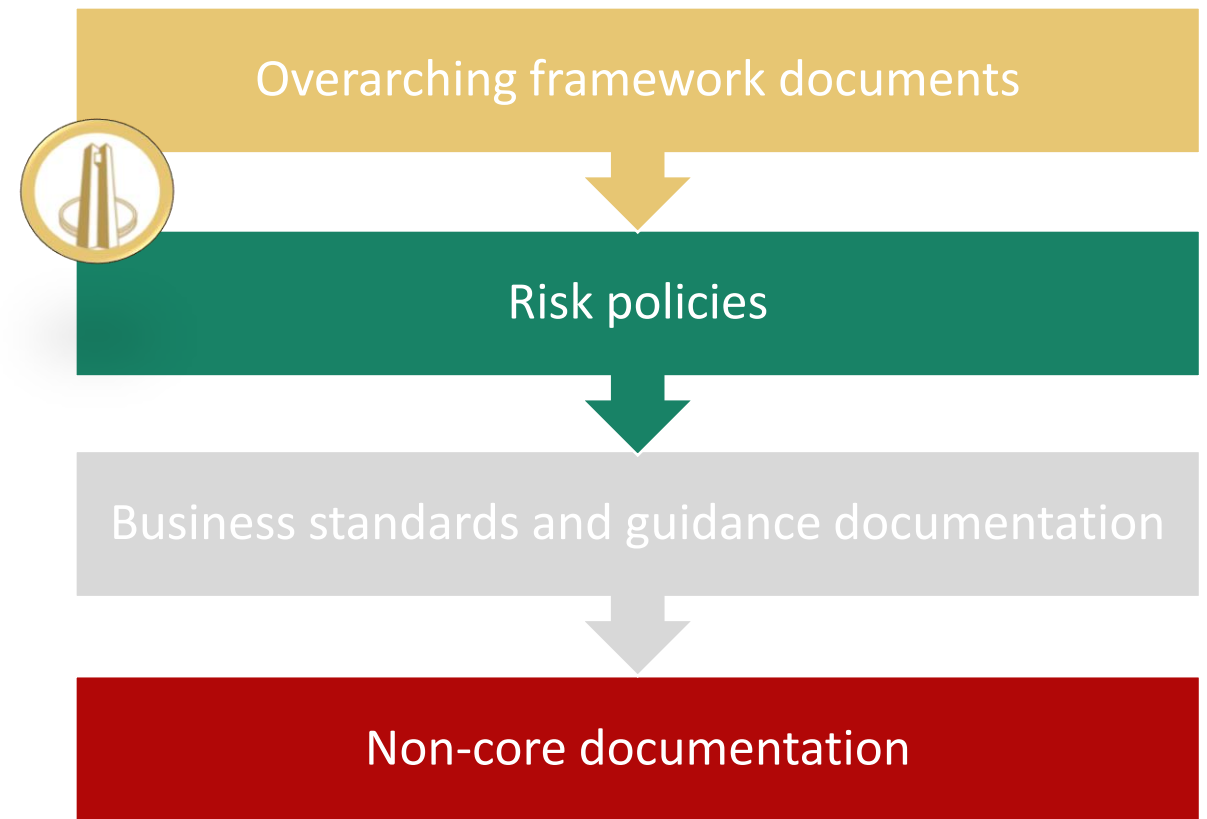




Risk Strategy and appetite statements

Facilitate	Facilitate risk-based decision making in line with the business plan and climate strategy – therefore requires metrics 
Integrate	Integrate into existing risk strategies and appetite statements – but also consider where standalone climate risk strategies and appetite statements might be necessary
Board	Board approval 

Risk policies





Risk processes



Why climate-related risks are different:

- Climate is an accelerator of risks and a 'wicked' problem
- We can't look to the past to inform the future
- High level of uncertainty associated with probability and impact
- Climate change is an emerged risk, an emerging risk and best practices are still evolving
- Time horizons matter



Risk processes



Exposures

Metrics

Data

Scenario
analysis

Resilience

Learning
process



Greenwashing hydra



Source: planet-tracker.org

Greencrowding

Blending in with the crowd to avoid scrutiny and present progress without taking any substantial action.

Greenlabelling

Misleadingly labelling products or services as green or sustainable.

Greenlighting

Highlighting minor green aspects of operations to divert attention from damaging activities.

Greenrinsing

Regularly changing ESG targets before they are achieved.

Greenshifting

Shifting environmental blame onto consumers.

Greenhushing

Under-reporting or hiding sustainability credentials to avoid scrutiny.



Risk processes



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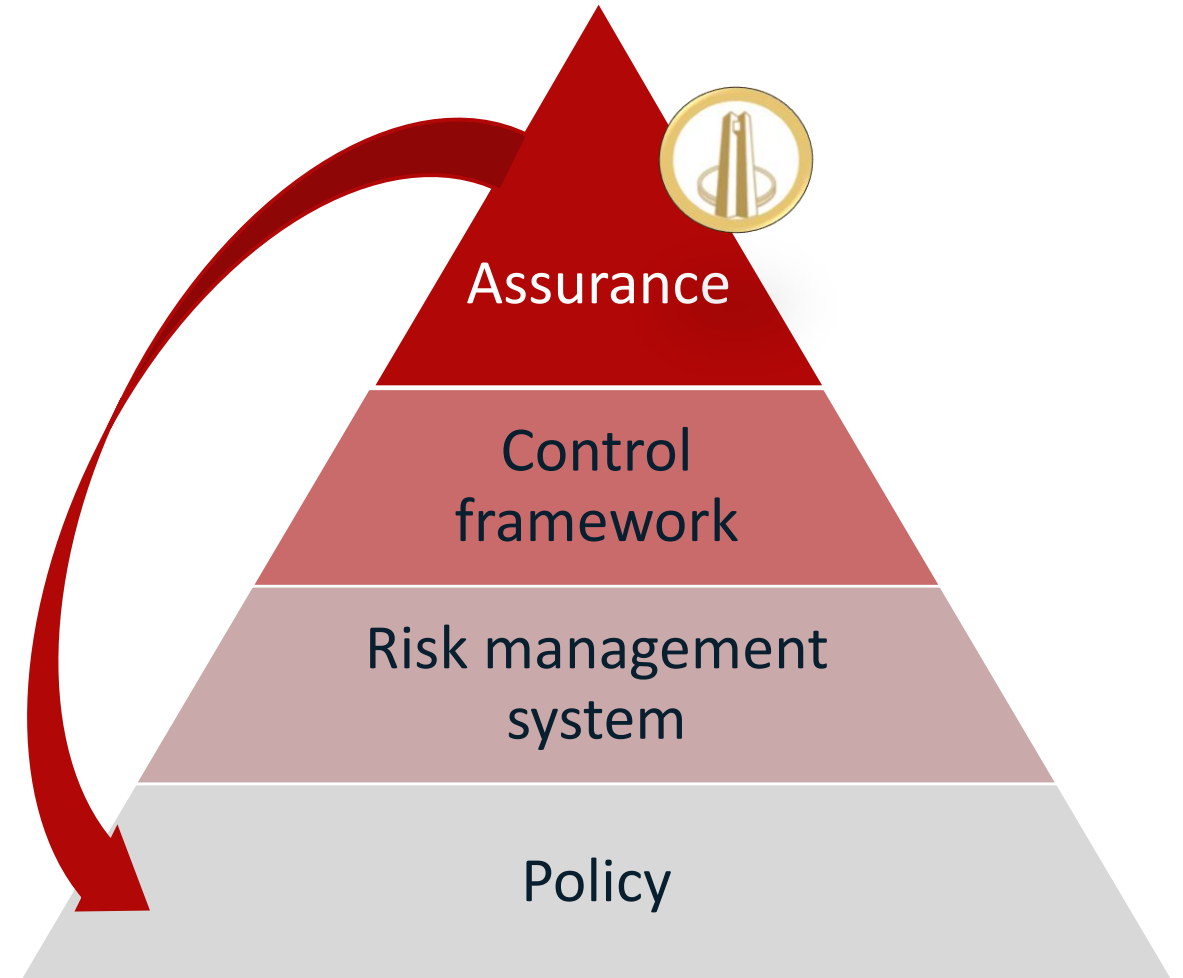


6. Internal control framework and the Audit committee



Internal control framework and the Audit committee

- A control framework is developed out of knowledge from the risk management system with policy as a foundation
 - Holistic
 - Address climate strategy
 - Common language
 - Timely management information
 - Accountability
- Assurance timeliness and frequency will depend on practice
 - Development considerations
 - Annual



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What are your key takeaways from embedding climate into a RMF?

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Questions?

in @adel.drew

Adel.Drew@Milliman.com

