



**Climate change – why business needs to adapt**  
The Insurance Institute of Leeds – Climate Change Day

5 February 2020

# What is driving the climate change agenda for businesses?

## The 2018 UK Corporate Governance Code

A new-style, shorter and sharper version of the UK Corporate Governance Code

Revised Guidance on Board Effectiveness

Update to the UK Stewardship Code to be consulted on later this year

### Headlines....

Purpose, values, culture & s172

Workforce policies & practices

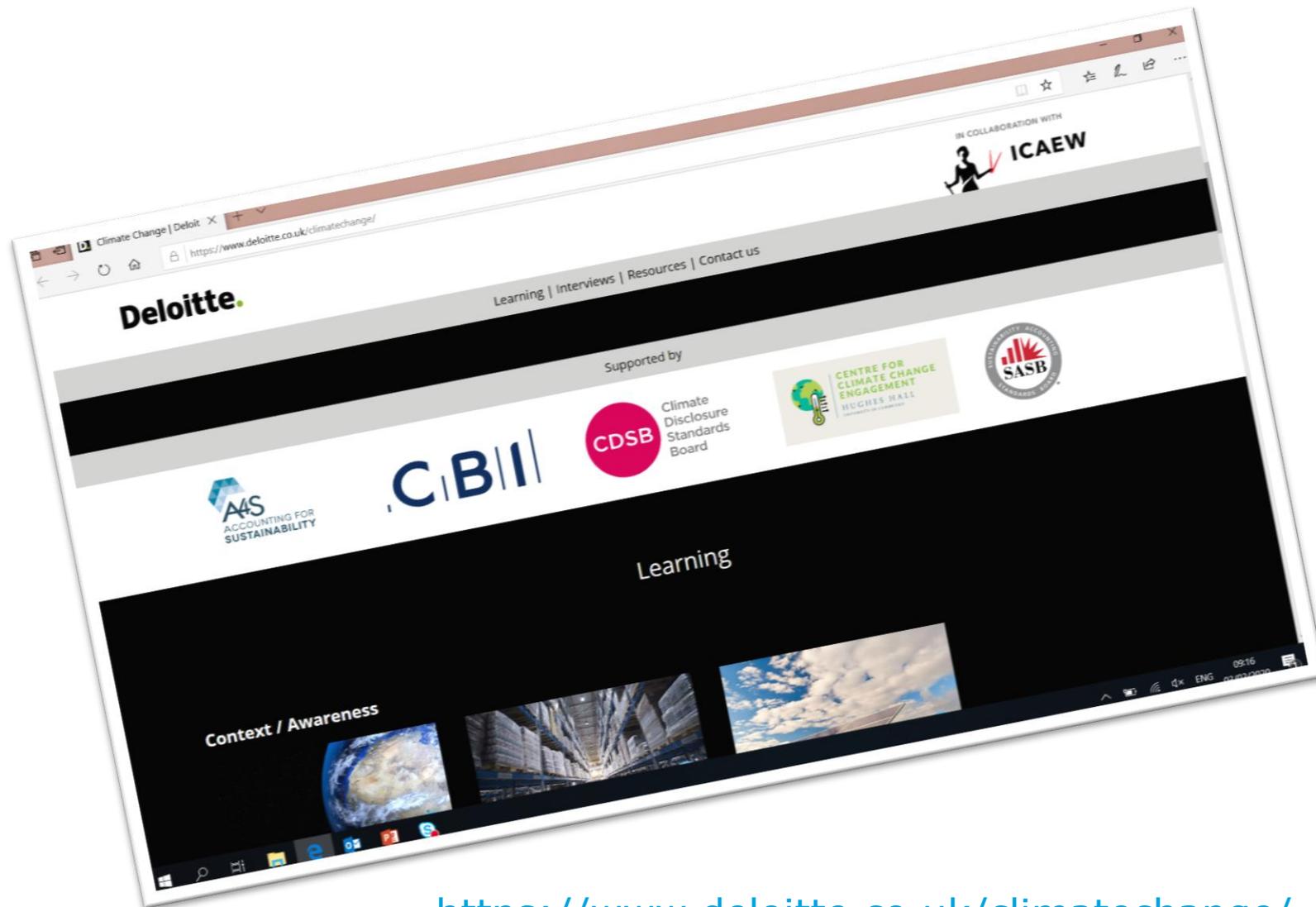
Board composition & independence

Emerging risks & internal assurance

Remuneration

Applies for periods commencing on or after 1 January 2019

# What does business need to do? More than banning plastic cutlery



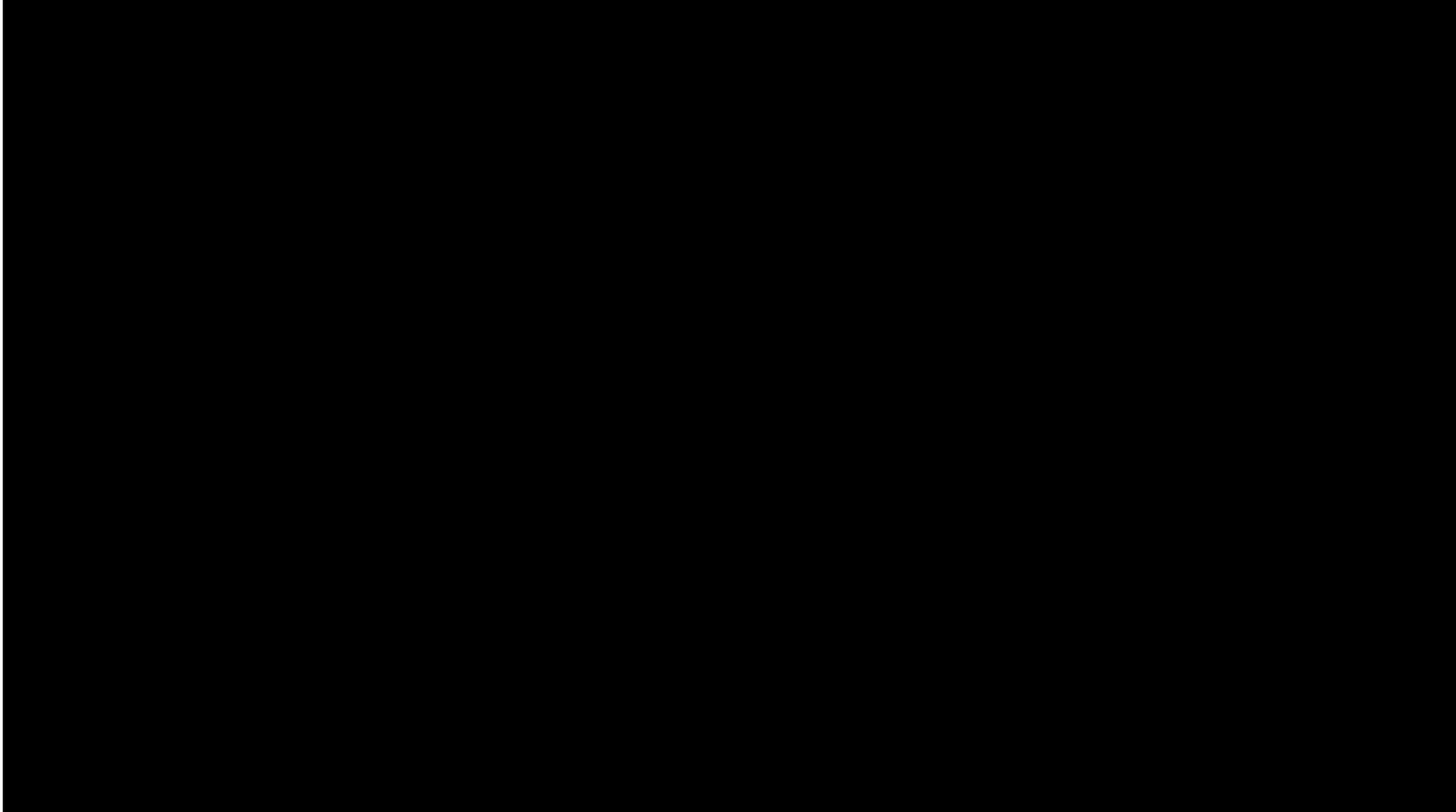
<https://www.deloitte.co.uk/climatechange/>

Board level ownership

Strategic integration

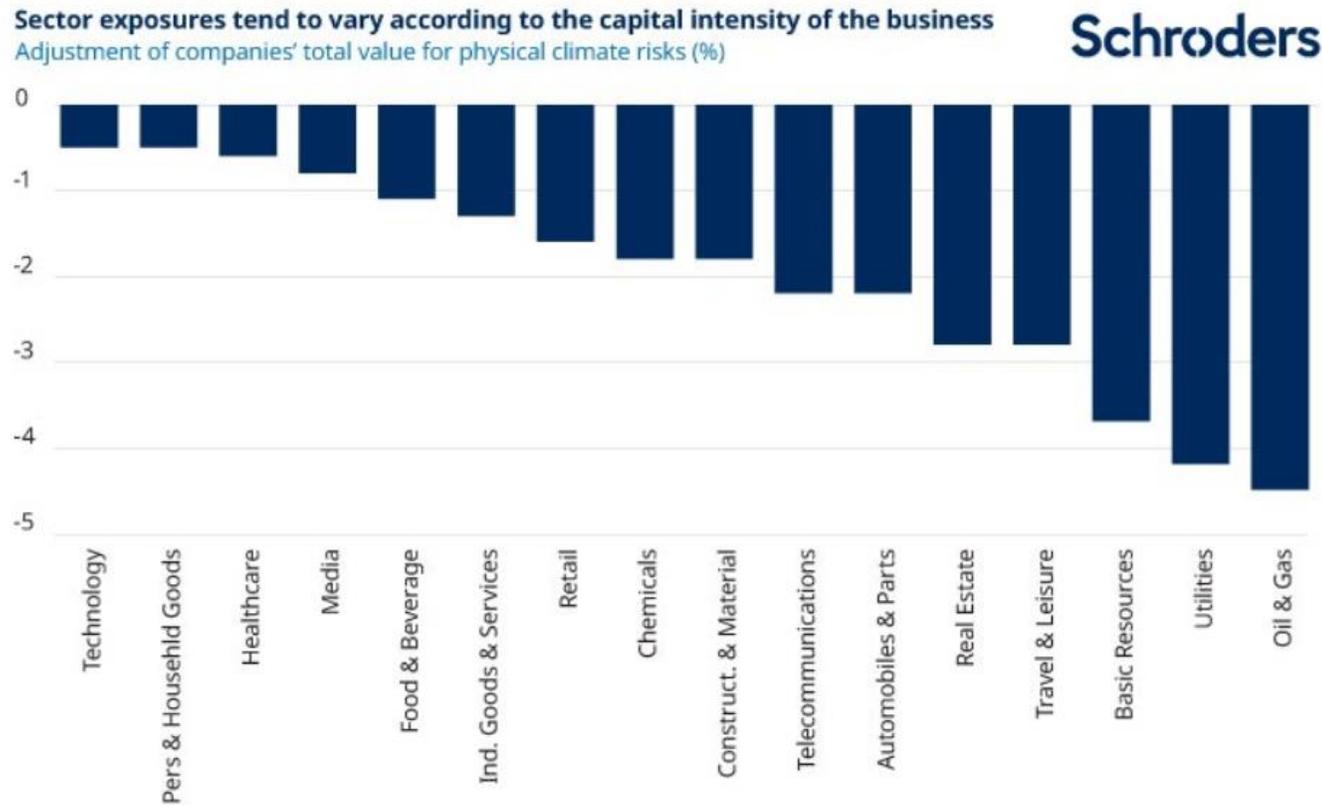
Incentivisation

How are businesses adapting?  
Opportunities exist



# Financial services

## A critical role to play



Source: Schroders. Based on most recent data available in March 2018. We have excluded financial sectors from this summary given the low direct exposure of their fixed assets understates the risk embedded in their assets or liabilities. SCH69706

Table 1: Example of Aviva's Heatmap scores for two electric utility companies. Source: 2018 Aviva climate change stocktake<sup>vii</sup>.

	Company A	Company B
Average Final Voting Score	F	D
Latest Voting Score	F	D
Governance Rating Global	C	B
Governance Rating Home	C	B
ESG Rating	A	BBB
Controversies Overall Flag	Green	Yellow
Accounting Governance Risk Rating	B	C
Carbon emissions exposure	5.9	5
Carbon emissions management	5.7	5.8
Water stress exposure	3.9	3.5
Water management	3.4	1.4
AHA score	6.38	6.03

## Financial services

### What are we seeing thus far?

- **Governance and working groups** becoming more formal, with increased focus on risks from climate change
- In past years there was typically limited inclusion of **climate change considerations with ORSA Reports** – we expect this to change this year, but firms commonly recognise there will be more to be done
- **Plans for managing climate-related risk** are typically high-level at present, but there appears to be a range in the extent of detail in responses
- **SMR assigned responsibility** typically in second line, though sometimes split across first and second lines
- Whilst we don't see much change so far in relation to **investment strategy and risk limits**, as a consequence of anticipated financial impacts of climate change, this may be on the horizon (possibly linking in with ESG considerations)
- Too early to establish a common practice, but impression is that some CROs are looking to integrate climate-related drivers into existing risk factors within their **Risk Universe**, as opposed to creating a new standalone "climate risk" within their taxonomies
- Board and Exec **training** has commenced in some firms, but more still to be done



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