



Climate risk management systems: identify, manage and report on your climate risks.

Context

Climate change poses a major risk to financial assets, with potential losses of up to \$24tn¹. This risk comprises transition risks associated with changing asset values as the world economy moves to a low-carbon footing, and the physical risk to assets from weather and climate-related events such as drought, flooding and sea-level rise.

In order to better understand climate risks to the finance sector the Financial Stability Board established the Task Force on Climate-related Financial Disclosures (TCFD), which has made a series of recommendations on how financial institutions should be reporting on climate risks to their business². At the core of these recommendations is that financial institutions set up systems to identify, manage, and report on, the risks from climate change to their assets and investment portfolios.

While the recommendations for climate-related disclosures are currently voluntary, it is expected that they will become a standard feature of reporting practices over the next five years, similar to the way that ESG concerns are now mainstream good practice. This provides an opportunity for forward-looking financial institutions to get ahead by proactively identifying the risks, and any investment opportunities, arising from climate change. The evidence shows that investors with positive ESG practices, or who are market-leaders in reducing greenhouse gas emissions, have outperformed their peers³. We are confident that financial institutions which take early action on climate risks will see similar performance gains.

Climate Risk Management Systems

We develop tailored climate risk management systems to allow clients to identify, manage, and report on their climate risks. These systems integrate with existing client processes for risk management and the appraisal of investments, and include the following key components:

- Identify climate risks that could impact on the viability and financial performance of the investment or portfolio.
- Prioritize management actions to ensure that the ROI and/or project objectives are not impacted by climate change.
- Track and report on action on climate change in line with TCFD recommendations.
- Identify opportunities to invest in innovative climate start-ups. The emerging market for solutions to adapt to climate change is worth \$Xm and is growing rapidly, and there is potential for robust returns for those who are early to the market.

The foundation for any climate risk management system is to understand the existing risk management procedures for loans or investments and build in consideration of climate risk in a way which minimises additional assessments, and does not slow the approval process. Our team blends

¹ Dietz *et al.* 2016

² TCFD 2016

³ Barclays Investment Bank 2016; CDP 2017

world-leading technical knowledge on climate change with decades of business experience and systems development. We work closely with our clients to assess which approach is most appropriate, and choose from among our catalogue of tools for identifying and managing the climate risk to investments. Each client has a unique set of requirements, which is why each package of solutions is tailored to individual needs.

Alignment with TCFD recommendations

Our climate risk management systems allow clients to meet the following TCFD-recommended disclosures:

Area	Recommended Disclosure	Service
Strategy	1) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term. 2) Describe the impact of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning. 3) Describe the potential impact of different scenarios, including a 2°C scenario, on the organization’s businesses, strategy, and financial planning.	In developing the climate risk management system we produce a Strategic Climate Risk Report which assesses risks and their impacts across the business. The Strategic Climate Risk Report includes impacts under several different socio-economic and climatic scenarios.
Risk Management	4) Describe the organization’s processes for identifying and assessing climate-related risks. 5) Describe the organization’s processes for managing climate-related risks. 6) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management.	The Climate Risk Management System is the core of this process. We generate a Climate Risk Management report which demonstrates how risks are identified, managed, and integrated into existing procedures.

Metrics	<p>7) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.</p> <p>8) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.</p> <p>9) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks</p>	<p>Metrics and targets are developed as part of the climate risk management system. Reports can be generated summarizing the appropriate metrics.</p> <p>Where existing GHG procedures are not already in place these will be developed.</p>
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Experience

The Global Climate Adaptation Partnership (GCAP) has worked with several Multi-Lateral Development Banks over the last 5 years to develop tailored climate risk management systems. Our flagship Climate Safeguards System (CSS) ensures that all African Development Bank projects undergo a due diligence process to identify and manage climate risks prior to approval, ensuring that investments in the order of \$5bn/year are resilient to climate change.

We are currently developing a climate risk management system for the European Investment Bank (EIB) which will allow the EIB to rapidly identify projects where climate risks have the potential to affect viability and return on investment, put in place appropriate processes and procedures to manage and report on climate risks in their portfolio, and track their investments in climate resilience.

Find out more

If you are interested in how we can help your business identify, manage, and report on climate risks, send us an email at CRM@climateadaptation.cc and we'll be happy to follow-up.