

AON

Value Beyond Compliance

Climate-Related Risks and Opportunities



The changing climate is a core strategic concern for us all. Atmospheric concentrations of CO2 have now passed 400 ppm for the first time in at least the last million years, and the knock-on effect of this can be seen in global surface temperatures. Each decade since 1980 has been warmer than the last, with the most recent decade (2011-2020) the warmest on record.¹

While it's often long-term risks that make the headlines, over the short-term these changes present an unprecedented source of risk and volatility for businesses. In addition to hotter temperatures, the impacts of climate change include more severe and frequent storms, increased drought, rising sea levels, and loss of species on land and in the ocean.²

According to the International Panel on Climate Change (IPCC), global emissions need to fall by 43% by 2030 to limit temperature rises to 1.5°C.³ To combat this at a global level, 193 nations have pledged to meet net zero by 2050.⁴ To help meet this target, countries are applying pressure on companies that operate within their borders. A range of stakeholders, including regulators, investors, financiers, insurers, boards, consumers, and communities are expecting organisations to take action on their contribution to emissions.



¹ [Causes and Effects of Climate Change | United Nations](#)

² [Causes and Effects of Climate Change | United Nations](#)

³ [Climate Plans Remain Insufficient: More Ambitious Action Needed Now | UNFCCC](#)

⁴ [The Paris Agreement | United Nations](#)

To track progress, measurable data points are required. These data points need to go beyond tracking surface temperatures and sea levels, much the same way the health of a company is tracked using more than its bottom line. Until recently, there was little in the way of agreed measures for the environmental health of a company and its impact. In response, we now have the Taskforce for Climate-Related Financial Disclosures (TCFD), which is supported by over 110 regulators and governmental entities globally.

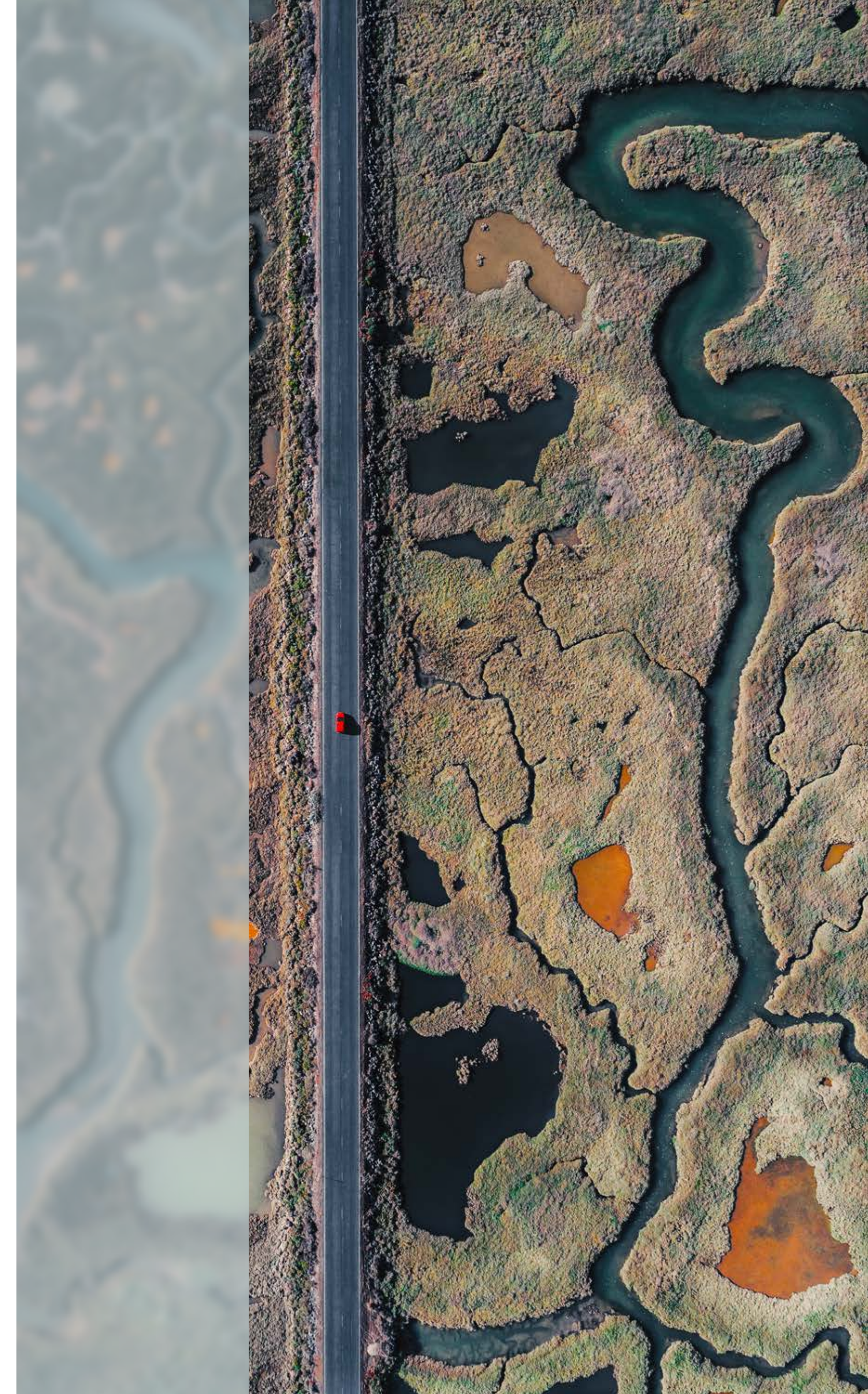
With TCFD compliance rapidly becoming mandatory across a number of countries, organisations are having to make investments in how they monitor and manage climate risks. By treating TCFD disclosure as one important outcome from a broader exercise exploring both risks and opportunities coming from climate-related impacts, organisations can realise far greater value. This approach also creates potential for securing strategic

advantage compared with competitors that view TCFD solely as a compliance requirement. We believe there is significant value beyond compliance, and organisations can use their experience to build resilience and make better strategic and operating decisions.

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What we cannot measure we cannot manage, so it is important that financial firms and their clients use the TCFD framework and the latest tools available to measure, model and disclose the climate risks and opportunities they are exposed to today and in different future climate scenarios.





Andrew Bailey, Bank of England Governor, speech at the Green Horizon Summit on 9 November 2020



TCFD

Established by the Financial Stability Board, the TCFD was created to assist organisations to disclose climate-related financial risk and opportunity information to investors and other stakeholders through existing reporting processes.

The TCFD has outlined the types of information companies should disclose to support investors and other stakeholders in assessing and pricing a specific set of risks related to climate change. The framework consists of 11 recommendations on climate-related financial disclosures within four thematic areas.

 <p>Governance</p> <p>Disclose the organisation’s governance around climate-related risks and opportunities.</p>	 <p>Strategy</p> <p>Disclose the actual and potential impacts of climate-related risks and opportunities on organisation’s business strategy, and financial planning where such information is material.</p>
 <p>Risk Management</p> <p>Disclose how the organisation identifies, assess, and manages climate-related risks.</p>	 <p>Metrics and Targets</p> <p>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</p>

Exploring Climate Risks and Opportunities

While some may see this as a compliance burden, used effectively, it can provide leaders and investors alike with a clear set of risks and opportunities which ultimately impact the organisation's financial position.

The risks are broken into two categories: transition risks and physical risks. Transition risks relate to actions a company must take as part of its transition to a lower-carbon economy.

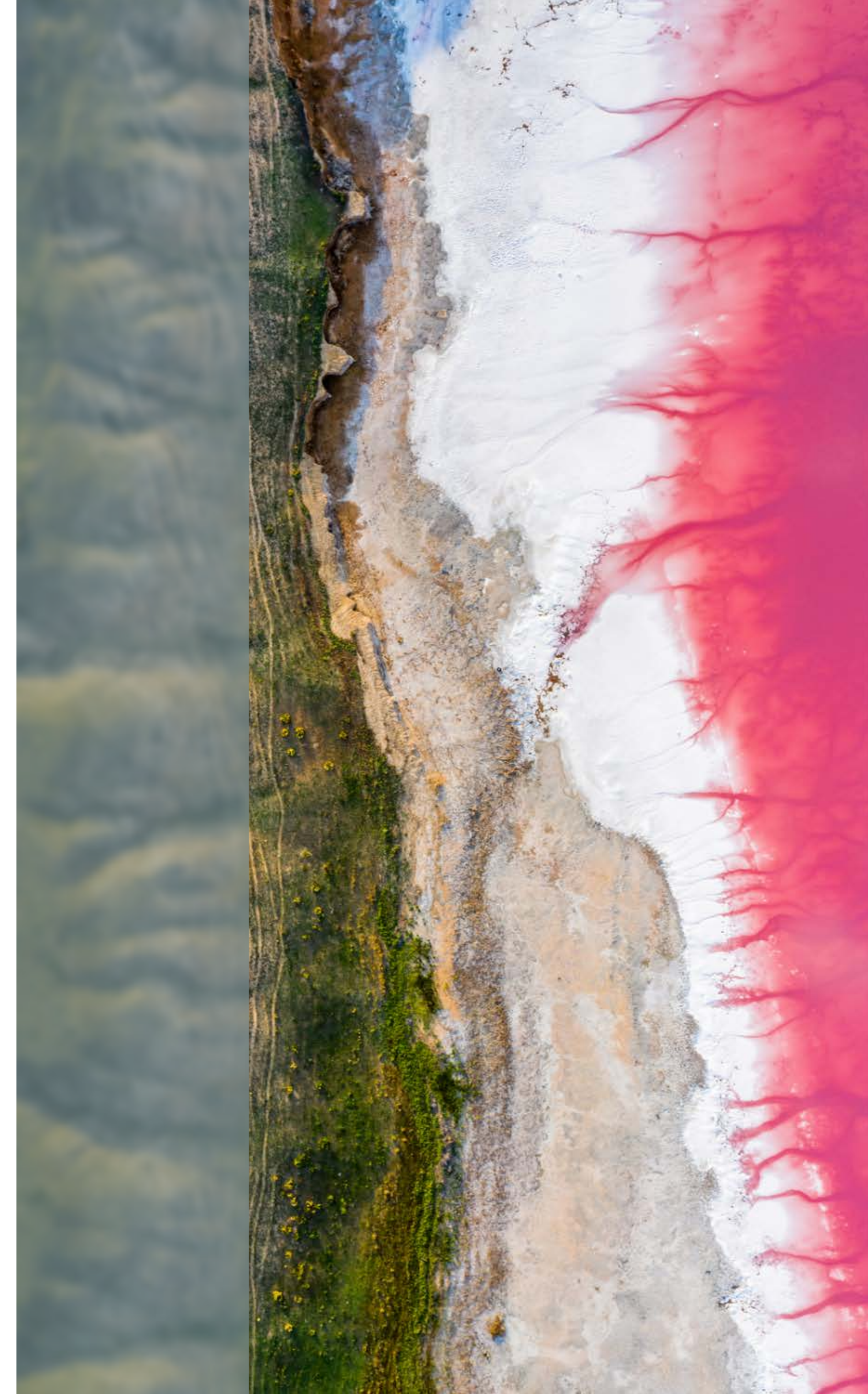
Transition risks come under four categories:

- **Policy and Legal:** Implementing carbon-pricing policies to shift energy use towards lower emissions sources.
- **Technology:** Use of innovative technologies to increase energy efficiency or the shift towards renewable energies changing the existing markets.
- **Market:** Shift in the supply and demand for certain commodities, products and services as a result of climate change.
- **Reputation:** Change in customer perceptions of an organisation's contribution to climate change and any impact mitigation or adaptation policies that could pose reputational risk.

Depending on the nature, speed and focus of these changes, transition risks may impose varying levels of financial and reputational risk to organisations.

Physical risks come under two categories:

- **Acute:** Increased severity of extreme weather events causing damage and disruption.
- **Chronic:** Rising sea levels which increase the potential for flooding.



Climate-Related Risks, Opportunities and Financial Impact



Event-driven (acute) or longer-term shifts (chronic) in climate patterns may result in direct damage to assets or as indirect impacts caused by supply-chain disruption for example. The range of expected impacts could include access to water, threats to food security and extreme temperature changes affecting an organisation's premises, operations, supply chain, transport needs and employee safety.

However, risk mitigation is just one area where organisations can benefit from auditing and reporting on climate-related impacts. There are also many opportunities that come from taking steps to mitigate and adapt to climate change:

- **Resource Efficiency:** Improving energy efficiency for emission reduction can also be expected to reduce operating costs.
- **Energy Source:** More investment in renewable energies globally and higher adoption of these new technologies can result in access to cheaper energy.
- **Products/Services:** Organisations that innovate and develop products and services with a small carbon footprint may create opportunities for competitive advantage.
- **Market:** Collaborative efforts to adapt to climate change may give organisations opportunities to access new markets.
- **Resilience:** Climate change resilience improvements can lead to increased market valuation and supply change reliability.

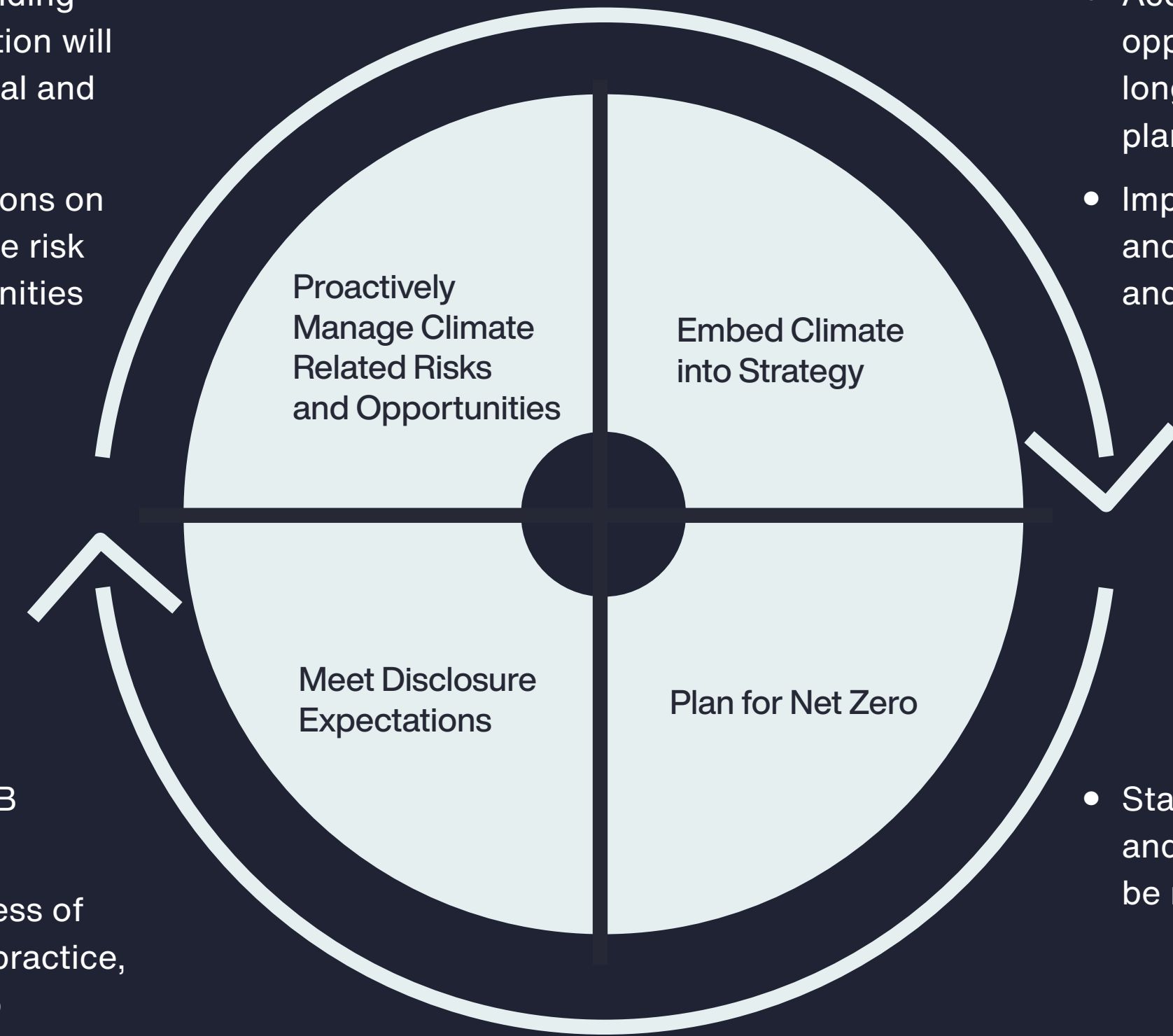


Capturing Organisational Value

By identifying physical and transition risks, organisations can also target actions to mitigate the impacts of these risks. While disclosure of material risks and opportunities is required by the TCFD, it is important that all risks are captured, and responses included in the organisation’s strategic planning. Risks can be added to a key risk or climate risk register, where they will be regularly monitored and reported on. Any opportunities identified can also be considered in business planning, alongside mitigation responses.

- Develop an understanding of how your organisation will be affected by physical and transition risk
- Make informed decisions on climate risks to reduce risk and optimise opportunities

- Meet TCFD/SEC/ISSB expectations
- Demonstrate awareness of climate impact, best practice, and sector leadership





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How Aon Can Help

At Aon, we have a team with global expertise supporting organisations with their TCFD disclosure journey across a range of sectors. We use a structured approach in line with best practice to evaluate threats and opportunities whilst benchmarking against similar organisations within sectors. Through our in-house expertise, we advise organisations on the combined impacts of both physical and transition risks beyond meeting compliance requirements. [Contact us](#) to find out more.

About

Aon plc (NYSE: AON) exists to shape decisions for the better—to protect and enrich the lives of people around the world. Our colleagues provide our clients in over 120 countries with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business.

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