

Governing Climate Risk

A Guide for Boards and Senior Managers



As a director or senior manager, you need to be alert to anything that could help or harm your organisation. This guide is about helping you to address climate risks and also see the opportunities for positive change.

The root cause of climate change is known. The burning of wood, gas and oil, together with land clearing, refrigeration, and industrial processes, all release gases—known as greenhouse gases—which bank up in the atmosphere, trapping heat.

That trapped heat, which is a global phenomenon, plays out locally as abnormal weather patterns and changes in the environment. Some changes are gradual—warmer winters, for instance, or higher seas if you're on the coast. Some of them are catastrophic such as floods, heat waves, cyclones, and bushfires.

Many of us have experienced these events already—working through them, providing services, and managing recovery after.

In a hotter world we will experience them more often and perhaps even worse than before. Even in 'peace time', living, working, and operating conditions will be different. Hotter for longer. Drier in some places at some times of year. Wetter in others.

There are limits to what our bodies can take in this emerging climate, let alone buildings, infrastructure, and equipment.

Take heat waves. The impacts on bodies include dehydration, kidney failure, urinary tract infections, septicaemia, and heat stroke. Hotter weather favours pathogens that lead to food-borne diseases like gastroenteritis. It also exacerbates heart and lung diseases.

In a heat wave, electricity consumption goes up, which can overload the network and cause blackouts. Without electricity you can't cool workplaces and the places where you provide services. You can't refrigerate food or medicine. Transport systems break down. It may be unsafe to do anything outside.

This puts pressure on you to adapt your operations, prepare your workforce, and make sure you can continue to provide services in a wide range of circumstances, including an emergency.

You also have an obligation to reduce emissions, which are the root cause of these changes in the climate and an urgent action we all need to take.

In the following pages, we set out the questions you should be asking, the governance you must set up, and the four actions you need to take to address climate risks and opportunities.



ASKING POWERFUL QUESTIONS

In Australia we have excellent sources of public information about how climate change will affect different parts of the country, which means the risks it presents to your organisation are entirely *foreseeable*.

With a good grasp of what is likely to happen, both in the near term and the long term, you can then assess the risks that these events and changes pose to your organisation. In other words, you will be able to see how *material* these risks are and where you have opportunities to adapt and reduce emissions.

As a director or senior manager, it's up to you to ask questions that will drive action and accountability. Here are some to start you off.

WHAT ARE THE FORESEEABLE CHANGES IN OUR OPERATING ENVIRONMENT?

- What new weather patterns and extreme events will we see in the near term (up to 2030) and long term (up to 2050) in the areas we operate?
- How likely is it that an extreme event would happen in any of the places we operate, in that near and long term?
- How could these events compound or cascade in ways that make it harder for us to cope?

HOW WOULD THEY AFFECT THE THINGS THAT MATTER TO US?

- How would these weather patterns and extreme events cause harm to our workforce, customers, and anyone we have a duty of care towards?
- How would they compromise our services or affect our customers and stakeholders?
- How would they cause loss and damage to our buildings, equipment, and other assets?
- Have we examined our exposures and vulnerabilities in all the places we work and provide services, including vehicles and private homes?

WHAT CAN WE DO TO ADAPT AND PREPARE?

- What actions must we take so that people and assets are less exposed?
- For whatever remains exposed, how can we make them less vulnerable?
- How can we make the most of the knowledge and skill of our staff and volunteers to understand the risks and opportunities and work out what to do?
- What local government, State and Commonwealth policies, support and decision tools can we rely on?
- What skills and knowledge do we need—both on the board and in the organisation—to adapt? Understanding climate risks, for example, or technical expertise for reducing emissions.
- What can we do with our own resources and what will depend on cooperation with other organisations?
- What are our options for reducing insurable risks such as risks to property, public and product liability, business interruption, personal injury, and employment practices?
- How are we informing staff, volunteers, and customers about our transition to zero emissions?
- Where can we show leadership in the industry and to our customers and stakeholders, demonstrating what action on climate risks looks like?

WILL WE BE ABLE TO RECOVER?

- What is our plan for recovering after a disaster, so that we are less vulnerable to anything that comes in the future?
- How likely are we to remain insured in the areas we operate?
- How can we make sure our people and operations are resilient to the shocks of climate change, some of which may not be one-off events?
- How will we ensure business continuity through disasters?



THE DIFFERENCE BETWEEN EXPOSURE AND VULNERABILITY

Asking *who* and *what* questions will help you uncover what is exposed to extreme weather and other events.

For example, “Who could be harmed by a heat wave?”. The answer might be your staff, customers, and volunteers. “What could break down, stop working, or be damaged?”. Answers might be your air-conditioning systems or your outreach services.

You also need to ask *how* those people, places and things may be in danger if they were exposed to a heat wave.

For example, human bodies cannot tolerate extended hot, humid conditions, though your buildings might. You also need to understand the factors that make them vulnerable. A person's age, gender, mobility, and pre-existing conditions can make a difference to how they cope. Quality of construction and demand management can make a difference to whether your air conditioning holds up.

For your analysis of both exposure and vulnerability, make sure your questions and answers are time-bound, place-based, and specific to your organisation.



WHAT ARE OUR OBLIGATIONS?

- What are our obligations as directors and senior managers, when it comes to these risks, which we acknowledge are material and foreseeable?
- Can we have an update on the wider legal and policy context, in both State and Commonwealth spheres?
- What are our organisation's reporting obligations when it comes to emissions reduction?



HOW CAN WE REDUCE EMISSIONS?

- What are the risks to reputation or stakeholder relations if we don't reduce emissions?
- When can the board see emissions reduction on the agenda?
- Have we identified where our operations and supply chains emit greenhouse gases?
- What are our options for reducing emissions to zero?
- Where can we switch away from polluting technology and practices in a way that improves efficiency or adds value to our business?
- How can we make the most of the knowledge and skill of our staff and volunteers to go all electric, reduce consumption of products and services that pollute, and switch to renewables?
- What skills and knowledge do we need to see this change through, both on the board and in the organisation—for example, are we across the differences between scope 1, 2 and 3 emissions?

Reducing emissions is like saving water in times of drought—every organisation must do its bit

SCENARIOS: A TECHNIQUE FOR THINKING ABOUT THE FUTURE

A scenario is a rich description of the world that you could plausibly find yourself in at some definite point in the future in a particular place.

Written in a realistic way, in plain, non-technical language, they can be a powerful technique for setting strategic objectives, emergency planning, working out how to adapt, and assessing whether your organisation is resilient to climate shocks and stresses.

A good scenario includes information about climate and weather events, the demographics of your customers and local area, technology and the nature of work, the built environment you live and work in, and the lifelines and infrastructures that you depend on for movement of people, goods and services.

State and Commonwealth governments have published information you can use for the basic structure of your scenario—see the references at the back of the guide. Universities and other research organisations, such as the Climate Council, also have excellent reports. Local governments, catchment management authorities, insurers and industry bodies may also have information to share. It's worth spending some time to discover the information available and, perhaps, partners you can work with to develop richly informative scenarios that you can all use.

SETTING UP STRONG GOVERNANCE

Your organisation needs to make room for these questions to be asked and answered, over the full cycle of the annual board calendar or work plan.

The goal is to make the management of climate risk business as usual, featured explicitly in meetings about strategy, budget, finances, CEO performance indicators, reporting requirements, and performance monitoring.

At the beginning, though, the board and senior managers may need to convene special meetings on how to respond to and anticipate the local impacts of climate change. These meetings should focus on discovery of climate risks and decisions about the future of the organisation in a climate-changed world. Scenarios are an excellent tool for this initial work.

This should lead to a *full renovation* of your organisation's policy and governance frameworks so they explicitly address how your organisation will assess and manage climate risk. In particular, your new risk management framework should include

- the specific climate risks that your organisation faces in the near and long term, in all the places you operate in
- what sources of information and techniques were used—such as scenarios—to identify those risks
- a statement of your risk appetite when it comes to these risks.

The results of the initial deliberation and the updated frameworks should be documented, so that everyone understands the risks and your position on them. These documents should disclose

- the board and senior management's assessment of the risks and opportunities for the near and long term
- what those risks and opportunities mean for the organisation's strategy, business, and financial planning
- the names of board members and senior managers who will oversee the management of climate risks
- details of how those individuals will do it
- the organisation's processes for assessing and managing climate risks
- targets and metrics for measuring change.

Directors and senior managers should work together on the board calendar to make sure it covers the issues in a coherent and timely way. As you build skill on the management of climate risk, you should review and improve your policy and governance framework.

The work of change needs your sustained attention and your leadership





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Lynette Smith, director of gramma consulting, collaborated with Ansva to produce this guide on climate risks.

With 20 years of experience in the science-policy-risk interface, Lynette works with senior leaders, staff, and communities to understand future scenarios and risks, define objectives, share knowledge, and shift to a story of positive change.

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FOUR ACTIONS ON CLIMATE RISKS

A thriving organisation has a purposeful and confident attitude to the future

Here are four actions the board and senior managers should take to adapt, reduce emissions, and remain insurable as the climate changes.

1. ASSESS THE RISKS AND OPPORTUNITIES

Members of the board, the senior managers, and the wider organisation should convene to identify, analyse and evaluate the risks of climate change to your organisation.

These risks are foreseeable: what could happen in the next 5 years and the next 20? They also have material consequences. What would be lost or damaged? Who and what would be harmed? What would it cost you if it happened?

You should also take seriously the opportunities that go with adaptation, such as reducing electricity consumption, giving customers a better experience, or ensuring a speedy recovery after extreme weather events.

Always take the opportunity to learn about new emissions reduction measures, adaptation strategies, and how climate change will affect your part of the world, so you are better prepared for the future.

Make the most of the skill and knowledge of the people who provide services and run your facilities. They will be your best source of information about what's exposed and how it's vulnerable.

You may need to form working groups devoted to a particular aspect of the risk—for example, the risks to people's health, or to the organisation's assets, or the opportunities to become more energy efficient. This can't be accomplished in one meeting or by just a few people from one part of the business. Invest time into sharing information and learning in face-to-face ways, so that working groups don't become silos.

2. IDENTIFY WHAT NEEDS TO CHANGE

Having assessed your risks and opportunities, you'll be able to pinpoint what needs to change in your workforce, your assets, how you run your facilities, and how you provide services—that's part of what makes the risks material.

From there you can assess the type and quantity of work needed to make those changes. Who will do it? What skills and information will they need? How, and in what order, it should be done so that it will bring the most value to your business? What will you need to invest? How will it be financed?

You will also be able to set targets and metrics for change. Whether you are required to report or not, make them consistent, as far as possible, with a standard or set of principles, such as those listed in the Australian Institute of Company Directors guide, Climate Governance for NFP Directors—see our references for the link.

3. DEVELOP A CLIMATE ACTION PLAN

Your plan should describe actions so that it's clear how they will make you better adapted or reduce emissions. Your plan should also detail who will do it and when they will do it.

Make sure it's a strategy rather than a collection of actions. That means starting with objectives. Those objectives must be time-bound and specific to your organisation.

By all means, follow any examples of good climate action plans, but the objectives and actions should be recognisably yours and yours only. They should reveal your understanding of the climate risks in your part of the world and be meaningful to the business and your stakeholders.

The objectives and the actions to achieve them should be endorsed by the board.

4. UPDATE YOUR GOVERNANCE & REPORTING

It needs to be crystal clear to the board, and your wider circle of stakeholders, how you as an organisation will assess climate risks, determine objectives, monitor change in the environment, and deliver the action plan.

It needs to be written down in a way that's specific to your organisation and readily available to anyone who asks for it. If there's any vagueness or ambiguity about roles and responsibilities, now is the time to remove it.

The members of the board need to understand the climate risks their organisation faces. They must also continually reassess them and the work being done to manage them. Do your governance procedures facilitate that?

Before you change them, ask yourself: what information does the board need for its decision making and oversight? What is the most useful way for them to receive it? When would they need to receive it? How much time will they need to confer about it?

Update them in a way that gives a positive answer to each of those questions.



YOUR RESPONSIBILITIES IN RELATION TO INSURABLE RISKS

The impacts of climate change have already increased the cost of insurance, especially in those parts of Australia at risk of bushfire, flood, or cyclones.

Insurance will remain affordable or accessible for communities and businesses, only if they take action to manage adaptation risks and reduce emissions.

Meet with your insurance broker to understand your exposure to climate risks and the role that insurance can play in helping you to manage them.

RESOURCES

The resources listed here are a solid foundation for your work on adaptation and emissions reduction—many of them served as references for this guide.

If you are at the beginning it may be a challenge at first, but it will be worth it. If you're well down the road, it's still the baseline, best-in-class guide to action.

Climate Change in Australia

<https://www.climatechangeinaustralia.gov.au/en/>

The projection tool showing changes in each 'cluster' and 'sub-cluster' is particularly useful for assessing adaptation risks in the places you operate in.

<https://www.climatechangeinaustralia.gov.au/en/projections-tools/regional-climate-change-explorer/super-clusters/>

The Bureau of Meteorology is also an excellent source of long-range forecasts and information about what drives local climate.

<http://www.bom.gov.au/climate/ahead/>

Many states have information about adaptation, climate change, state action and also *support for businesses* that want to take action on climate risk. Search using 'climate change adaptation' and the name of your state or territory.

Better Health Victoria has a brief, easy-to-read outline on how climate change will affect health and wellbeing.

<https://www.betterhealth.vic.gov.au/health/healthyliving/climate-change-and-health>

The Climate Council has an in-depth review of the impacts of heat waves on health, infrastructure and production. Explore further for more valuable research reports.

<https://www.climatecouncil.org.au/uploads/9901f6614a2cac7b2b888f55b4dff9cc.pdf>

Phoenix Australia has excellent resources on recovering from trauma caused by disasters, such as bushfires.

<https://www.phoenixaustralia.org/>

The Australian Institute of Company Directors has a guide for not-for-profit organisations on managing climate risks and opportunities.

<https://www.aicd.com.au/content/dam/aicd/pdf/news-media/research/2023/NFP-Climate-Governance-Guide.pdf>

The Task Force on Climate-Related Financial Disclosures has four critical documents including recommendations for practice—including the use of scenarios—and guidance on targets and metrics. This will be particularly useful for larger organisations.

<https://www.fsb-tcdf.org/publications/>

The Australian Institute for Company Directors has a useful guide to putting together the annual board calendar or work plan.

<https://www.aicd.com.au/content/dam/aicd/pdf/tools-resources/director-tools/board/annual-board-calendar-director-tool.pdf>

The Insurance Council of Australia, has made climate change one of its Issues In Focus, publishing excellent resources.

<https://insurancecouncil.com.au/climate-change-action/>

Large organisations looking to reduce scope 1, 2 and 3 emissions, should go to the Clean Energy Regulator. This page also has links to a range of calculators, which may be useful, depending on the size and obligations of your organisation.

<https://www.cleanenergyregulator.gov.au/NGER/About-the-National-Greenhouse-and-Energy-Reporting-scheme/Greenhouse-gases-and-energy>

Finally, seek out ways to be a leader in your sector. The Climate and Health Alliance has achieved national and international recognition for its work to support organisations and leaders in the health sector.

<https://www.caha.org.au/leadership>

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Governing climate risk AR-142.1 12/23