

Climate risk management - A guide to getting started



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Forward-looking climate risks and opportunities is a topic that has seen increased attention the last years, from both investors, regulators and the public opinion. This attention has largely been triggered by the recommendations published by the Task Force on Climate-related Financial Disclosures (TCFD). Following the recommendations provides companies with critically important management information that can help reduce risk, reduce costs and create business opportunities, profitability and competitive advantage.

The process of implementing the recommendations provides an additional top management and board understanding for what the consequences of a transition to a low-emission society will be for today's business model and how the strategy must be changed to stay relevant. These are some of the reasons

why we, the Nordic CEOs for a Sustainable Future, have committed to integrate the TCFD recommendations by reporting year 2020 and are already well under way. The CEO group strongly recommended that the Nordic Governments encourage all Nordic companies to start integrating the recommendations no later than by reporting year 2021.

A survey conducted by the Norwegian Financial Supervisory Authority showed that very few companies are reporting on this work. To help companies get started, we - the Nordic CEOs for a Sustainable Future - have put together a guide based on own experiences on how to get started. While there is not a blueprint on how to execute or report perfectly, we hope that this guide will be of help in the initial phase.

Getting started:

The guide is divided into three parts:

1. **three steps to prepare your organization**
2. **ten steps to get you through the process**
3. **two steps regarding reporting**

At the end we have included quotes from several of the CEOs in the Nordic CEOs for a Sustainable Future urging the importance of implementing the TCFD recommendations, and some company reporting examples.



FINNAIR



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storebrand

Swedbank



Telia Company



Schibsted

“What gets measured, gets managed and that is why reporting climate-related financial information is critical if we are to achieve net zero by 2050. The bedrock of this approach is the Task Force on Climate-related Financial Disclosures (TCFD). Developed by the market for the market, the TCFD is the gold standard for climate reporting. As the first regional group to mobilize behind the TCFD, the Nordic CEOs for a Sustainable Future are further catalysing its adoption in Europe and globally.”

Mark Carney, Finance Adviser for COP26 and UN Special Envoy for Climate Action and Finance



“Implementing the TCFD recommendations helps companies understand the potential impacts of climate change on their business and what needs to be done to build resiliency and prepare to meet the growing regulatory requirements in this area,” said Mary Schapiro, head of the Task Force on Climate-related Financial Disclosures. “The Nordic CEOs for a Sustainable Future are leading the way on climate risk reporting, and sending a clear signal to the markets and investors that their companies are committed to building resilience for a sustainable recovery.”

Mary Schapiro, head of the Task Force on Climate-related Financial Disclosures



PREPARING THE ORGANIZATION

1. Ensure management support - make sure the executive management and Board of Directors understands what climate risk and opportunities are and why they are important to understand from a business perspective. If they are not willing to dedicate their time and the organization's resources to support this process, the implementation can become very difficult.

2. Set up a dedicated team - create a cross-functional group of employees from different parts of the organization including both business units and support functions, and appoint one person to lead this work. It is important to work closely with both those involved specifically with risk management in your organization as well as someone in the CFO and strategy department. Other members of the team will depend on the sector but could e.g. include someone from human resources, procurement or sustainability departments. An important part of the team's role is to build competence on climate issues throughout the organization in order to prepare the organization for further implementation.

3. Include in risk management framework - include climate risk as a specific topic in future risk reviews. Make sure the topic is discussed properly and that the discussions are not just a box-ticking exercise. This is potentially a new topic for many and may lead to some other fruitful discussions. Use the same framework for analyzing climate risk as you apply for other risk assessments. This is important because climate risk should, in the near future, be integrated into established risk management and control processes. For additional information, we recommend reading TCFD's [guidance on risk management integration and disclosure](#)



STARTING THE PROCESS

1. Conduct desktop research - start by conducting a desktop research where the cross-functional team looks at what climate risks and opportunities may be relevant to your organization. This is a so called "open phase", where the goal is to map as many short, medium and long term risks and opportunities the group can think of.

- a. The TCFD recommendations divide climate risks into two groups:
 - i. Transition risks: The risks involved in the transition to a zero-emission society. Factors you need to be aware of are, for example, regulatory changes, legal and financial responsibility for damage caused by climate change, new technology, changes in the market and how the reputation of your company may be affected.
 - ii. Physical risks: This represents the organization's vulnerability to physical climate change. Physical risks can be divided into first-order risk, which includes event-driven (acute) or longer term (chronic) shifts in climate patterns, supply chains or operations (rising sea levels, avalanches, extreme heats etc.) and second-order risk, that impact the broader natural, economic or human environment (migration, human health, license to operate, etc.)

b. The opportunities your company may be exposed to because of climate change must also be explored. These opportunities could relate to energy and resource efficiency, green products and services, new markets that may arise and opportunities related to climate change. The areas where you find risks can often be translated into business opportunities.

c. For more information, we recommend reading through the chapter on risks and opportunities (starting on page 5) in [the Final Report - Recommendations of the Task Force on Climate-related Financial Disclosures](#).



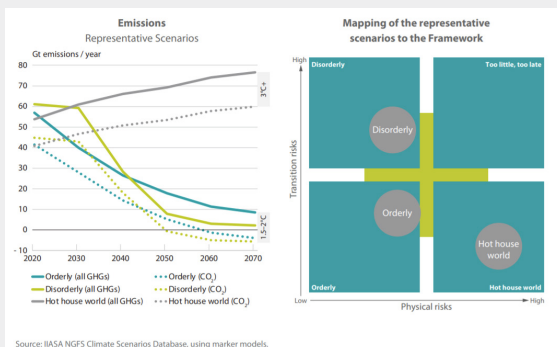
2. Carry out an impact evaluation – when the desktop research has been conducted, consider which of these risks or opportunities could have a material impact on your organization. Here it may be helpful to ask the question: Can this particular risk or opportunity prevent or positively contribute to my organization reaching its business goals?

4. Carry out a risk analysis – the risks the business is exposed to will differ in the different scenarios. Carry out a risk analysis for each scenario based on the findings from the desktop research (as seen in point 1). Note that the focus of this particular risk analysis is how transition risks and physical risks can affect your business, not the impact your company has on the climate.

3. Select at least two scenarios – select scenarios to evaluate the potential impact of climate risks and opportunities. It is a good idea to select scenarios that are used by other organizations, for example the scenarios presented by the [Network for Greening the Financial System](#). When doing the exercise for the first time we recommend using at least two scenarios. By doing so, you will be able to assess the potential impact of the risk and opportunity factors against each other without overcomplicating it. For non-financial companies, TCFD's guidance on [scenario analysis](#) could be useful.

5. Engage risk owners – encourage the individuals closest to the potential risks to engage in a discussion. It is possible that the risks that the cross-functional group identified are not the most significant risks in the organization, but they will anyways provide a good starting point for further discussions.

6. Estimate potential costs and opportunities – make an estimate of both how much it will cost if the various events occur, but also on the financial opportunities that climate change could provide. It is also fine to include ranges, some indication of "directionality" or qualitative targets if exact quantitative estimates are not appropriate.



7. Impact analysis – if feasible, you may want to analyze the likelihood that the risks may occur and the consequences thereof. Note that this is not about what you think most likely will happen, it is a structured discussion around what may happen and the resilience of strategies under various plausible scenarios.

8. Assess impact on strategy – based on the findings in the risk analysis, an assessment must be made of how the strategy of the company is affected, whether it is possible for the company to adapt its business in those scenarios and possibly how the company wants to make changes to adapt to transition and physical risks.

9. Decide on tracking parameters – think about what parameters can be used to assess the evolution of the identified climate risks. The goal is to find KPIs to guide you on a path to a more resilient business model. Even though the TCFD recommendations cover how climate change will affect your business, and not vice versa, the organization's activities causing major emissions may lead to increased climate risks or opportunities. This is one of the reasons TCFD recommends that companies report on scope 1, 2 and, if appropriate, scope 3 emissions.

10. Set targets – start thinking about what targets the organization wants to set in order to guide its efforts to reduce climate risks and capitalize on opportunities. These targets should be both short term and slightly longer term. In order to set a clear direction, it is good to set an ambitious long-term target. To ensure actual improvement it is important to set achievable short-term targets for the next 1 – 5 years. It can be a good idea to break down the targets into sub targets to simplify the implementation and ensuring that all units in the organization feel accountable for reaching the targets. Note that it is not necessary to set quantitative targets to start with, and that qualitative targets can be equally effective.



REPORTING

1. Describe process and methodology – Describe which scenarios have been used in the exercise and which assumptions and sources have been taken into account. Climate risk analysis is a relatively new field with a high degree of uncertainty, so understanding which methodologies have been used is important to external stakeholders.

2. Report on progress in the annual report – It is important that material climate-related risks and opportunities should be reported in the same report as the financial accounts and signed off by the Board of Directors. Initially, it is smart to have a separate section on climate-related risks and opportunities, in addition to mentioning it other places in the annual report where relevant. A tip is to use a TCFD index to guide the reader where in the annual report they can find the relevant information that TCFD recommends you to report on. Be open about your organization's progress and what your main challenges are.



Quotes from CEOs urging the importance of implementing the recommendations from the TCFD

"When integrating the recommendations from the TCFD you need to ask yourself how your company will create value and make money in a decarbonized world. In this sense, the TCFD recommendations become a strategically important tool for creating the necessary change in the individual company and used properly, it can be a powerful tool for engaging top management and board in strategic decisions for the company. As a result of including climate risk in our risk review with the board we have had some really interesting strategic discussions regarding climate change and how different scenarios will result in different outcomes.

From an investor point of view, it is crucial to have transparent and good reporting on climate issues. We need this to make assessments of future earnings and risk in the individual company. For the companies that fail to adjust, there is a great financial risk involved - both for the company itself and for us as investors. The demand for better data is coming from investors all around the world - and if everyone reports using the same standards, such as integrating the recommendations from the TCFD, this work will be easier and more accessible to everyone. If you haven't started yet, I would strongly urge you to do so, and hope this white paper will be of help in that process."

Odd Arild Grefstad, CEO - Storebrand Group

Co-lead for climate working group in the Nordic CEOs for a Sustainable Future



"Our vision is of a world where quality food is produced sustainably and affordably. As part of our sustainability journey, we are implementing TCFD recommendations into Marel's risk management process. This will ensure the transparency of Marel's climate-related financial information and support how we incorporate climate-related risks and opportunities into our strategic planning."

Árni Oddur Þórðarsson, CEO - Marel

Co-lead for climate working group in the Nordic CEOs for a Sustainable Future



"We are proud to be, together with Marel, the first official supporters of the TCFD in Iceland (bringing the total # of countries represented to 70). Effective risk management is at the heart of a bank's business model and there sustainability risk is no exception. Our motto regarding sustainability is that we should dare to speak about things that are important, even if we are not perfect ourselves. Sustainability is a journey and one needs to remain humble and curious, while always striving to reach the next level."

Birna Einarsdóttir, CEO - Íslandsbanki



"The TCFD recommendations for businesses mean evaluating both the risks from climate change and the opportunities to lead the transition to a NetZero economy. The mobile sector will need to ensure that network infrastructure is resilient, and can also support other sectors to decarbonise through smart connected technologies. The endgame will be a digital economy that is both green and inclusive."

Mats Granryd, Director General, GSMA



"Climate change, with the resulting need to tighten focus on mitigation and adaptation, will be one of the most prominent challenges for businesses going forward. The TCFD recommendations represent a valuable tool for companies to identify material risks and opportunities. At Telenor, we have benefited greatly from the TCFD recommendations when conducting our climate risk assessment. Using the inherent scenario thinking makes sense in a context where significant uncertainties remain within policy development and climate science."

Sigve Brekke, President and CEO - Telenor Group



"We can't predict the future, but the TCFD framework has helped us to gain a better understanding of its risks and opportunities, and will greatly enhance our ability to thrive and have a positive impact in the coming years. Swedbank's work with the TCFD-recommendations have really been of great help in strengthening the climate perspective in our business strategy development, risk management and competence development."

Jens Henriksson, President and CEO - Swedbank



"The TCFD recommendations form an important tool to understand how we should work to mitigate risks and identify opportunities associated with climate change, in order to ensure sustainable value creation. Understanding these risks and opportunities in the transport and logistics sector in which we operate, is important as we have a critical role to play as we transition to renewable energy solutions and to a society that is aligned with the Paris agreement.

The TCFD approach ensures that resources from different areas of the organization work together in the process. For us, this includes staff that work with sustainability, finance, risk management and business operations. This again enables a holistic and strategic approach that is strengthened by group leadership and board involvement.

As we are preparing to report in the coming year, the White Paper has already proven to be a very practical and concise guide that simplifies how to carry out the process. This is something all organizations that plan to report according to TCFD can benefit from."

Tone Wille, CEO - Posten Norge



"Equinor is committed to being a leader in the energy transition and aims to reach net zero by 2050. The TCFD recommendations provide a useful standardised framework for informing our stakeholders on climate-related risks and opportunities regarding our strategy and operations. We have reported towards TCFD since its launch; and while it is predominantly a disclosure template it has also become an important management tool for us."

Anders Opedal, President and CEO, Equinor



Examples of company reporting



For more information on how the GSMA is supporting mobile operators with climate disclosure, strategy and target setting, please see the [GSMA Climate Action Toolkit](#).



For more information about Equinor's TCFD reporting, see the 2020 [Annual Report and Form 20-F](#), Section 2.12 Risk review for a description of climate-related risks and opportunities. Further details are provided in the 2020 [Sustainability Report](#), TCFD Reference Index on page 62.



For more information about Storebrand's TCFD reporting, see their [Annual Report](#) on page 18-23 for a general overview of climate risks and opportunities, scenarios used and overarching findings, and metrics and targets. See also page 210-211 for a TCFD index explaining where all the relevant information can be found.



For more information about Marel's TCFD integration process, highlighting their 2020 achievements as well as short-term priorities and long-term goals, visit the [Environmental chapter of their integrated Annual Report](#).



For more information about Swedbank's TCFD reporting, see their [Annual Report](#) on page 21 for a general overview, page 86-87 for an exposure table, and 216 for reference within the report.