Business Risks and Responses to Climate Change

Diverse sections of society are urging stronger action on climate change, and in many cases taking a lead role in climate action.

Financial Risk

The Financial Stability Board is an international body that monitors the global financial system. It created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information.

The TCFD recognises that "**Climate change presents financial risk to the global economy.**"

Moody's Investors Service provides international financial research on bonds issued by commercial and government entities and is considered one of the big three credit rating agencies. In January 2020, it issued an announcement that 'climate-related risks pose a long term credit challenge for New South Wales,' citing in particular:

- *Drought and bushfire have materially disrupted economic output and increased budget pressure*
- *Water-related stress will pose greater risk to Greater Sydney over the longer term*

Litigation Risk

Climate change has been shown to put businesses at risk of litigation.

In 2020, Brisbane man Mark McVeigh reached a settlement with Rest Super Fund, due to its failure to disclose how it was managing the risks of climate change. The fund subsequently stated: "Climate change is a material, direct and current financial risk to the superannuation fund across many risk categories, including investment, market, reputational, strategic, governance and third-party risks."

In another case, the Abrahams family sued the Commonwealth Bank of Australia (CBA), alleging that it violated the Corporations Act of 2001 with the issuance of its 2016 annual report, which failed to disclose climate change-related business risks— specifically including possible investment in the controversial Adani Carmichael coal mine.

As a result, in 2017, CBA made substantive changes to its annual report, acknowledging climate risk, and the Abrahams dropped the case. CBA have now undertaken scenario and risk analysis of their portfolio.

Directors Risks

Climate change as a Directors duty is relevant for all businesses.

In 2016, a landmark legal opinion determined that climate change risks represent risks to Australian companies, which courts would consider foreseeable. It said that directors who fail to consider "climate change risks" now could be found liable for breaching their duty of care and diligence in the future.

Insurance response

The Insurance Council of Australia also recognises the physical, transition and liability risks posed by climate change.

One in every 19 property owners across Australia face the prospect of insurance premiums that will be effectively unaffordable by 2030 – that is, costing 1% or more of the property value per year.

Munich Re covers reinsurance and primary insurance. It has warned that the costs of insurance could become prohibitive. This could become a social issue over the long-term, entrenching inequality between those who can and cannot afford insurance.

Banking sector response

Banks are approaching climate change as a financial risk that they need to manage.

Bank Australia offers discounted home loans for homes that meet minimum energy efficiency standard.

ANZ released its climate change policy in 2020. It will stop directly financing any new coal-fired power plants or thermal coal mines including expansions by 2030. Loans will only be provided for large-scale office buildings if the buildings are highly energy efficient.

For more information:

Eckert. S. & Palermo, N. (2020) Climate change risks for local governments, *Insight*, Accessed 28/10/20, https://www.minterellison.com/articles/climate-change-risks-for-local-governments

Cardona, O.D., M.K. van Aalst, J. Birkmann, M. Fordham, G. McGregor, R. Perez, R.S. Pulwarty, E.L.F. Schipper, and B.T. Sinh,2012: Determinants of risk: exposure and vulnerability. In: Managing the Risks of Extreme Events and Disasters to Advance Climate Change Adaptation