

CLIMATE CHANGE WEBINAR

DEVELOPING A STRATEGY TO MANAGE
CLIMATE-RELATED FINANCIAL RISKS



IDEAS | PEOPLE | TRUST



WHAT WE WILL COVER TODAY

01 INTRODUCTION AND BACKGROUND

02 RISK FRAMEWORK

03 SCENARIO ANALYSIS

04 RISK PROGRAMME / CROSS-CUTTING RISK MANAGEMENT

05 MATERIALITY RISK ASSESSMENTS

06 REPORTING AND DISCLOSURES

07 QUESTIONS AND ANSWERS

WITH YOU TODAY

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01 INTRODUCTION AND BACKGROUND



Submit your comments and questions to the Panel using the Q&A box on the bottom of your screen



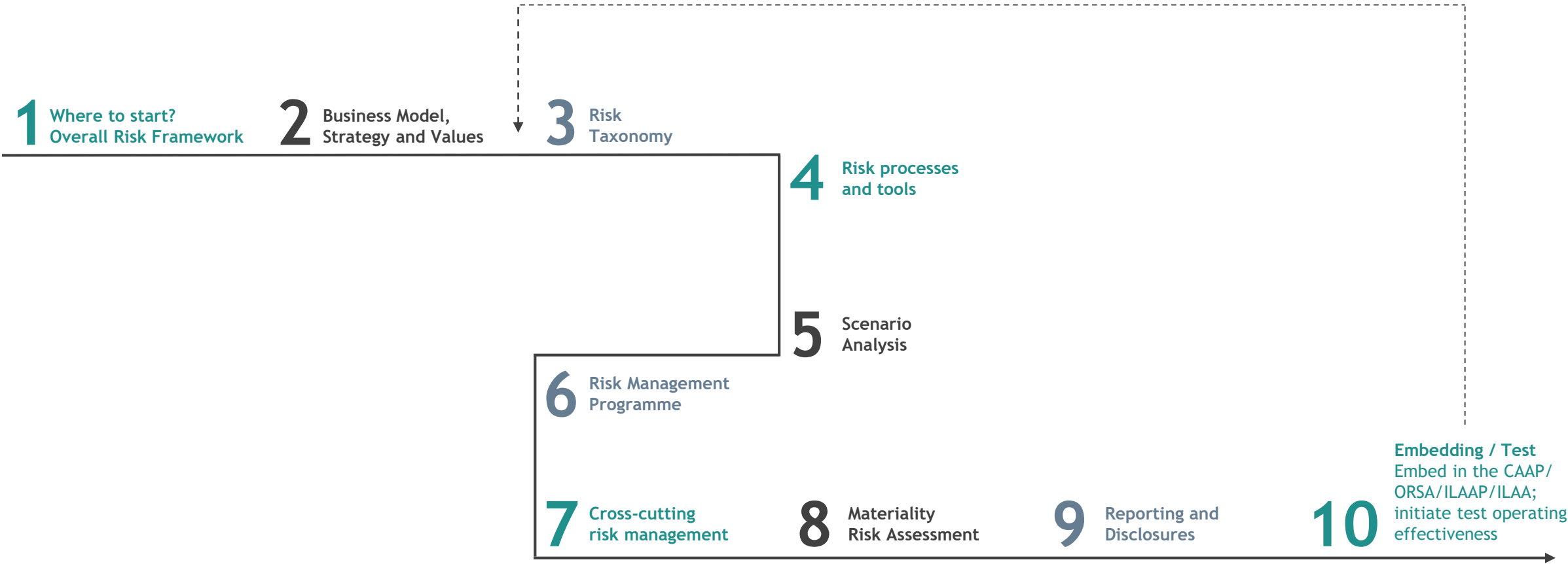
01 INTRODUCTION AND BACKGROUND

“ Throughout history, it has been the inaction of those who could have acted; the indifference of those who should have known better; the silence of the voice of justice when it mattered most; that has made it possible for evil to triumph. ”

Haile Selassie

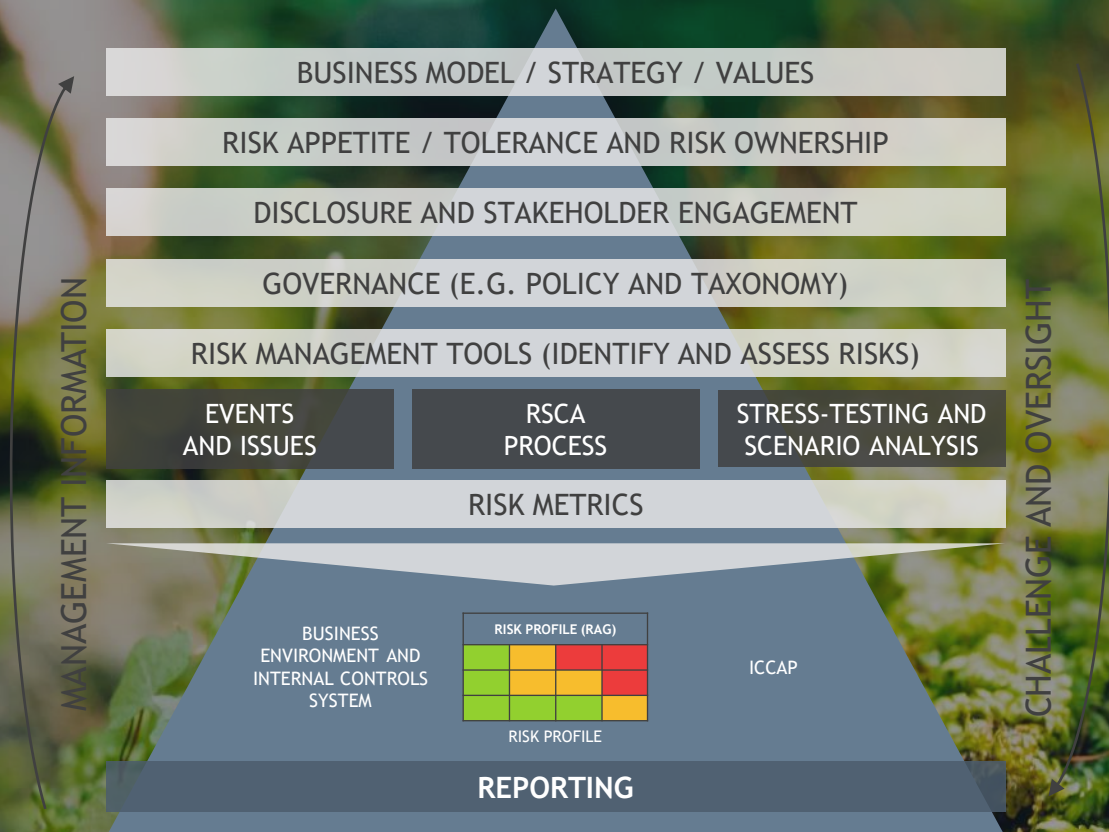


02 EXAMPLE OF BASIC RISK MANAGEMENT ROADMAP 2021



02 RISK MANAGEMENT FRAMEWORK - HOW TO APPROACH CLIMATE RISK?

- ▶ Climate risk is a key challenge
- ▶ Adopt similar approach as any other risk
- ▶ Approach to be proportionate, progressive and mature over time



02 BUSINESS MODEL, RISK TAXONOMY AND PROCESSES AND TOOLS

BUSINESS MODEL, STRATEGY AND VALUES

Do our business model, long term strategy and values need adjusting?

TAXONOMY

Climate risks (or ESG) to be added to the taxonomy (e.g. L1/L2 risk?)

EVENTS

- ▶ Record
- ▶ Investigate

RISK PROCESS AND TOOLS

- ▶ Assess
- ▶ Mitigate
- ▶ Adapt existing tools.

SCENARIO ANALYSIS

- ▶ Impact of physical and transitions risks
- ▶ Management actions to mitigate material impacts.

03 SCENARIOR ANALYSIS - RISK ASSESSMENT

? HOW EXPOSED CAN WE BE EXPOSED TO CLIMATE RISKS?

- ▶ Identify exposures - how are we susceptible to climate risks?
- ▶ 'What if?' exercise



INFORM AND ARE INFORMED BY



COMPONENTS

- ▶ Business model, strategy and values
- ▶ Risk taxonomy
- ▶ Risk tools
- ▶ Other frameworks
- ▶ Risk appetite, tolerance and capacity

03 SCENARIO ANALYSIS - PRACTICAL CONSIDERATIONS

1. WHAT CAN PREVENT FIRM FROM MEETING OBJECTIVES?

- ▶ Physical risks
 - Flooding; drought.
- ▶ Transition risks
 - Regulatory; operational; credit; market; reputational.
- ▶ Litigation risks
- ▶ Macroeconomic.

2. HOW MUCH STRESS CAN WE WITHSTAND BEFORE FAILING?

Reverse stress

3. TIME HORIZON

Short-Term: Existing business plan horizon

Long-term: Range of at least 3 scenarios

5. DATA

Expert judgement; historical losses; hazard maps; results of risk assessment/KYC; BoE

6. LIMITATIONS

Lack of: integration of risks and macroeconomic transmission channels; data

6. IMPACT

e.g. on KPIs

7. MANAGEMENT ACTIONS

What can we do now?

8. GOVERNANCE

Document assumptions and challenge

9. EMBED

Within wider RMF/ICAAP/ORSA

04 RISK MANAGEMENT PROGRAMME



CLIMATE RISK GOVERNANCE

- ▶ Who owns the risk assessment?
- ▶ What tools are needed?
- ▶ Who owns scenario analysis and stress testing
- ▶ Who is responsible for training and awareness?
- ▶ What is the role of the first line?
- ▶ What is the best approach?



RISK APPETITE

- ▶ Climate change vs ESG
- ▶ How to set up limit and what is outside of the risk appetite?
- ▶ Metrics KRIs/KPIs
- ▶ Short, medium or long term limits?



RISK MANAGEMENT

- ▶ Exposure to physical and transitional risks
- ▶ Key risk factors
- ▶ Own property/assets, the business model and concentrations of risk at portfolio and transactional level, Counterparty risks
- ▶ How does it fit into ESG risk?

CHALLENGES AND OPPORTUNITIES

04 CROSS-CUTTING RISK MANAGEMENT



CREDIT RISK

- ▶ Concentrations of risk client portfolio and transactions
- ▶ Country risk, sectoral risk (Probability of Default (PD))
- ▶ Loss Given Default (LGD)
- ▶ Assets, Liabilities
- ▶ Commercial, reputational considerations
- ▶ Extent of the CDD/EDD measures.



OPERATIONAL RISK

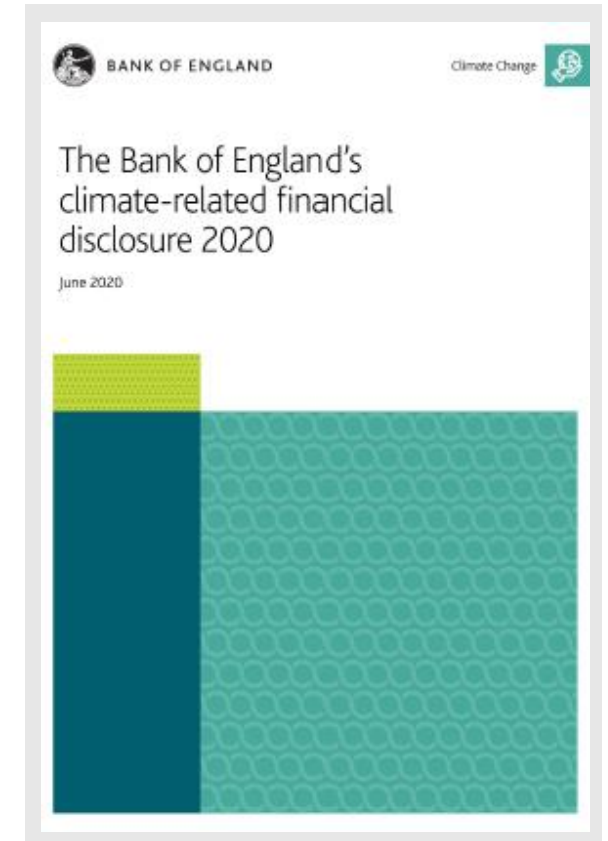
- ▶ Office location, business continuity, operational resilience
- ▶ Green washing
- ▶ Individual clients/Material transactions
- ▶ Aggregate portfolio level/risk concentrations
- ▶ Capital implications through existing operational risk modelling.

05 MATERIALITY RISK ASSESSMENTS

RISK FACTOR	TYPE OF RISK	SUB-RISK FACTOR	KEY RISK FACTOR	RISK RATING	TOTAL NUMBER	% OF POPULATION	TOTAL NUMBER CONTROL		% CONTROL		INHERENT RISK RATING	INHERENT RISK SCORE	AVERAGE INHERENT RISK	TOTAL NUMBER OF CUSTOMERS	
GEOGRAPHIC RISK	Physical	Customer Asset Location	Low risk region	1	2	2%	108	Complete	100%	Complete	0.02	4.85	3.65	108	
			Medium risk region	1	2	2%					0.02				
			High risk region	5	104	96%					4.81				
	Counterparties, Vendors, Supply Chains	Low risk region	1	30	28%	108	Complete	100%	Complete	0.28	2.44				
		Medium risk region	1	39	36%					0.36					
		High risk region	5	39	36%					1.81					
	Transitional	Policy (Legal and Regulatory)	Low risk region	1	30	28%	108	Complete	100%	Complete	0.28	2.44	2.44		RISK RATING THRESHOLD
			Medium risk region	1	39	36%					0.36				
			High risk region	5	39	36%					1.81				
SECTORIAL RISK	Transitional	Oil and Gas	High risk region	5	10	9%	108	Complete	100%	Complete	0.46	4.28	4.28	1 - 1.8	
		Mining	High Risk region	5	59	55%					2.73			2.61 - 3.4	
		Agriculture	Medium risk region	3	39	36%					1.08			3.41 - 4.2	
													4.21 - 5		

06 REPORTING AND DISCLOSURES

TCFD Framework



06 REPORTING AND DISCLOSURES

Scope of Application

BANKS

ASSET MANAGERS AND OWNERS

NON-FS PREMIUM LISTED COMPANIES

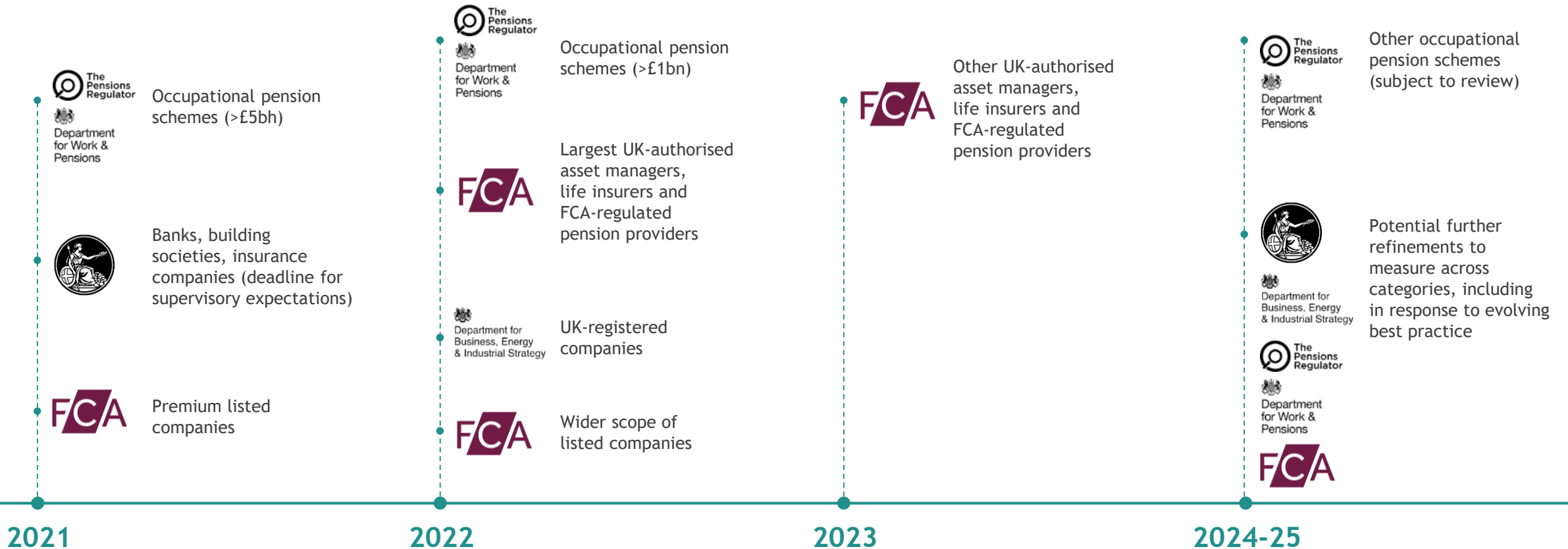
INSURERS

LIFE INSURERS AND OCCUPATIOANAL PENSION SCHEMES

NON-FS OTHER LISTED AND NON LISTED COMPANIES

06 REPORTING AND DISCLOSURES

Implementation Timeline for Climate-related Disclosures



Source: HM Treasury A Roadmap towards mandatory climate-related disclosures
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933783/FINAL_TCFD_ROADMAP.pdf

06 REPORTING AND DISCLOSURES

Key Challenges



ALIGNMENT OF REPORTING STANDARDS



DATA AVAILABILITY



SCENARIO ANALYSIS



METRICS AND TARGETS

07 HOW CAN BDO HELP

- ▶ Advise on the format and content of strategy documents
- ▶ Facilitate strategy workshops



- ▶ Advise on the application of reporting and disclosure requirements to institutions



- ▶ Development of project plans and timelines
- ▶ Review of governance structures



- ▶ Support in conducting risk assessments, including scenario analysis and stress testing



TRAINING

INDEPENDENT ASSURANCE & MONITORING

07 QUESTIONS AND ANSWERS



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FOR MORE INFORMATION

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THANK YOU