



BSR Conference 2010

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Financial Perspectives on Sustainable Climate Change Adaptation

Breakout Session Summary

Wednesday, November 3, 2010 | 4-5 p.m.

Speakers

- » **Christopher Bray**, Head of Environmental Risk Management, Barclays plc
- » **Mark Way**, Senior Vice President, Head of Sustainable Development, Americas Hub, Swiss Re
- » **Ryan Schuchard**, Manager, Research & Innovation, BSR (moderator)

Highlights

- » The finance and insurance sectors are a growing source of wisdom on managing the risks associated with weather-related events. They offer new ideas for incorporating expectations about weather-related impacts into the valuation and insurance of investments and projects, particularly in developing regions where weather-related risks are greatest.
- » Mitigation alone cannot address the risks posed by climate change. Fortunately, there is enough information to help decision makers develop new strategies to lessen the negative economic impacts of expected weather-related events.
- » Scaling climate change adaptation strategies in the places where the risks are the greatest will be a challenge, but one answer is to develop greater confidence in the climate change impact forecasts themselves and incorporate these factors into the traditional risk-management process.

Memorable Quotes

"We fully support the idea that we need to reduce greenhouse gas emissions to deal with the impacts of climate change, but adaptation is the other side of the story. We're convinced that we have to reduce society's vulnerability to weather-related events and we have to decrease the loss burden from the impacts of climate change." —Mark Way, Swiss Re

"In terms of scaling up [adaptation], the start point is to try and build far more rigor and confidence [in climate risk models] to demonstrate where particular climate sensitivities will be most material. That is what will be called for the most." —Christopher Bray, Barclays

Overview

Schuchard began by defining climate change adaptation and describing the value of managing the risks posed by expected weather-related impacts. Wisdom in this regard comes increasingly from the finance and insurance sectors, which are offering new perspectives and methodologies for incorporating expectations about weather-related events into valuating and insuring investments and projects.

Swiss Re's Way provided a reinsurer's perspective on climate change adaptation, offering insights into how society can adapt to the physical alterations caused by climate change and the effects on water, food, health, and eco-systems. Way remarked on the importance of reducing society's vulnerabilities to climate change and decreasing the loss burden from expected



weather-related events. He also described that we must better understand the economic development factors, from local social infrastructures to financial mechanisms, that can significantly exacerbate the economic damage caused by weather-related events.

Way said the global impact of weather-associated events in 2008 was estimated at US\$300 billion, distributed equally between industrialized and developing countries. However, more than 50 percent of the weather-related losses in industrialized countries were transferred from society to insurance markets, whereas less than 7 percent was shifted to insurance markets in developing countries. This could amount to as much as 12 percent of GDP in these less-developed regions.

Next, Barclays' Bray provided a parochial view of climate change adaptation by describing the credit risk implications of climate change. Citing an Intergovernmental Panel on Climate Change (IPCC) study, Bray made it clear that weather patterns will change in the next three decades, from shifts in precipitation patterns to increases in sea levels, coastal flooding, storms, and global temperatures. These weather-related risks will become more significant than ever for business, and companies and investors must place greater emphasis on climate change adaptation strategies.

Bray also spoke of the importance of adopting and scaling these strategies, particularly in places where the risks are greatest. These are often places where financial instruments are limited and local infrastructures are weak or insufficient. One answer is to develop greater trust in climate change impact forecasts and how they would affect the viability of businesses at the local and regional levels. Industries and companies (and their supply chains) in these highly exposed areas, as well as sectors with many long-term physical fixed assets, tend to be at greater risk. But by understanding the characteristics of these businesses and incorporating the likelihood of weather-related events into the traditional risk management process, appropriate adaptation measures can effectively manage future weather impacts.

Fundamentally, mitigation alone is not sufficient to meet the risks posed by climate change. Fortunately, there is enough information in our collective hands to provide decision makers with methodologies and frameworks to design new strategies for climate change adaptation. The cost of implementing these strategies is likely to be less than the losses realized if no action is taken. Thus, climate change adaptation would deliver a net gain to society as a whole.

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