

<https://www.theirm.org/news/irm-risk-predictions-2020/>

## Climate Change

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This time last year I started the 2019 predictions with the following:

“Although there is a lot of discussion about the extent and effects of global warming it is likely that neither insurers nor risk managers will commit to research at the level and depth required to reach a clear consensus as to the problem and the short and medium term solutions to protect assets and businesses.”

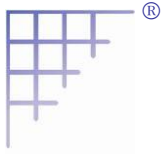
Before proffering some other predictions, I would like to briefly trace the history of the climate change debate especially with a view to highlighting the extent to which *perception* is now far more important than the continual need for ever more categorical *proof*.

Over 30 years ago in July 1988 the New Scientist journal published a paper “The Challenge of Global Change” by M. McElroy a Harvard University Scientist. He brought together some relatively unfamiliar phrases such as:

- Greenhouse gases
- Ozone hole
- Combustion gases from fossil fuels
- Rising ocean levels
- Ice sheet instability

He foresaw the need for an international body with unprecedented power and autonomy to raise tax and transfer resources to reduce the expected consequences of continued global warming.

Two months later, surrounded by World leaders, the British Prime Minister Margaret Thatcher delivered a speech to the Royal Society in London. She referred to the hole in the ozone layer that had recently been discovered by the British Antarctic Survey. Having raised the *perception* of the problem though, Mrs Thatcher then said “we must ensure that what we do is founded on good science to establish cause and



effect". That is perhaps an understandable statement from a science trained speaker stressing the need for proof.

However, it seems to me that the quest for *proof* as opposed to accepting the view of *perception* remains one of the fundamental differences in approach to the issue of climate change today.

The UK recently legislated a net zero carbon emissions target to be achieved by 2050. That is yet another 30 years in the future.

Therefore at least six decades will have passed since the perception of changes in the climate were registered by many scientists and governments. The quest for proof continues and there are some notable politicians who continue to press for proof.

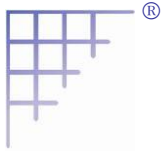
This very slow progress in global recognition, commitment and action might once have been described as taking place at a "glacial pace". However, with many of our planet's glaciers thawing, disintegrating and retreating, this may no longer be an appropriate phrase to use.

The IRM has during this year established a Climate Change Special Interest Group which is in the process of establishing its remit and role within the wider objectives of IRM such as:

- Thought leadership
- Insightful events
- Training

The outgoing Governor of the Bank of England, Mark Carney, speaking to the United Nation's Secretary General's Climate Action Summit in September this year mentioned:

- Cutting down unsustainable activities
- Accelerate the transition to a low carbon economy
- That providers of capital all need to improve their understanding and management of climate – related financial risks
- A step change in reporting, risk management and return
- Time for every country to get involved



- Insurers and Re-Insurers are on the front line of managing the physical risks from climate change
- Physical risks of climate change are being felt across the globe with a plague of extreme weather events
- The world needs much more investment in infrastructure.

Infrastructure investment has always historically been seen as an important driver of economic growth. However, the production and use of concrete is considered after Transport and Energy Generation to be the third largest producer of man-made CO<sub>2</sub>...

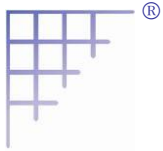
In many areas the response to climate change now appears to have shifted to acceptance of a real and urgent problem based on *perception* built upon physical observations such as:

- Increasing temperatures
- Increasing rain intensity
- Increasing hurricane strengths
- Deterioration of glaciers
- Shrinking of ice sheet
- Rising sea levels
- Longer periods of drought

Fossil fuels for some time have been identified and targeted for their negative contribution to the environment. Consumers, some businesses, arts organisations, investors as well as some insurers are increasingly withdrawing support for industries involved with fossil fuels. There is an increasing tendency for a similar approach to be taken towards the aviation industry and the meat, dairy and agricultural industries.

Warren Buffett has heavily invested in the wind turbine industry in the USA. He has bluntly admitted that the investment was not a matter of “doing well by doing good” but because the US government was paying him to do so. This suggests that the “carrot” of government financial support can deliver transfer to renewable energy sources, as compared perhaps to the use of the “stick” suggested by Mark Carney through the proposed “stress testing”.

The balance to be aimed for can perhaps best be seen in Carney’s statement:



*“Changes in climate policies, technologies and physical risks in the transition to a net zero world will prompt reassessments of the value of virtually every asset. The financial system will reward companies that adjust and punish those who don’t.”*

## **Predictions**

- Neither insurers nor risk managers will commit to research at the level and depth required to reach a clear consensus as to the problem and the short and medium term solutions to protect assets and businesses.
- The “international body” suggested by M. McElroy in 1988 will not be established.
- The newly formed Climate Change SIG will be inundated with new member applications.
- Extinction Rebellion will decline an invitation to speak to the Climate Change SIG.
- A new commercial stream of “box – ticking” protocols will emerge to deal with the administration of the stress testing exercise.
- Public *perception* will increasingly continue to lead opinion and raise demands for removing the causes of climate change.
- Profit, pragmatism and other practicalities will dampen, deter and delay initiatives by organisations, industry sectors and governments.
- Funding for “carrots” will be inadequate.
- Measurement of “resilience” will assume more importance than the resilience measures themselves.
- Organisations will not, unless obliged by corporate governance and audit changes, give main board director role and responsibilities to a Chief Risk Officer.
- The Climate Change SIG of the Institute of Risk Management will become a leading “thought leader” especially in relation to the risks, and opportunities, from the transition of the UK to a carbon neutral and climate resilient country.

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13<sup>th</sup> January 2020