

## Business Risks of Climate Change

Over the last decade, climate change has become a rising concern for businesses and their respective communities, evidenced by increasingly severe natural disaster [trends](#) and a growing sense of urgency found within the latest climate [reports](#).

According to a recent survey conducted by Deloitte, business leaders across the globe currently consider climate change to be one of the most pressing issues facing their operations. The [survey](#)—which includes responses from more than 2,000 business executives throughout 21 different countries—found that nearly all (97 per cent) businesses have already seen the adverse effects of climate change, while 63 per cent of executives are either concerned or very concerned about the damage it could continue to cause.

Amid these concerns, some business leaders have started taking action by further educating themselves about climate change, reviewing its related risks and making adjustments to company practices (e.g., lowering carbon emissions, leveraging clean energy sources, utilizing eco-friendly materials and reducing waste). If they haven't been motivated to take these steps on their own accord, many businesses executives reported facing additional pressure from company stakeholders to address climate change. In fact, Deloitte's survey found that more than 70 per cent of executives have been compelled to focus on climate change due to pressure from regulators, board members, consumers and investors.

Considering these numbers, it's clear that business leaders can't afford to ignore climate change. This article highlights how climate change has already impacted businesses, key types of climate change-related risks and how company leaders can minimize such risks.

### How Climate Change Is Impacting Businesses

There are several ways climate change has already affected businesses over the past few years. Specifically, rising global temperatures and an increase in extreme weather events (e.g., hurricanes, wildfires, flooding and tornadoes) have contributed to various business disruptions and related challenges.

According to another recent [survey](#) conducted by Deloitte—which polled 750 business executives across 13 different countries—more than 25 per cent of executives reported that their businesses have already been impacted in some way by climate change-related events.

Here's a breakdown of the primary consequences businesses have experienced as a result of climate change:

- **Operational disruptions** — Following climate-related disasters, some businesses have had to temporarily halt operations because of substantial property damage at their facilities and workforce displacement (e.g., flooding causing significant water damage to businesses and forcing employees to flee their homes).
- **Supply chain complications** — Climate-related events have also created supply chain bottlenecks due to delayed (or even cancelled) deliveries and overall resource scarcity. For example, [recent floods and mudslides](#) in British Columbia caused supply chain delays due to railways and roads being severed from the country's biggest port. What's worse, these supply chain issues often contribute to rising material costs, compounding concerns for businesses.

- **Labour concerns** — Increasing global temperatures brought on by climate change have led to labour struggles among various industries—especially those that rely heavily on outdoor workers. In particular, heat-related illnesses caused by rising temperatures have become a significant concern for outdoor employees, impacting workforce productivity. According to [data](#) from the International Labour Organization, a surge in heat-related illnesses resulting from global warming is estimated to cause worldwide productivity losses equivalent to 80 million full-time jobs by 2030.
- **Regulatory uncertainty** — Amid growing climate change concerns, governments and regulatory bodies have started to address these issues through new legislation.
- **Insurance difficulties** — A surge in extreme weather events and subsequent losses due to climate change have contributed to an already hardening insurance market, resulting in a wide range of coverage difficulties for businesses—particularly within the commercial property insurance space. Some businesses have encountered increased premiums, reduced capacity and additional coverage restrictions in this market. These insurance difficulties are increasingly common among businesses located in natural disaster-prone areas.
- **Reputational damages** — With climate change concerns on the rise, today's society has developed a greater interest in holding businesses accountable for not promoting eco-friendly initiatives. As a result, businesses that have failed to adopt climate change prevention strategies or introduce environmental sustainability efforts have experienced increased scrutiny from stakeholders for their shortcomings, thus causing reputational damage.

## Types of Climate Change-related Risks

Looking ahead, the risks that businesses may encounter due to climate change fall into three main categories. These categories include:

1. **Physical risks** — Such risks pertain to the immediate threats facing people and property from the changing climate. Namely, extreme weather events (and the damages accompanying them) are considered physical risks. These types of disasters are only expected to become more frequent and severe, therefore exacerbating the physical risks of climate change.
2. **Transitional risks** — These risks stem from society's transformation toward an environmentally

sustainable economy. Transitional risks may be driven by changing public perception of carbon-intensive businesses, shifting stakeholder opinions regarding eco-friendly initiatives, expanding climate change legislation and growing adoption of greener technologies. In other words, as climate change awareness increases, businesses could encounter numerous exposures in the process of transitioning (or failing to transition) to more sustainable operations. Businesses within carbon-intensive industries (e.g., the auto, mining and energy sectors) will likely encounter further transitional risks by way of elevated carbon pricing, stricter compliance requirements, added environmental taxes and diminished public sentiment.

3. **Liability risks** — Such risks refer to legal issues businesses may face due to the level of involvement that their activities (or lack thereof) played in climate change events. These risks could be especially prevalent in the aftermath of natural disasters, as businesses may be held responsible by stakeholders for contributing to or causing these disasters based on their specific environmental protection efforts. Liability risks could also arise from businesses disregarding shifting regulatory expectations related to environmental sustainability, such as greenhouse gas emission caps or reporting requirements.

## Steps Business Leaders Can Take

Although climate change poses various risks to businesses across industry lines, there are ways to mitigate these concerns. Some steps for business leaders to consider include the following:

- **Assess natural disaster exposures.** With climate change contributing to an increase in extreme weather events, business leaders need to be aware of their particular natural disaster risks. After all, different locations have varying climate exposures. Following an assessment of their unique risks, business leaders should implement measures to minimize losses from potential weather events (e.g., utilizing fire-resistant roofing material to protect against wildfire-related property damage).
- **Address climate change risks.** Apart from evaluating natural disaster exposures, business leaders should also be sure to address their physical, transitional and liability risks stemming from climate change. These risks may differ based on industry standards, product offerings, daily operations and environmental sustainability efforts. Referencing data and engaging in risk modelling can help business leaders develop a clearer picture of their exposures. To reduce these risks, business leaders should:

- Work with a legal professional to determine applicable climate change legislation and associated compliance requirements.
- Adopt company policies that promote environmental sustainability (e.g., developing a carbon emission reduction plan, introducing clean energy sources, incorporating green technologies within daily operations, utilizing eco-friendly materials throughout production processes and reducing overall waste).
- Consult stakeholders to hear their climate change concerns and gather further insights regarding eco-friendly practices.
- **Purchase adequate coverage.** It's critical for business leaders to ensure proper protection against climate change risks by securing sufficient insurance coverage. It's best to consult a trusted insurance professional to determine specific coverage needs.

## Conclusion

Overall, climate change is a major concern that already has and will continue to affect businesses going forward. Fortunately, with proper mitigation measures in place, business leaders can help reduce the negative effects of climate change, safeguard their operations and promote environmental sustainability for years to come.

For more risk management guidance, contact us today.



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