

The Effects of Climate Change on Business

Climate change is forcing organizations to adapt their business practices in order to remain competitive and thriving. However, a 2020 study conducted by FM Global found that 77 per cent of the world's top CEOs and CFOs say their companies are underprepared for climate-related financial risks. As concerns surrounding climate change continue to grow, it is important to be aware of the negative impacts it could have on an unprepared organization.

IMPACTS RESULTING FROM DAMAGE TO ASSETS

As more natural disasters occur, more organizations will find themselves physically impacted by them. The study mentioned above found that floods, droughts and wildland fires were the three exposures that are most concerning to organizations and their financials.

Physical damage to buildings, contents within the building and electrical power lines could leave business operations at a standstill as repairs get underway. These damages can also lead to an increase in insurance claims, which could cause rates to go up as the risk of natural hazards increases.

IMPACTS RESULTING FROM BUSINESS INTERRUPTIONS

Aside from the losses due to physical damage, climate change can lead to losses in other ways. For example, companies that report damage appear to have a decline in shareholder value, as shareholders' expectations of future cash flow decrease.

Even if natural disasters don't directly impact an organization's specific region, it's possible they may cause a disruption in the supply chain as other regions are affected. This can lead to financial loss, reduced productivity and loss of customers.



50% of business decision-makers recognize that customers are demanding environmentally and socially conscious products.



How to Prioritize Sustainable Business Practices

A commitment to sustainable business practices should be high on organizations' priority lists as the COVID-19 pandemic continues. A recent global study conducted by Edelman found that 78 per cent of Canadians expect companies to protect employees and the local community. Organizations that implement environmental, social and governance practices can create better outcomes such as more employee loyalty, higher productivity and enhanced corporate reputations.

FOCUS ON SUSTAINABILITY

According to data from HSBC, 66 per cent of Canadian companies with less than 500 employees believe that sustainable business practices will improve their growth and profitability. However, only 25 per cent are prioritizing investment into becoming a more sustainable business

Create and maintain a sustainable advantage by keeping the following in mind:

- **Focus on consumer demand**—Sustainable products, services and practices have been on the rise during the global health crisis due to consumers demanding more responsibility from organizations. Be sure to do right by the consumer by helping broader communities with sustainable practices.
- **Engage employees**—Human capital will be the most powerful asset moving forward from the pandemic. Engage and retain top talent by prioritizing a resilient and sustainable future.
- **Rethink your supply chain**—Simple supply chains are able to adapt more quickly in crisis situations. Shorter supply chains can also lead to reduced pollution levels and emissions.
- **Prioritize efficiency**—Energy and water conservation benefit not only the environment, but also the bottom line. Tax credits, reduced costs and higher profitability can all be positive side effects of a reduced carbon footprint.
- **Think of the investor**—Sustainable investing is on the rise and can be a catalyst for above-average returns.

If you have questions specific to your business, or would like additional information, please reach out to your local Advisor.

LET US HELP YOU MANAGE YOUR RISK

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