



# A risk management approach to natural capital

Willis Towers Watson

Olivia Darby

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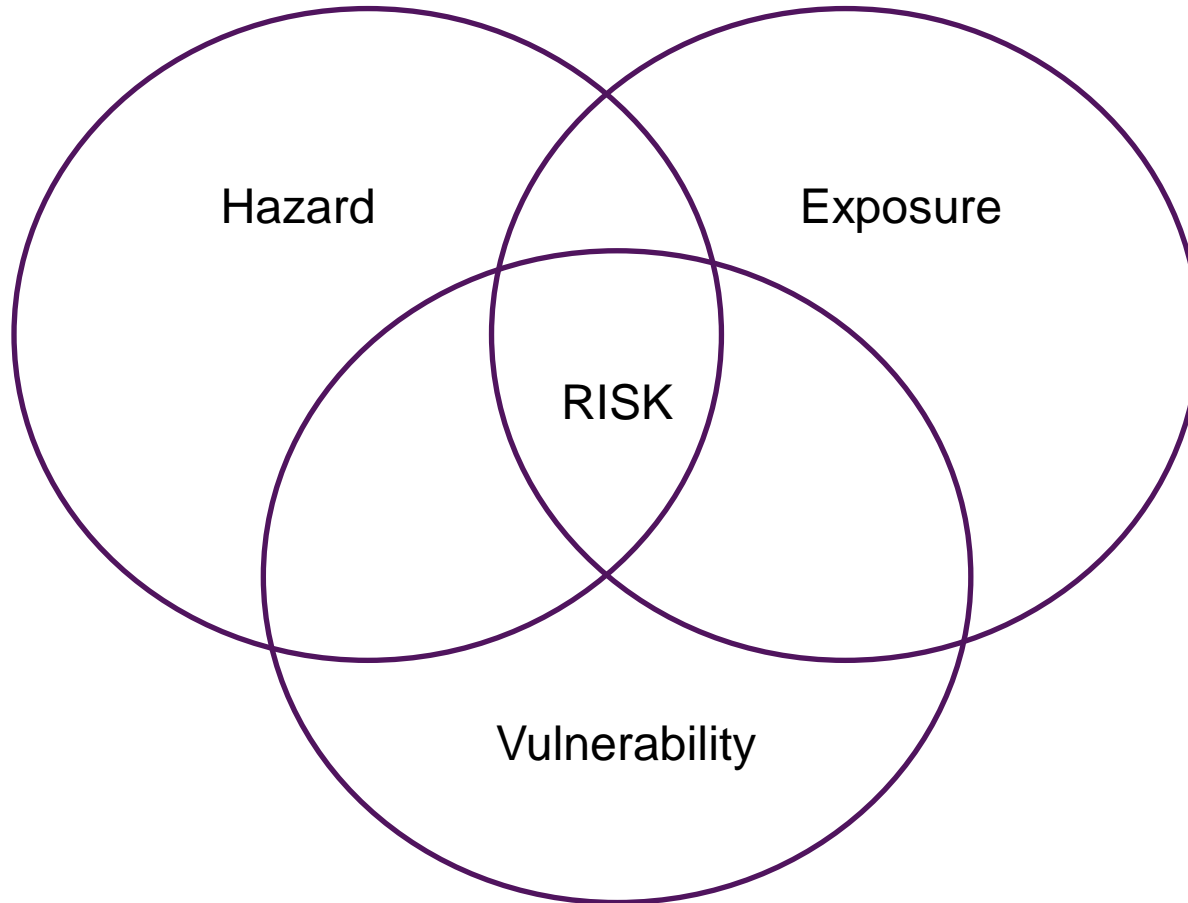


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## Risk Management is...

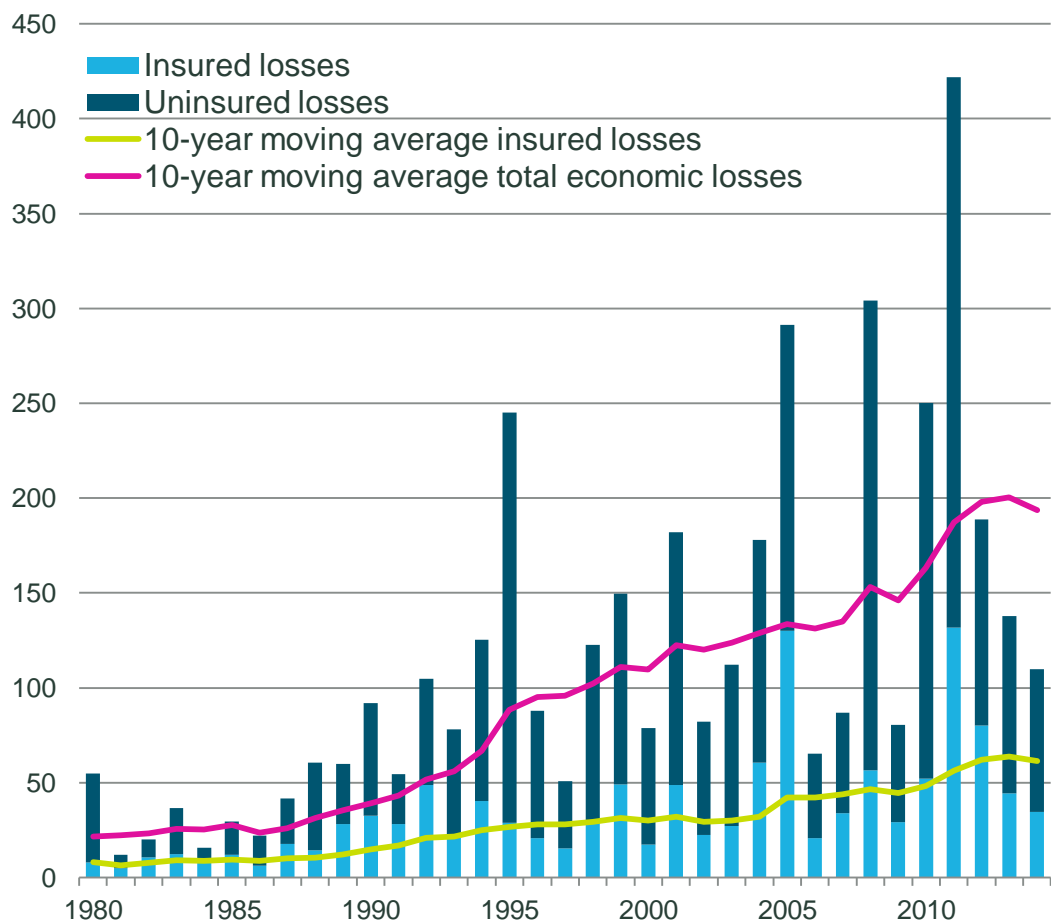
Understanding your risk exposure and making informed decisions about how to manage it, including mitigation and transfer

# Risk Evaluation



# The “Resilience Gap” is increasing

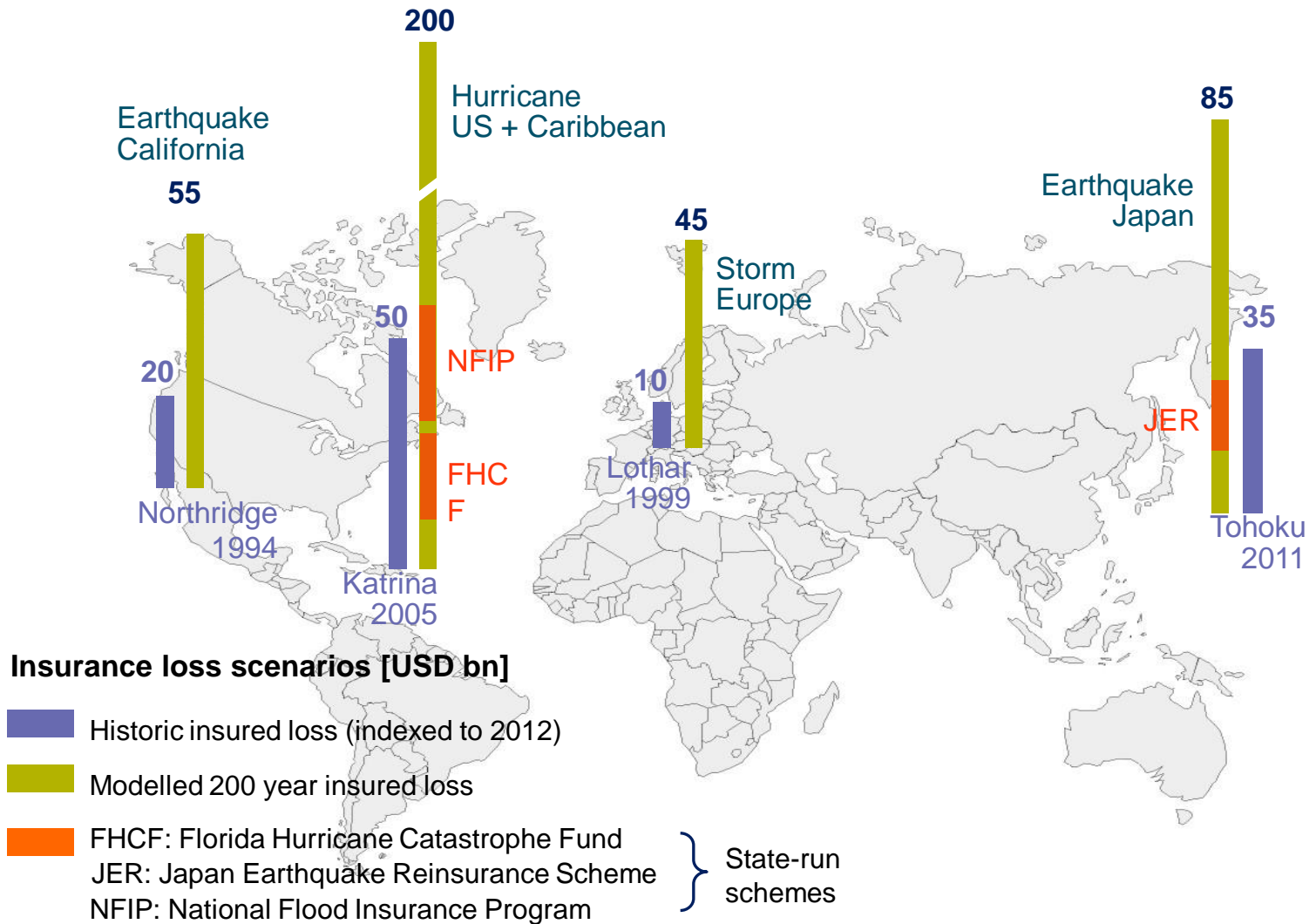
Global natural catastrophe losses 1980-2014, in USD billion (2014 prices)



- The majority of natural disaster losses are not covered by insurance, leaving society with a resilience gap
- The resilience gap in 2014 amounted to USD 75bn
- Resilience gap growth, due to climate change, economic development, population growth and a higher concentration of assets

Source: Swiss Re Economic Research & Consulting and Cat Perils, Sigma on natural catastrophes and man-made disasters

# Managing Extremes: The history of experience is not an understanding of current risk



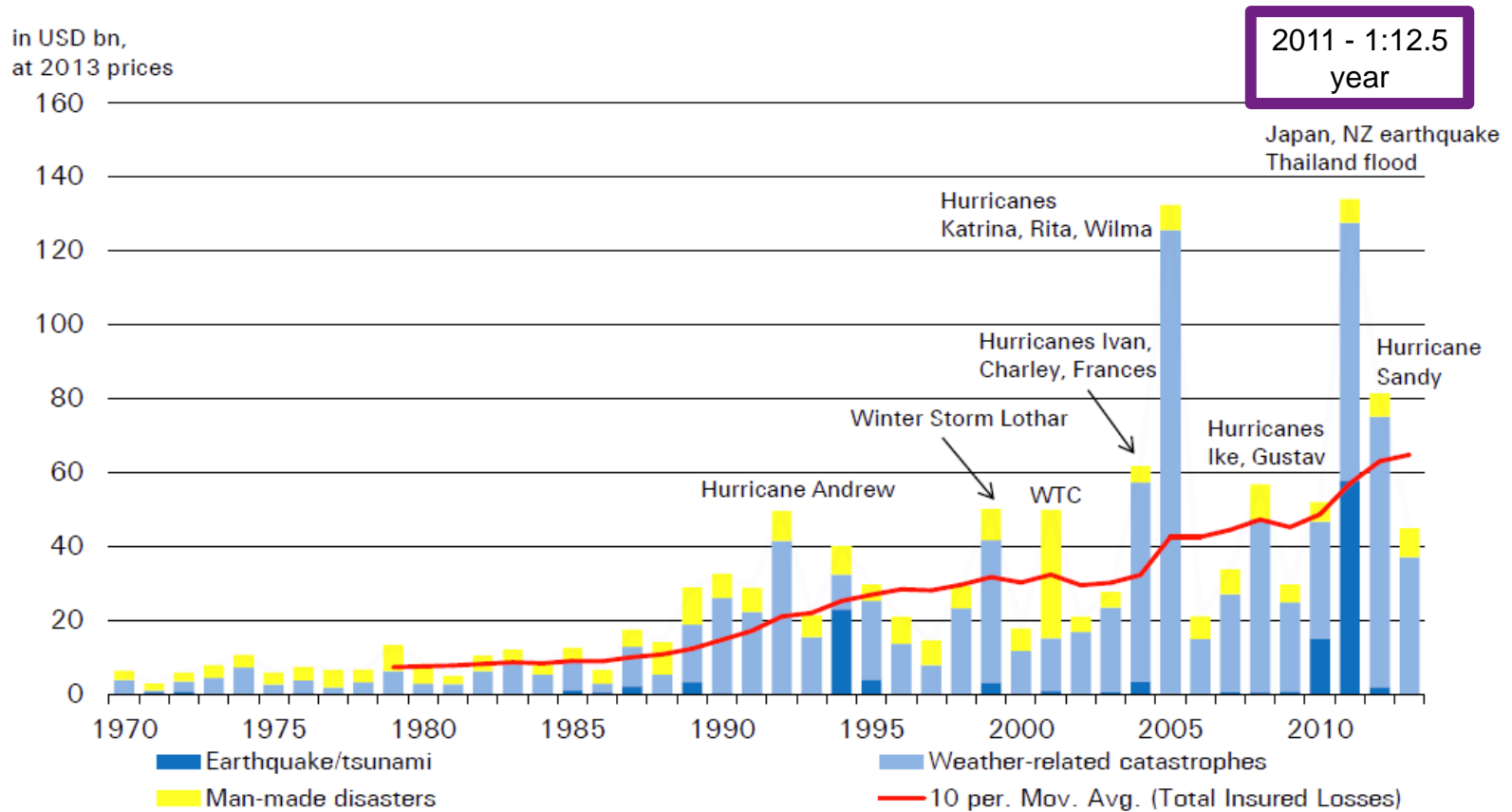
# Impact on natural capital

- Natural capital assets are significantly impacted
- Reduction of natural capital infrastructure increases risk exposure and reduces our resilience
- So how do we recognise the important role of natural capital?
- It's vital to understand capital implications to drive behaviours

Organisations need to evaluate their risk exposure and understand the financial benefit they receive from natural capital

# Global Re/Insurance Sector 1992 – 2015

## from Ruin to Resilience: the story of climate risk stress tests and industry reform



Source: *sigma* 1/2014



## The “1 in 100 Initiative”

- Build resilience through integrating natural disaster risk into the financial system
- Apply the methodology used by the (re)insurance industry:
  1. Smart capital: allocated against risk and resilience parameters
  2. Data and analytics: use of standardised metrics to aid evaluation
  3. Regulation: the implementation of regulatory requirements and use of stress tests within mainstream business operations
- This approach is relevant across private and public sectors
- Organisations can evaluate and report on their risk exposure at a range of metrics, including 1:100

## The “1 in 100 Initiative”

- Disclosure of risk exposure creates a financial incentive to manage it
- Risk exposure is a contingent liability meaning that mitigation and transfer measures are contingent assets
- Resilience is rewarded
- Mainstreaming quantitative risk understanding outside the insurance/engineering
- Policy and regulatory approach is key to effective implementation
- FSB/G20 Climate Risk Disclosure Task Force

## What does this mean for natural infrastructure?

- Provides a framework to educate organisations about the benefits they gain from natural infrastructure
- Makes disaster risk visible and tangible to stakeholders
- Demonstrates the reduction in financial risk exposure created by natural infrastructure and assets
- Creates a financial incentive for organisations to protect and cultivate them

## The role of liability?



### FSB to establish Task Force on Climate-related Financial Disclosures

## Bloomberg

Bloomberg to head climate risk taskforce to bring greater transparency for investors

## Forbes

Michael Bloomberg To Tackle Climate Risks For Investors

The Task Force is considering three categories of risk:

1. Physical
2. Transitional
3. Liability

- What impact will this have on the way that organisations think about risk?
- Will it be an accelerant of behaviour change?

## To optimise management of natural capital:

- Educate organisations about the services provided
- Quantify the value of these services
- Create incentives to manage and cultivate natural infrastructure

# Questions?

Thank you!

Olivia Darby

[olivia.darby@willistowerswatson.com](mailto:olivia.darby@willistowerswatson.com)

020 7558 9359

