



# TROUBLED CLIMATE

Risk managers are confident about their ability to tackle established risks, a *StrategicRISK* survey has shown, but their ability to tackle more complex environmental problems such as climate change is another story

# E

NVIRONMENTAL RISK IS A PUZZLING ISSUE, as *StrategicRISK* discovered in its recent survey of UK risk managers' attitudes to the subject. Time and again, the survey showed a sharp divide among respondents between their approach to tactical risks – contamination, pollution, health and safety, and the like – and their approach to more broad, complex and strategic issues, such as climate change.

When it came to addressing tactical risks, respondents were confident in both their analysis and insurance coverage. They knew what they were doing and felt they had the tools to do it properly. But when it came to thinking about the impact of climate change in the medium to long term, that confidence disappeared.

Most (61%) had faith in their insurance cover, and felt that brokers and insurers were doing a good job providing cover and assistance (with some caveats). Yet almost all (87%) felt they couldn't accurately estimate how much of their environmental risk was covered – and how much remained beyond insurance. Several made the point that the insurance market was evolving rapidly. Almost all (92%) agreed that, while they were thinking about environmental risk and would like to do more to quantify their exposure, they weren't sure what to do.

Of the large corporates *StrategicRISK* spoke to, nearly all said that environmental risks were an increasing concern. Almost half felt they were as yet



*'Many companies wrongly think that their environmental management system is accident-proof'*

Julien Combeau Willis

uncertain how climate change would affect their business, but were trying to quantify the risk better. Most of these said they were looking for better advice. One admitted: "It's hard to plan for such an uncertain, long-tail situation and, as such, hard to apply resources."

Of the mid-market firms, again almost all said that environmental risks were something they should be looking at more, but that time and money were obstacles to this. Several risk managers stressed the impact of tighter budgets and a growing wariness of sales people.

### **Appetite for assistance**

But while cash remains king, there is clearly an appetite for assistance. Nearly half of those interviewed said it was hard to understand what the big environmental risks, such as climate change, would mean for them and their business, and they would welcome more help and guidance. Only two risk managers felt that environmental risk was not really an issue for them.

"Work by insurers and brokers over the past five years to raise risk managers' awareness about the increased environmental liabilities following new legislation such as the 2009 Environmental Damage Regulations is starting to pay off," says Willis executive director environmental practice Julien Combeau.

"But there is still a long way to go. Costs associated with potential remediation requirements after environmental damages are underestimated. Many companies wrongly think that their environmental management system is accident-proof, that they can afford to pay out if something goes wrong, or that they are protected under their standard casualty insurance products."

Nearly everyone surveyed reflected on the growing importance of sustainability and green issues in the public consciousness. In one area there was a near-overwhelming consensus: reputation. The majority of those interviewed (60%) said that corporate social responsibility was either the main consideration or a primary driver of their approach to environmental risk.

Interestingly, there was also a large majority of those surveyed who believed that environmental risk posed potential threats to their supply chain. The increasingly high-profile impact of an organisation's supply chain on its reputation illustrates just how complex the topic has become.

If you end up using suppliers with a particularly high carbon footprint, or that use excessive amounts of water, for example, your reputation may suffer. "A lot of concepts fall under the term 'environmental risk'. People can easily get confused," says Combeau. "Pollution affecting neighbouring areas; natural resources under stress, potentially disrupting supply chains; inaccurate statements on annual sustainability reports – these are all hot 'environmental risk' topics that must be addressed in a holistic way, but with different responses when it comes to insurance."

Supply chains also face a more complex threat from natural catastrophes than has previously been appreciated. The floods in Thailand showed how disruption spread beyond the floodwaters, as power outages and interruptions in logistics took their toll on production.

Across the board, companies are reflecting on their risk assessments and adapting them to face the new normal, finding out what non-damage continuity cover they need. But at the same time, everyone is looking at costs and in terms of climate change, there simply isn't the appetite for multimillion-dollar projects that will take years. **SR**

**Turn the page to view the survey results**

# Survey results

Survey of risk managers carried out in March and April 2013

## 1 What do you feel are the main environmental threats for a business?

Most popular answers:

- Climate change
- Extreme events
- Natural catastrophes
- Health and safety
- Compliance/legislation
- Contamination
- Pollution
- Carbon tax
- Reputational damage

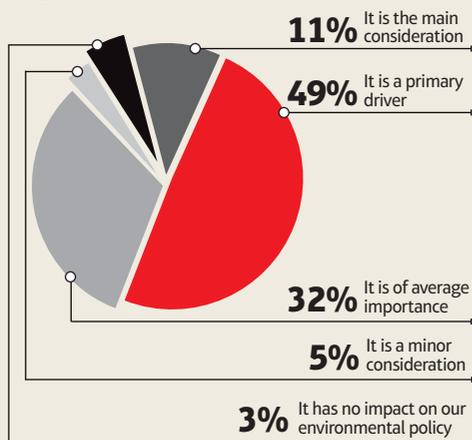
## 2 Is environmental legislation compliance more of a pressing concern than the impact of any actual environmental damage?



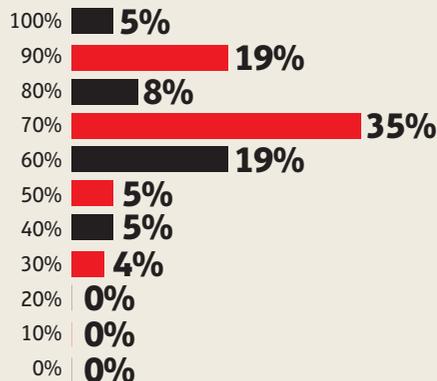
## 3 Is reputational damage at the centre of your environmental risk concern?



## 4 How much does corporate social responsibility shape your environmental policies?



## 5 In terms of environmental exposure, how much of your risk is insurable?



## 6 How do you measure your baseline environmental risk exposure?

Most popular answers:

- Asset value
- General risk assessment
- Due diligence
- Risk register

## 7 Do you have an environmental crisis management plan?



## 8 Do you quantify your environmental risk differently in different geographies?



## 9 How do you identify potential environmental problems in your supply chain?

Most popular answers:

- Due diligence
- Trust



## 10 Who do you approach for advice on the latest environmental risks?

Most popular answers:

- Consultants
- In-house resource
- Government/local authority

## 11 Are insurers doing enough to provide sufficient cover and assistance for environmental exposures?



## 12 Are brokers doing enough to provide sufficient cover and assistance for environmental exposures?



## 13 How are you managing your environmental exposures across different territories?

Most popular answers:

- Local laws and compliance
- Due diligence

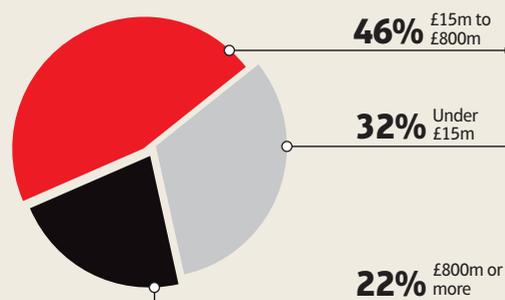
## The respondents

### What is the primary activity of your company?

Most popular answers:

- Manufacturing
- Financial services
- Consultancy
- Local authority
- Shipping
- Retail
- Air travel

### What is the turnover of your company?



## Expert view: quick-thinking and knowledge are crucial

What shapes risk managers' thinking on managing environmental liability risks? It's a question we were keen to investigate with a cross-section of risk managers. The findings of the survey make interesting reading, as the research headline show:

- Damage to the company's reputation was the main concern.
- Little consideration is given to the huge variance in laws and regulations applied in different countries.
- Few organisations have appropriate crisis management plans in place.

### Protecting your reputation

Some 75% of respondents said reputation was at the heart of their concern about environmental risk. But there appears to be a disconnect between the perception of the risk and how it should be managed. Two-thirds of respondents admitted they had no crisis management plans in place.

Much of the reputational damage can stem from how a company deals with the environmental aftermath rather than the incident itself. It is imperative to address an incident quickly, which means getting the right people with the right experience to the scene as soon as possible.

If an organisation has no experience of an incident or hasn't planned for one, it can mean delays and a deepening of the crisis. Knowing the right people to call and reacting quickly enough to be able to show that you are taking positive action is, arguably, the most effective tool in managing the situation and the company's reputation.

Environmental incidents make the news and, in the fast-moving world of social media, a situation can deteriorate rapidly. Hesitation, inaction or the wrong reaction amplifies the risk.

AIG has a wealth of experience in dealing with environmental incidents. It can help by quickly mobilising its network of experts that companies need when such situations arise.

### Territorial issues

It was striking that 74% of risk managers who responded said they did not take account of the differences in rules and

regulations in different countries. While it might be simpler to see the management of environmental liability risks as the same across the globe, there are significant differences between countries that must be accounted for.

This is an unusual finding in that risk managers tend to look at risk within the context of the laws and legislation of different jurisdictions. For example, the corporate governance framework in the US differs significantly from the UK, which differs from Japan and so on. The same goes for environmental risk.

Many of the risk managers surveyed indicated concerns about ever-changing legislation. They are right to do so because regulations are continually evolving, not only in Europe, where differences exist within the implementation of EU directives but also around the world. Argentina, Portugal and China have all introduced new legislation in the past couple of years and each of these needs a different response.

Having an understanding of what is going on in those local territories is vital in assessing the environmental risk faced by a company. Day-to-day operations and their environmental impact must be seen from a more local perspective when considering a company's obligations and liabilities.

### Shock of the new

Overall, the research highlighted the key issues for risk managers in what is a relatively new insurance market.

Essentially, the same principles that apply to managing traditional risks such as property and other physical assets apply here also. This means looking at each risk individually, understanding the consequences that may result from an incident, and managing accordingly. Risk mitigation is born out of a true understanding of the exposure. Planning ahead is essential.

Stephen Ward manages AIG's UK environmental team, which draws on local knowledge around the world to explain evolving legislation to clients