Climate Change: Risk Assessment

Climate risks

The climate is changing rapidly, with the average global temperature in 2024 reaching 1.6°C above pre-industrial levels. These shifts pose significant risks not only to individuals and nations but also to businesses. **Failing to account for these emerging threats can lead to substantial financial losses, reduced revenue, or even bankruptcy**. Climate risks remain a blind spot in many companies' risk assessments, making it crucial for businesses to recognise and address these challenges to ensure long-term resilience and stability.

Drivers: why do climate risks matter?

Business resilience	**Supply chain resilience:** Climate change can disrupt global supply chains through **extreme weather events, resource scarcity, and transportation challenges.** This might affect your business' upstream value chain, production and distribution, causing you to not reach its long-term financial objectives.
	Financial resilience of own operations: Climate-related events, such as extreme weather, flooding ,wildfire, …, can lead to significant financial losses, impacting revenue, CapEx and OpEx opportunities. Assessing and mitigating these risks are **crucial for maintaining financial stability** in your organisation.
Regulatory compliance	Although certain regulatory requirements are weakened, such as the CSRD, other **regulations might require businesses to identify, manage and report their climate-related risks.** For example, the CER Directive will require companies in essential sectors to report on their environment-related risks.
Stakeholder expectations	**Loans & investors**: Investors and banks are increasingly considering environmental, social, and governance (ESG) factors in their decision-making processes. Companies that proactively address climate risks are more likely to **attract inavestment, attain access to capital and maintain shareholder confidence.**
	Insurance: Insurance companies are increasingly assessing climate risks, asking companies about location-based threats (e.g., floods, wildfires) and mitigation efforts. They may require **preventive measures to reduce potential damages and keep premiums low.**
	Market competitiveness: As consumer preferences **shift towards environmentally responsible products and services**, companies that integrate climate considerations into their strategies can enhance their market position and meet evolving customer demands.

WORLD ECONOMIC FORUM

Climate Hazards Will Slash 7% Off Corporate Earnings Annually by 2035, Research Warns

Source: WEF

Avoid excessive focus on minor risks; infrequent, large-scale events account for the majority of overall impacts
Ariane Chappelle

Climate risk assessment methodology

We have developed a three-step approach to identify a company's main climate-related risks.

Climate Risk Baseline

- Assessment of **sites, business model**, sector, activities, …
- Analysis of **the value chain**, both upstream and downstream
- Identification of **key risks** that the business is subject to, based on these factors

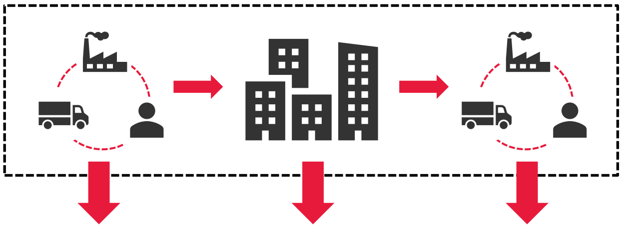
Scenario Analysis

- Selection of appropriate climate change **scenarios & time horizons**
- Assess **predicted changes** for the identified risks in the as-is assessment, based on the latest climate models

Suggestions

- Proposal of measures to **manage** the **risks** that would harm the companies financial position in the different scenarios

Output



Drought
Rising sea level

Flooding
Increasing regulations

Customer preferences
Heat waves

In our reports

	Risk identified	Impact	Probab.	VAR
inflows	Drought	●	H	80-95k
	Rising sea level	●	H	15-25k
Company	Flooding	●	M	...
	Increasing regulations	●	L	...
Outflows	Customer preferences	●	M	...
	Heat waves	●	L	...

Extension: Strategy resilience analysis

Evaluation of strategy resilience against climate risks and suggestions of how to improve this resilience. These suggestions can include specific actions/procedures and cautionary measures with ROI of investments made.

Extension: Cross-department assessment

Holistic evaluation of potential risks across various organisational departments (e.g. other ESG-factors, cyber security, strategic risks,…). By leveraging expertise from multiple disciplines, we help you identify and mitigate risks, enhancing your resilience and supporting your sustainable growth.

Get started today

Want support in pinpointing your climate risks? Contact our expert: Jan-Klaas Somers (janklaas.somers@bdo.be)