

# Climate Risk Capacity Building Series APAC

## Session 2: Strategies and Scenarios

29 February 2024





## Housekeeping and Introduction

## Climate Risk Capacity Building Series APAC

1. **Governance and risk** (8th February)
2. **Strategies and scenarios** (29th February)
3. **Metrics and targets** (14th March)
4. **Net zero initiatives and implementation** (20th March)
5. **Net zero transition plans** (22nd April)

Register to join Session 3: <https://unpri.tfaforms.net/5084729>

## Speakers



**James Robertson**

Head of Asia (ex-China & Japan),  
PRI



**Daniel Gallagher**

Senior Lead, Climate Change  
PRI



**Mark Fulton**

Founding Partner,  
Energy Transition Advisors



**Anna Iles**

Associate Director,  
Transformation  
BSR



**Dr. Steffen Hörter**

Member of the Executive  
Board  
Munich Re Investment  
Partners

# Agenda

- **Housekeeping & Introductions**
  - James Robertson (PRI)
- **Part 1: Overview of Climate Scenario Analysis**
  - Daniel Gallagher (PRI)
  - Anna Iles (Business for Social Responsibility)
  - Mark Fulton (Inevitable Policy Response)
- **Part 2: Investor action on scenario analysis**
  - Steffen Hörter (Munich Re Investment Partners)
- **Conclusion and Q&A**



# 1. Overview of climate scenario analysis



# The Taskforce for Climate-related Financial Disclosures (TCFD) includes scenario analysis in its strategy recommendations

Figure 4

## Recommendations and Supporting Recommended Disclosures

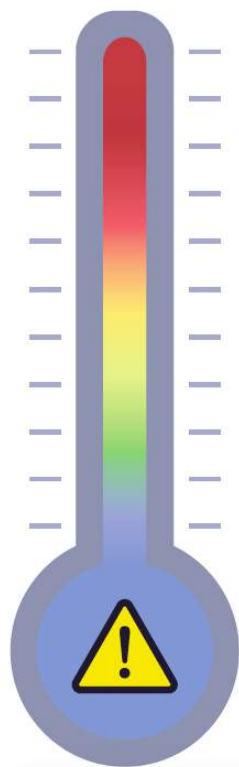
Governance	Strategy	Risk Management	Metrics and Targets
<p>Disclose the organization's governance around climate-related risks and opportunities.</p>	<p>Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.</p>	<p>Disclose how the organization identifies, assesses, and manages climate-related risks.</p>	<p>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</p>
<p><b>Recommended Disclosures</b></p>	<p><b>Recommended Disclosures</b></p>	<p><b>Recommended Disclosures</b></p>	<p><b>Recommended Disclosures</b></p>
<p>a) Describe the board's oversight of climate-related risks and opportunities.</p>	<p>a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.</p>	<p>a) Describe the organization's processes for identifying and assessing climate-related risks.</p>	<p>a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.</p>
<p>b) Describe management's role in assessing and managing climate-related risks and opportunities.</p>	<p>b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.</p>	<p>b) Describe the organization's processes for managing climate-related risks.</p>	<p>b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.</p>
	<p>c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</p>	<p>c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.</p>	<p>c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.</p>

Source: [Task Force on Climate-Related Financial Disclosures | TCFD](https://www.fsb-tcfd.org/) (fsb-tcfd.org)

# In APAC as around the world, physical impacts of climate change are hitting harder and sooner than anticipated

## Climate peril hits APAC

Extreme weather arrived in many parts of APAC in 2023, as climate change becomes a reality for more than 4bn people in the region



### China

#### Beijing boils in summer heatwave

Temperatures in the Chinese capital exceeded 35C every day for almost a month in the summer of 2023, with the city recording its highest-ever June temperature of 41.1C. Authorities issued a 'red alert' warning, advising residents to limit time outdoors.

### India

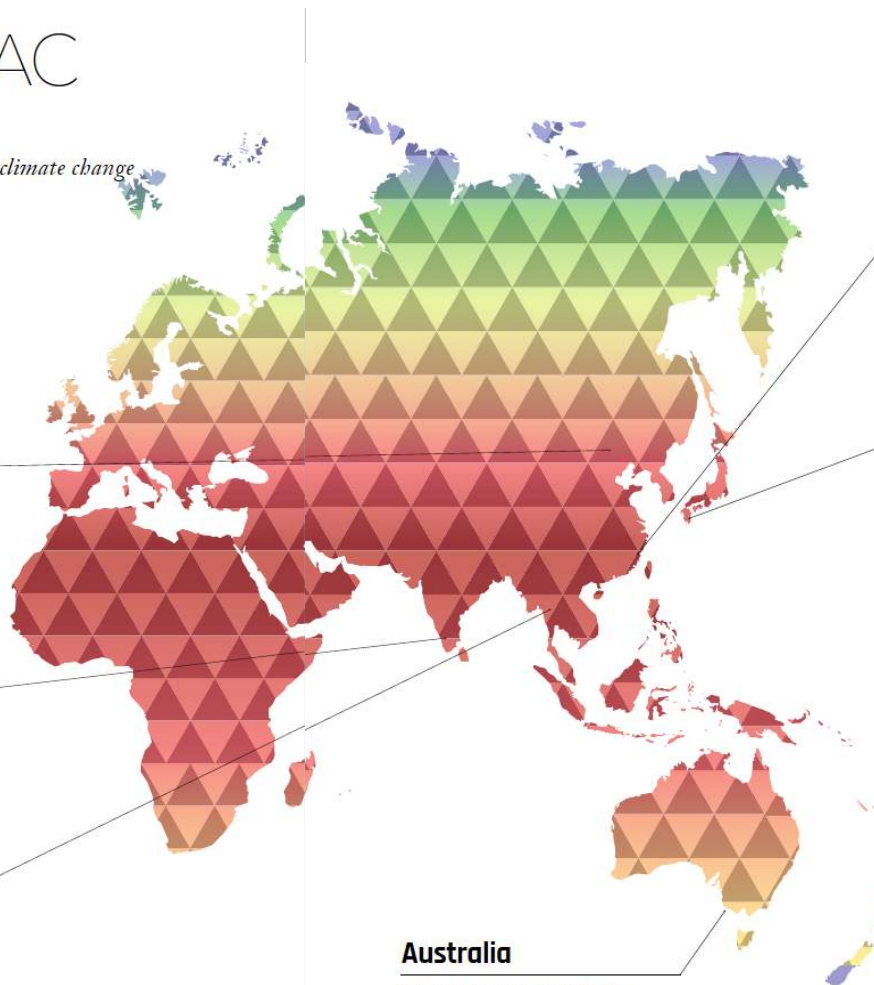
#### India sees driest-ever August

August 2023 rainfall levels in India were the lowest since records began, reflecting the influence of the El Niño weather pattern. Weaker than usual monsoon rains are a threat to the production of key crops, including rice.

### Southeast Asia

#### Temperature records tumble

Thailand recorded its highest ever temperature in April 2023, with the mercury reaching 45.4C in the northern city of Tak. Vietnam and Laos also recorded record highs the following month as a severe heatwave gripped the region.



### Australia

#### Warmest-ever winter in Australia

Average temperatures during the winter of 2023 in Australia were the highest since records began in 1910. The average daily temperature between June and August was 1.5C above the long-term winter average.

### Philippines, Taiwan and China

#### Typhoon Doksuri leaves trail of destruction

One of the strongest typhoons on record, Doksuri, caused widespread damage in the Philippines and Taiwan in July 2023, before slamming into China's Fujian province. The storm caused more than \$15 billion's worth of damage and claimed an estimated 137 lives.

### Japan

#### Record rain brings floods and landslides to Japan

The Japanese island of Kyushu suffered severe flooding and landslides in early July 2023, after the heaviest rainfall ever to hit the region. Six people were killed in the disaster.

### Tuvalu

#### Pacific Islanders offered refuge as sea levels rise

Australia and Tuvalu signed a treaty in November that would offer refuge to the 11,000 inhabitants of the Pacific archipelago. Tuvalu's nine islands sit just two metres above sea level on average, meaning they are forecast to disappear by 2100.

### New Zealand

#### Auckland suffers worst-ever flooding

Once-in-200-year floods were widespread across Auckland in January 2023, with New Zealand's largest city receiving an entire summer's worth of rain in just 24 hours. Less than a month later, Cyclone Gabrielle arrived in the country, causing unprecedented property damage.

Source: Responsible Investor



## Transition Risk is also accelerating across the APAC region



New taxonomies under development from jurisdictions including:

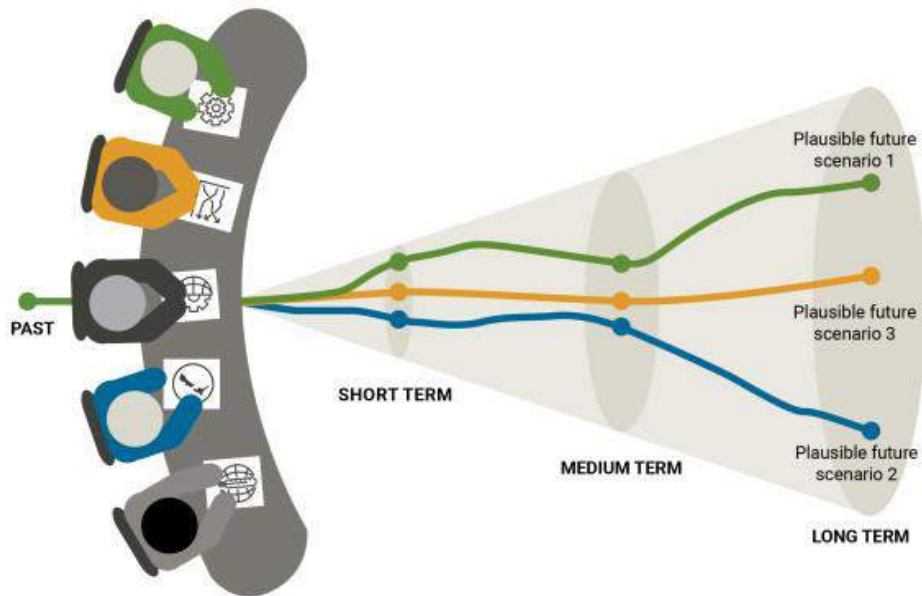
- India
- Hong Kong
- Singapore
- Australia
- ASEAN

Various countries have also announced plans for coal phase-out or phase down, as well as net zero targets

# What is climate-related scenario analysis and how can it help investors?

- A scenario describes a path of development leading to a particular outcome<sup>1</sup>.
- Scenario analysis is a tool to enhance critical strategic thinking. Scenarios are intended to explore alternatives that may significantly alter the basis for “business-as-usual” assumptions.

## Scenario Analysis



Source: [Scenario analysis and climate-related disclosures » XRB](#)

<sup>1</sup>TCFD - [The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities - TCFD Knowledge Hub \(tcfhub.org\)](#)

## What should investors consider in scenario analysis?

- Organisations should include scenario analysis into strategic planning and/or enterprise risk management processes by<sup>1</sup>:
  - **Defining** a range of scenarios, including a 2°C scenario, that provide a reasonable diversity of potential future climate states.
  - **Evaluating** the resiliency of their strategic plans to the range of scenarios.
  - **Identifying** options for increasing the organisation's strategic and business resiliency to plausible climate-related risks and opportunities through adjustments to strategic and financial plans.
- Considerations for building climate change into scenario analysis<sup>1</sup>:
  - Potentially use relevant scenarios that are already developed.
    - E.g. scenarios developed by the Intergovernmental Panel on Climate Change (IPCC), Network for Greening the Financial System (NGFS), International Energy Agency (IEA) etc.
  - Scenario analysis has a range of use cases in investment decision-making

<sup>1</sup>TCFD - [The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities - TCFD Knowledge Hub \(tcfddh.org\)](https://www.tcfddh.org/)

# How to apply Scenario Analysis to Risks and Opportunities?

## 1. Ensure governance is in place

- Integrate scenario analysis into strategic planning

## 2. Assess materiality of climate-related risks

- What are the current and anticipated organisational exposures to climate-related risks and opportunities?

## 3. Identify and define range of scenarios

- What scenarios (and narratives) are appropriate, given the exposures?

## 4. Evaluate business impacts

- Evaluate the potential effects on the organization's strategic and financial position under each of the defined scenarios

## 5. Identify potential responses

- Use the results to identify applicable, realistic decisions to manage the identified risks and opportunities

Source: TCFD-[The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities](https://www.tcfddisclosurehub.org/) - TCFD Knowledge Hub ([tcfddhub.org](https://www.tcfddisclosurehub.org/))

# Material Risks for Investors: both Physical and Transition Risks

As the practice becomes more widespread, two key ideas are becoming clear

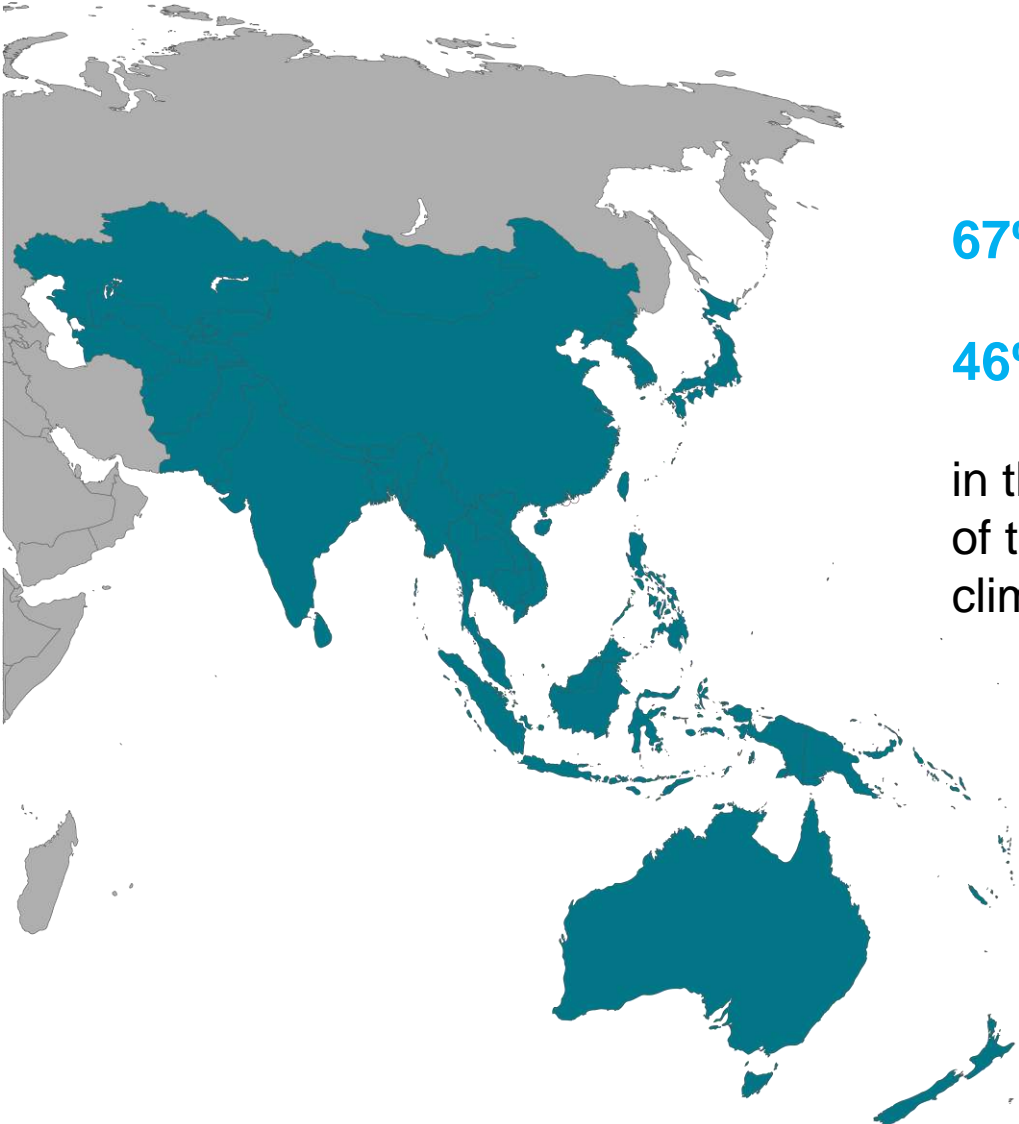
**1. Scenario analysis should include both physical and transition risk.** If only transition risk is examined, a “winners and losers” narrative can make the effect on a diversified portfolio seem nearly neutral (as losses at some firms are offset by gains at others), and lead to underestimation of climate risk. This approach does not withstand scrutiny.

**2. Investee companies should be encouraged to perform scenario analysis,** which can often provide more clarity at the level of a single organization than at the level of a portfolio.

**A list of scenario analysis and climate risk metrics providers useful for investors are included on the [PRI website](#), [UNEP FI website](#), and [AIGCC website](#).**



# And in the Asia-Pacific region, many investors are using or conducting scenario analysis to address rising climate risk



**67% of Asset Owners** and

**46% of Investment Managers**

in the region assessed the resilience of their investment strategy in different climate scenarios.

Source: PRI 2023 reporting data

Thank you for your attention

[daniel.gallagher@unpri.org](mailto:daniel.gallagher@unpri.org)



## 2. Investor action on scenario analysis

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