



# CLIMATE RISK ASSESSMENT GUIDE



# CLIMATE RISK ASSESSMENT

Climate change presents an existential threat to businesses in all sectors and geographies. Stakeholders are progressively demanding that businesses should respond to the risks associated with climate change and that responsive strategic planning should be embedded into business plans and decision-making processes. A response is also increasingly becoming a legal obligation.

A climate risk assessment can be a vital tool to help assess and manage these risks, allowing businesses to identify the likelihood of future climate hazards and/or opportunities, potential impacts for business operations, products, or communities.

## WHY IS A CLIMATE RISK ASSESSMENT NECESSARY?

It's not only vital that businesses act swiftly to curb their emissions, but that they also evaluate how climate change and the policy interventions aimed at mitigating its effects may affect them in the future.

While current UK decarbonisation pathways aim to limit climate change-related temperature rises to 1.5°C, scientific evidence indicates that failing to achieve current targets could result in temperature rises of up to 4°C. Research undertaken by the [Climate Change Committee](#) (CCC) indicates that even scenarios with small increases in temperature could result in costly impacts affecting businesses. For example, by 2045, climate-change damages could account for 1% of the UK's total GDP.

The CCC's assessment of UK climate risk suggests that adaptation for a 2°C temperature increase is needed, with an assessment of potential risks of a 4°C rise.

Early investments in adaptation measures are likely to be highly effective for many businesses and can offer good cost-benefit value. By creating and implementing a climate risk assessment, your business can not only identify areas of adaptation needed in order to improve resilience against the impacts of climate change, but it may also be able to identify opportunities for future developments and access to new markets.

The assessment process should identify:

- + The most relevant climate change-related risk factors for your business.
- + Whether the levels of risk in each area are increasing or decreasing.
- + What actions you can take to help you manage or mitigate these risks, both in the short and longer-term.



## MITIGATION VS. ADAPTATION

There are two distinct areas to consider when it comes to climate change mitigation:

- + **Actions to limit the impact of your business on global warming.** These actions - the most important of which are reducing the greenhouse gas (GHG) emissions your business and value chain produces - should be outlined in a comprehensive Climate Change Mitigation and Adaptation Policy.
- + **Actions to limit the impact of global warming on your business.** These actions relate to the mitigating actions your organisation is or will carry out relating to the impacts of climate change on your business, for example physical disruptions or financial risks.

Climate change adaptation is the process of adjusting to current or expected climate change and its effects. These actions should be identified and set out as part of the climate risk assessment process.

## AREAS OF CLIMATE-RELATED RISK

A risk assessment should cover the following areas of climate-related risk, and should relate to a company's direct operations, infrastructure, products and services, in the short, medium and longer-term:

- + **Physical disruptions** - due to risks such as flooding, extreme weather events, heat waves, fire, supply chain disruption, impacts to employee health or availability of resources.
- + **Transitional risks** - such as government legislated policy changes, emerging legislation, innovations in technology or changing consumer preferences.
- + **Financial risks** - such as those that may occur as a result of market demand fluctuations or other economic impacts.
- + **Reputational risks** - such as damage to reputation through a failure to set ambitious climate-related goals for your business.

## LEGAL REQUIREMENTS IN THE UK

In 2022, the UK became the first country in the world to make TCFD-aligned risk disclosure [mandatory](#) for large, UK-registered companies. TCFD is the Task Force on Financial Related Financial Disclosures, a set of reporting recommendations that enable companies to monitor and reduce the risks associated with climate change. TCFD's recommendations on climate-related financial disclosures are structured around:

- + Governance
- + Strategy
- + Risk Management
- + Metrics and Targets



While there is currently no legal requirement for small or medium-sized companies in the UK to report against TCFD recommendations or to produce a climate risk assessment, carrying out an annual climate risk assessment is a key part of a broader climate change mitigation and adaptation plan, and particularly important if operating in industries likely to be disproportionately impacted by climate change, such as agriculture, tourism, insurance, energy, construction, transport, healthcare, or technology. A risk assessment is also a good place to start if you are considering making a voluntary TCFD disclosure in the future.

### Climate Risk Assessment Guidelines

A comprehensive climate risk assessment should assess all climate change risks facing a business and its value chain, enabling it to understand the mitigating actions it can take to help prevent the risk, as well as the adaptation actions it can take to minimise the impacts of the risk.

Identify which climate-related risk categories may impact your business the most and consider the following:

1. **Anticipated impacts.** Where relevant, provide information on the anticipated impacts of this risk on your business across key areas, considering physical risks, transitional risks, financial risks and reputational risks.
2. **Mitigation and adaptation actions.** Where relevant, include information on the measures your business takes or will take to prevent or reduce the impacts of the risk.
3. **Residual Risk.** Despite thorough risk assessments and implementation of adaptation and mitigation actions, it is not always possible to completely eliminate the risk to your business. Include information where applicable on how the risk may still affect your business despite adaptation and mitigation measures.
4. **Opportunities.** Consider ways in which each key risk area could positively impact your business, or ways in which you could adapt your business to capitalise from the risk.

## NEED MORE HELP?

We can provide a comprehensive climate risk assessment template, or work with you to help conduct a thorough risk assessment for your business. Contact the team at:

[info@future-plus.co.uk](mailto:info@future-plus.co.uk).

