# Risk in Context Podcast

## Episode 47

## Key learnings from COP27 as climate transition continues

### Shivan Hutton:

Hello, I'm Shivan Hutton, head of Marsh Specialty in Africa.

Welcome to *Risk in Context*, which features conversations with Marsh colleagues, risk professionals, and other stakeholders intended to help you better understand your key risks, build more effective insurance programs, and think creatively about risk.

Last month, global leaders from the public and private sector met in Sharm el-Sheikh for COP27, the UN's Climate Change Conference. They reviewed the effects of climate change on countries and industries and discussed the actions needed to address these impacts in a series of meetings that ultimately ran past the conference's scheduled timeframe.

COP is an annual conference of states and private sector from around the world to discuss and implement strategies to take action in limiting the impact of climate change. One of the key international climate change treaties is the Paris Agreement from COP21, in 2015, where the goal was set to limit global warming to well below two, preferably 1.5 degrees Celsius of pre-industrial levels. COP26, in Glasgow, last year was the first convention that reaffirmed the commitment to the Paris Agreement, including reducing global $CO_2$ emissions by 45% by 2030, relative to 2010 levels.

COP27, in November this year, was ma rked as the goal where we move from ambition to action, implementing the COP commitments from Glasgow.

In this episode of *Risk in Context*, I'm joined by two of my colleagues who were also present at last month's climate talks. Amy Barnes, Marsh's head of Climate and Sustainability Strategy, and Scott Williams, ESG coordinating director for Marsh in the Middle East and Africa. We will discuss key learnings from COP27, what these mean for businesses, and the actions that boards, C-suites, and risk professionals, amongst others, should be considering as we strive to mitigate the impacts of climate change.

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### Shivan Hutton:

Hi, Amy. Hi, Scott. Amy, now that you've had some time to digest COP27, what are your first impressions of it?

### Amy Barnes:

I think that's a harder question to ask than it may sound.

So, my impressions having been at COP.

I think you gave a really nice overview of how COP works. But for people who haven't been before, there are a couple of different venues that discussions take place in. There's the Blue Zone, which is hosted by the United Nations where passes are very limited. We did have a pass to access. And within the Blue Zone there are the government negotiations, [for] which we did not have observer status. So although we could be in the intergovernmental area, the Blue Zone, we tended to be with NGOs and private capital, either in the Blue Zone or at the events that happened around the main conference rather than the negotiations. My initial impression of COP was quite an optimistic impression where we saw capital really aligning behind initiatives.

However, when we left COP, and as you said, it overran because commitments were being made. Actually, the response by government has been largely underwhelming for many of the stakeholders. And there's been disappointment about the scale and the extent of commitments that have been made. So, in terms of commitment, there was about US$30 billion pledged at COP26 by governments and the total this time, at COP27, was only about US$4 billion. So a much smaller scale of commitments that only came from seven or eight donor organizations.

So, we saw much smaller commitments, we saw some less bold actions than we'd hoped for.

But what was exciting, and I think what everybody was really pleased to see, was the historic decision to establish and operationalize a loss and damage fund. Loss and damage is recognizing that some of the countries most impacted by changing climate haven't caused it. And those economies generally are fragile or emerging economies that need support to manage loss and damage that's being caused by the changing climate. So that is an exciting element.

I know that was a very mixed story, starting from feeling very positive about private capital, seeing the tepid commitments from government, but recognizing that loss and damage is a really significant milestone. So mixed.

## Shivan Hutton:

Scott, what about you? Mixed but very strong commitment around loss and damage. That's important.

## Scott Williams:

Yes, thank you, Shivan. I would really echo what Amy said. I was there at pretty much the same time as she was and I do think that when I was there, I felt there was a lot of energy and positivity amongst other delegates that I spoke to. But again, though, that is kind of offset now that we have the overall conclusions that have been announced. I really do feel it's a mixed bag.

I definitely echo Amy's sentiments that good progress was made through the announcement of the loss and damage fund, which is something that's definitely necessary. And not just the announcement that's needed, we need rapid rollout of that fund as well. But yes, definitely that was offset by disappointment on the rather soft language in relation to the future of fossil fuels and future temperature commitments.

## Shivan Hutton:

I certainly spent a lot of my time engaging with the private sector and I thought two things. One, there was a clear will to take action from a private sector standpoint and then secondly, a real confidence around implementation. How do you feel that follows through a little bit from deploying capital standpoint?

## Amy Barnes:

One of the conversations that was consistently heard around deploying capital was that projects need to be de-risked. Obviously as risk professionals, [this is] music to our ears. What quickly became apparent is that there's no consistent framework for understanding what the word risk means and the person saying that projects carry risk was very different from what somebody else was hearing around risk. And so, what occurred to me is that if we are going to de-risk the transition and de-risk capital, we need to have a common vocabulary in understanding: Are people worried about the technology risk, the term risk, currency risk, credit risk, more risks? I got a really strong sense that we've got important work to do providing the framework for that conversation. And I think there are some pretty cool tools that the insurance industry, along with banks and capital providers and the multilateral development banks, can bring to accelerate some of the capital investment that's required. I'm not sure that strictly answers your question, but certainly there's a really big role if we're going to make this transition work.

## Scott Williams:

Shivan, I think from my side, again from the people I spoke to at COP, what was clear to me was that private capital is available to fund climate action. Increasingly, renewable energy and other sustainable projects are actually seen as very attractive from an investment returns point of view. It's not just the old CSR [corporate social responsibility] mindset that we used to have. I really quite strongly believe that if developing nations can demonstrate two things — political stability and an appetite to work with foreign direct investment — then [they] will be able to be successful in attracting capital they need to fund and drive the just energy transition. I think the appetite is there, we just have to take it forward now and again at a rapid pace.

## Shivan Hutton:

To your point, I guess the policy framework is the kick-starter in many of these discussions. And then following that up with, to Amy's point, around de-risking those financial metrics.

## Amy Barnes:

So not specifically at COP, but some conversations I'd had prior to COP that really resonated with me with private capital, is that private capital is doing a huge amount of decarbonize. And actually for some business leaders, they're fairly easy decisions at the moment because the decarbonization journey that they're on is also a more cost efficient journey. There are decisions that they can make that ultimately reduce OpEx by transacting in a lower carbon way. There may be some capital required, there may be some CapEx required to create the systems and the processes to have these lower operational costs. But, as I said, those decisions are fairly easy because there's a sound business case.

To fully decarbonize, there are going to be cost implications. And it's at that point that those companies are saying: We really need policy and government frameworks so that we can make these decisions. Because we won't have viable businesses if we're not all playing on a level playing field.

There is an expectation from corporates that without that government level-setting policy framework, it's going to be very difficult to take some of those really hard steps in the decarbonization [process]. So, that's where I have a concern about the mild nature of some of the commitments at COP.

But at COP28, the technology COP, hopefully there'll be a lot more focus on exactly how we deploy those technologies which might incentivize governments to provide some of that level playing field that capital really needs.

## Shivan Hutton:

And I think from a capital standpoint, there's also a lot of discussion around more of a diverse pool of capital and blended finance. That seemed to be a common theme throughout a lot of the discussions that I was hearing.

## Amy Barnes:

You clearly spent a lot of time with private capital, because private capital is all talking about blended finance.

Interestingly, we were sitting and we had somebody from the US Treasury saying: I agree we need blended finance, but let's actually call it what it is; it's government subsidies.

And private capital had to kind of say: Yeah, you've got a point.

And so it's recognizing; and I'm not saying that's wrong by the way, but what is that subsidy for? Is the subsidy there to de-risk a nascent or prototypical technology so then it can scale and it can scale at a lower cost base? Is it to de-risk certain territories where economies may be fragile and so they're de-risking the location? I think we need to be really clear on what do we need government co-sponsoring these projects for? Is it to get the technology off the ground or is it because the territory in which the technology is being deployed is a challenging one for capital to go there? I think that a lot of questions need to be answered, but, capital is definitely wanted.

## Shivan Hutton:

Scott, any other thoughts from a financing standpoint?

## Scott Williams:

No, I think it was covered very well by Amy there. The term blended finance was being bandied about willy-nilly across the whole conference. It was one of the buzzwords I definitely heard. And yes, I think that the member of the US party really cut through some of the waffle around it, calling it subsidies. But I agree with Amy. Subsidies don't have a negative connotation if they are for the right thing, and it's government acting as an enabler of adaptation and mitigation of climate change in the right way, it's not a bad thing at all.

## Shivan Hutton:

So, let's just pivot away a little bit to couple of other key themes that came out from COP27. Amy, you touched on loss and damage and then the other key piece in your own discussions at COP27 was around resilience. Maybe let's start with the loss and damage piece.

## Amy Barnes:

I think it might just help to give some context about what's included within loss and damage. So, especially if risk professionals are hearing that, they may have a very different interpretation. But the way that it's being defined are actions supporting minimizing loss and damage, such as early warning systems, emergency preparedness, thinking about slow onset events. So chronic events, how do people defend against water stress, heat stress? How do people prepare for events that may involve irreversible and permanent loss and damage? That could be coastal inundation, or let's call it sea level rise. Or it may be to an economy, it could be to, let's take it to the leisure industry, a ski resort. If a ski resort no longer becomes viable, that’s irreversible loss and damage. That’s not really the context that the UN are thinking about, but I think that's one of the contexts private capital need to think about. It's trying to provide funds for comprehensive risk assessments, management, insurance facilities.

And so often this is in communities where insurance isn't mature and there isn't a culture of giving a percentage of your scarce resources to a company on the basis that they may give it back to you if something bad potentially happens. So, actually that whole culture reset around the use of insurance in some communities.

And then when you are dealing with governments, it might be climate risk pooling or other insurance solutions.

We need to think about non-economic losses, and at the moment we don't put a price on nature. Some of the losses may be felt on ecosystem services. Think about the resilience of communities, livelihoods that people depend on.

And so all of those kind of actions are bundled up in loss and damage. The fact that we've now got the funding, or some funding, to allow countries to start to build out capabilities I think is very exciting.

And I think what's also exciting is there's been a lot of conversation about what the insurance industry can bring to the climate conversation. And there we have it explicitly that contingent capital, not only do we have skills and tools, but contingent capital may be one of the solutions that helps some communities and societies recover more quickly following a damage event.

## Shivan Hutton:

Yeah, there's definitely a lot of discussion around the insurance industry enabling an understanding of the loss and damage exposure, as well as supporting through pools and capital.

## Amy Barnes:

I met with the World Bank recently and it was an interesting lens that I hadn't heard before about how sometimes the fact that there will be an insurance recovery can release credit. So knowing that there is going to be a capital inflow to rebuild damage suddenly makes credit become more liquid following that event as well. So, I think there's going to be increasing collaboration both with the insurance and the banking world to think about how we support that loss and damage agenda.

## Shivan Hutton:

Scott, your thoughts around loss and damage?

## Scott Williams:

Yeah. So Shivan, one of the things that Amy mentioned there was the loss and damage fund leading towards hopefully better resilience to climate change. And that was something that I really took away from COP as a key theme. One of the key words I heard again and again and again, a bit like blended finance, was adaptation. So I think essentially we've come to a realization that even if we hit the 1.5 degrees [Celsius] Paris Agreement target, we've seen, and we'll continue to see, the impacts of climate change anyway. It's just that hopefully they would be less severe if we do meet the 1.5 degrees Celsius target. So organizations need to adapt accordingly and that means they've actually got to become resilient in the face of climate change-induced natural catastrophes and extreme weather in order to minimize the disruption to their business across entire value chains.

In the run up to COP, and we discussed it at a forum during COP, we released a paper titled *High seas: Enabling a climate resilient Suez Canal*. This paper looked at climate change-related risk impacts for global shipping and methods to build resilience at a local level. The reason we focused on the Suez Canal, was first of all, obviously it's located in Egypt, which was the host nation of COP27. But also it's critical to global supply chains as one of a handful of key waterways in a context where over 80% of the world's goods are traded by sea. So a really key global trade route. And I think to emphasize the importance of the Suez Canal, and this could relate to other pieces of key infrastructure and key logistic pathways, it's worth remembering in 2021, we had the cargo ship, the Ever Given, that ran aground in strong winds and actually blocked the canal.

In high winds in the Suez Canal region, heavily laden cargo vessels can actually just act as sails. They become increasingly difficult to steer, and in this case it led to the Ever Given running aground and blocking the canal.

Now, if you think the canal facilitates about US$10 billion of goods daily and the blockage was six days, you don't need to be a math expert to realize that that's a US$60 billion disruption to trade. And there's actually a subsequent trapping of an estimated $700 million of cargo as well. So we're talking huge numbers. And I think that the Ever Given incident in the Suez Canal demonstrated that globally there's a need for resilient infrastructure in supply chains. Our paper looked at the ways that the Suez Canal and other key infrastructure could mitigate climate change risk. Some examples of that are in terms of physical resilience, so that's resilience to physical climate risks. Some of them Amy mentioned previously, like coastal inundation, high winds, extreme heat, and they should be considered further to enable the long-term reliability of infrastructure. In the context of the Suez Canal, that could be through adapting port infrastructure, widening the canal, and also looking at different considerations with the locks along the canal as well.

From a resilience strategy perspective, while an asset’s resilience can be viewed in silos, resilience strategy that talks to a more holistic approach that may prove beneficial in ensuring that an asset, as well as associated infrastructure, remains viable.

And such strategies would include the financial mechanisms that Amy touched on that could be employed to enable that physical resilience. With those financial mechanisms, essentially what's required and when you're looking at physical resilience projects, is access to stable long-term capital. It may come in the form of government co-sponsorship or blended finance, direct to market bond issues, lending by pension funds. Now that could be a good option given that some of these projects could take decades to complete and pension funds tend to have a long-dated nature of investment. And further enablers, as Amy mentioned, could be something like insurance- or reinsurance-backed public-private schemes to enable the de-risking of resilience adaptation.

So I think from a resilience perspective, by using alternative and proactive methods of financing, resilience can be embedded into the planning and development stage of infrastructure projects or long term infrastructure projects to de-risk existing infrastructure as well.

## Shivan Hutton:

Yeah, so it comes back down to the financing of the transition again and the point that Amy earlier made around de-risking finance and what does de-risking mean? What is the vocabulary that we are using around risk to understand how to de-risk that financing.

## Amy Barnes:

Shiv, if I may. Scott absolutely talked to the Suez Canal and that infrastructure. Some of the audience, if they're in the US, just to give another example of a climate impact to infrastructure. The Mississippi River is running at historically low levels and the Mississippi River has massive strategic importance: 60% of grain exports leave through the Mississippi River. And because it's flowing at such low levels, ships aren't able to get up or downstream to the extent that they could or normally would. So at the moment it's costing over US$80 per ton to get grain out through the Mississippi River because it's such limited vessels that can get over, which is 400% higher than it was at this time last year. And the price has been as high as US$105. But it's not just grain that comes through the Mississippi, it's crops, it's feed, it's fertilizer goes back up the river, it's coke, sand and gravel, oil, salt, and alcohol.

And the alcohol I think is really interesting. Not the type you drink on a Friday night, but alcohol in the form of glycol. So we have spoken to one airline who's very concerned about the winter because they send their glycol, their deicer, up the Mississippi River to the airports. And if they can't get glycol to the airports for winter, then they're going to have problems. And so then suddenly they have to tanker in, which has big cost implications. And by the way, if you don't have glycol at your airport, you can't make it safe to get the glycol trucks into the airport, so you need to have a certain level of stock.

I'm not for one moment trying to panic people in the US that they won't be able to fly this winter, I'm just trying to amplify Scott's message in terms of the importance that we have an understanding of the impact or the potential impact of climate change on key infrastructure assets. Because they are difficult to address. Because if [a] corporation doesn't have the ownership, how do they use influence? How do governments think about their responsibility in defending those assets?

## Scott Williams:

And Amy, sorry Shivan, it just reinforces the message that the impact of climate change can be felt anywhere in the world, [it] doesn't have to be just the developing world. A developed world can feel it very abruptly too.

## Shivan Hutton:

Yeah, a wide range of effects, geography wise as you rightly point out Scott, but also across all sectors and industries.

And Amy maybe touching a little bit on an earlier point that you made, an impact on nature and biodiversity as well, I guess in terms of low water levels and so on as well, which maybe is not contextualized previously in so much detail.

## Amy Barnes:

So for people that aren't aware, there's an increasing focus on risks to nature. And sorry to introduce new vocabulary, but we see climate as an ecosystem service. It's a service that's provided to nature because the reason we care about climate change is to a large extent the impact that it has on nature and natural services. And one data point, for example, one in six oxygen molecules that we breathe on the planet has been produced by the Amazon basin. So really significant dependence on these key natural assets. And as our availability to them changes, we need to think we are very, very exposed. There was far more conversation around risks to nature at this COP than I'd heard at COP26.

Next year the conversation around nature will be amplified even further. The organization, the Taskforce for Nature Related Financial Disclosure, TNFD, the sister group to the Taskforce for Climate Related Financial Disclosure, will be publishing their framework to help businesses identify both the risks they pose to nature and their dependencies on nature.

So, a couple of examples of that. One I think probably fairly obvious if we think about California, is the huge almond industry, and especially as people try to use fewer animal products and try and eat in a more low carbon way. Well the almond farms in California are running low on water, but even more than that they're running low on pollinators. And bees are actually being stolen because there aren't enough pollinators, which depend on nature, to pollinate the almond trees. So I think we can all get our heads around that because it's food, it's quite obvious the nature impact.

Maybe a less obvious impact is in Taiwan, where the water levels are now so low the semiconductor industry is now shipping in, or tankering in, water to their facilities to manufacture semiconductors. So we're seeing there the relationship between nature and the high tech industry, which isn't a connection that most people make.

I know you didn't answer ask me that question, Shiv. I just wanted to lean in that the nature conversation was much louder at 27 than it had been at 26 and it will ramp up even further next year.

## Shivan Hutton:

Yeah, I felt a little bit more of the nature and biodiversity discussion as well. And I think not only just to protect the impact of climate change on nature in itself, but also then the subsequent impact on commercial activities that rely on the natural environment. Tourism, for example, is an obvious sector.

Going back to that commercial piece again, maybe now that the conference has ended, how can organizations, our clients, take the wealth of information that was shared and turn it into action?

## Amy Barnes:

Oh, I'm going to go first because it's always easier to go first.

There are two questions really when we think about climate that organizations need to think about. They need to think about what's the impact that my organization is having on the climate, the transition risk, because your organization does need to work to decarbonize all of the connections in your business. You need to decarbonize your supply chain, you need to decarbonize your operations, you need to have low carbon products and services potentially for some businesses.

And then the other question, and Scott talked a lot about this, is what's the impact that the climate is or could be having on my business? So how could physically changing weather impact my business? Now, whether that's your infrastructure that is impacted, whether it's your own assets are impacted, or areas in your supply chain. And so one of the things that if companies aren't already doing that, aren't already doing that risk modeling, I think it's really important that people don't see climate reporting as the report being the end in itself. The report is just there to drive behavior in terms of risk understanding and risk management.

And so whether you are required to report or not, having that information of understanding about how your business could impact the climate, because your business is going to change. But then really importantly, how the climate could impact your business. And nobody has any budget. Nobody's a big word; most companies don't have budget to fund that climate resilience today. But at least if you know where those vulnerabilities are, if you have any CapEx, you can make sure that CapEx is anticipating that and you're doing any upgrades, enhancements, any acquisitions you're doing in a climate smart way.

Sorry Scott, I got to go first.

## Scott Williams:

You did indeed, Amy, and you stole quite a few of my points there.

But I agree with everything Amy said. I think companies, organizations, really need to understand their weak points from a climate risk perspective and act on them accordingly. And understand that some of them will not be their own assets that they own. It will be government-owned infrastructure, which has a huge impact on their business if it were to suffer the adverse effects of climate change. So, I think that is key and I think that comes to a broader message. At the end of COP, we saw a lot of NGOs, we saw a lot of private sector, and then we got down to the real nitty gritty of the governmental and political negotiations. And I think the key thing will be the mingling of the two and the understanding and cooperation between the private sector and government to make a success of the commitments that were made at this COP and previous ones.

So, from my perspective, the learnings for an organization is don't think in silos, think big, think beyond your own organization. Think about the communities and the areas you operate, not just the impact you have on them, but the impact they can have on your business and on your relations with government, be it local or national, in terms of ensuring that the entire economy in the regions where you operate can be resilient in the face of climate change. I think that would be a key take away from me.

## Shivan Hutton:

Excellent. Thanks, Amy. Thanks, Scott. I don't think there's much more else that I can add in the sense of what clients should be thinking about. But certainly as we move away from COP26 and start implementing on those ambitions of 26 and start thinking about some of the actions from 27, there's certainly a lot that our clients need to be thinking of, both in terms of their impact on climate change, but also the impact of climate change on their businesses. And to your point, Scott, thinking wider than that silo of their own operation itself.

## Scott Williams:

Sorry to interrupt. One last thing, apologies, I did forget to mention the UAE being the host next year. I think there was something like a 1,000% increase in the number of delegates from the UAE. I think apart from their role, their own individual national agenda in terms of climate change, I think there's going to be a huge focus on making sure it's a phenomenally well-organized COP to enable there to be no issues that would stop us getting the work done that we need to in terms of nature and technology, which will be the key focuses next year.

## Shivan Hutton:

Perfect. Thanks, Scott. Thanks, Amy.

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### Shivan Hutton:

That's all for this edition of *Risk in Context*. We hope you enjoyed our discussion and thank you so much for listening.

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