



Developing Resilience through ESG

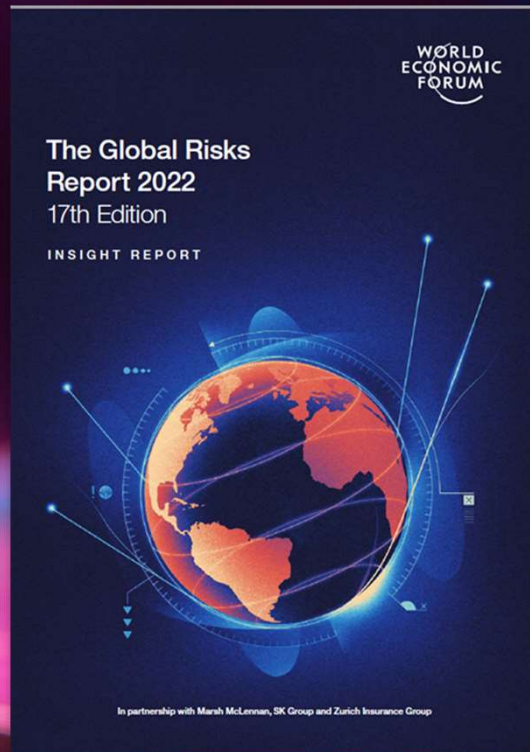
Statewide Mutual

Risk Management Conference

Nicholas Martin - Head of Strategic Risk Consulting, Pacific

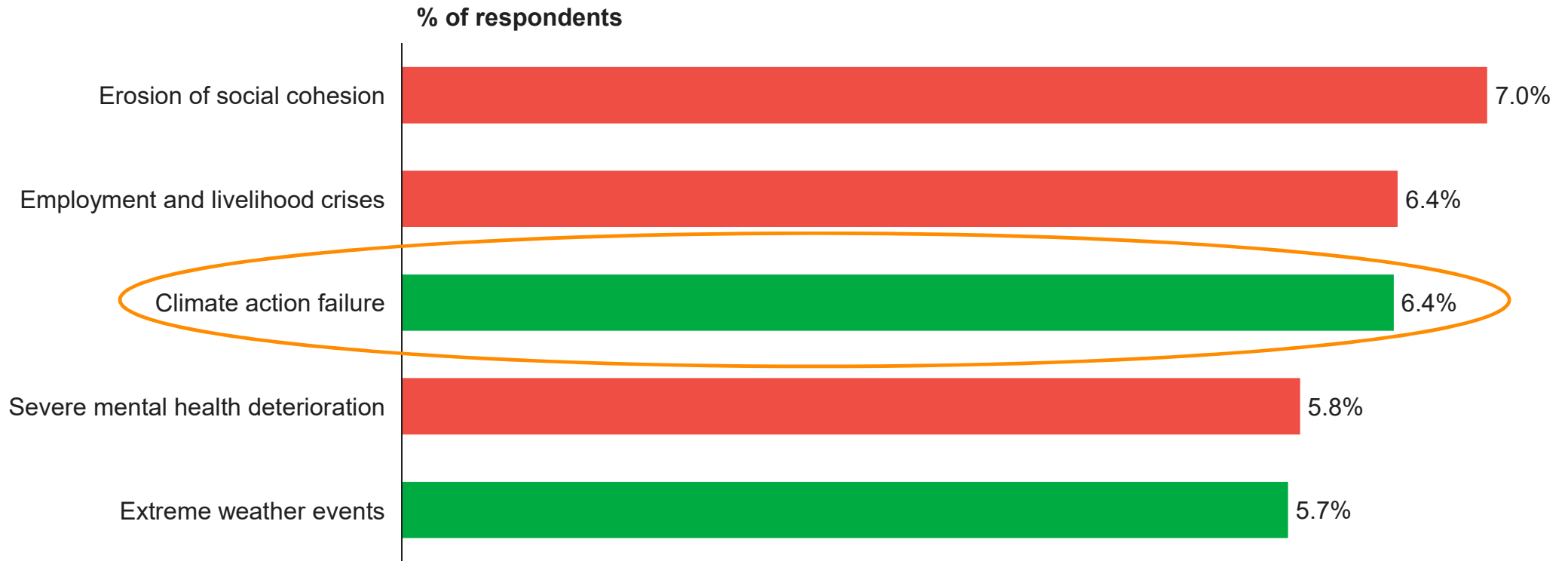
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GLOBAL RISKS REPORT 2022



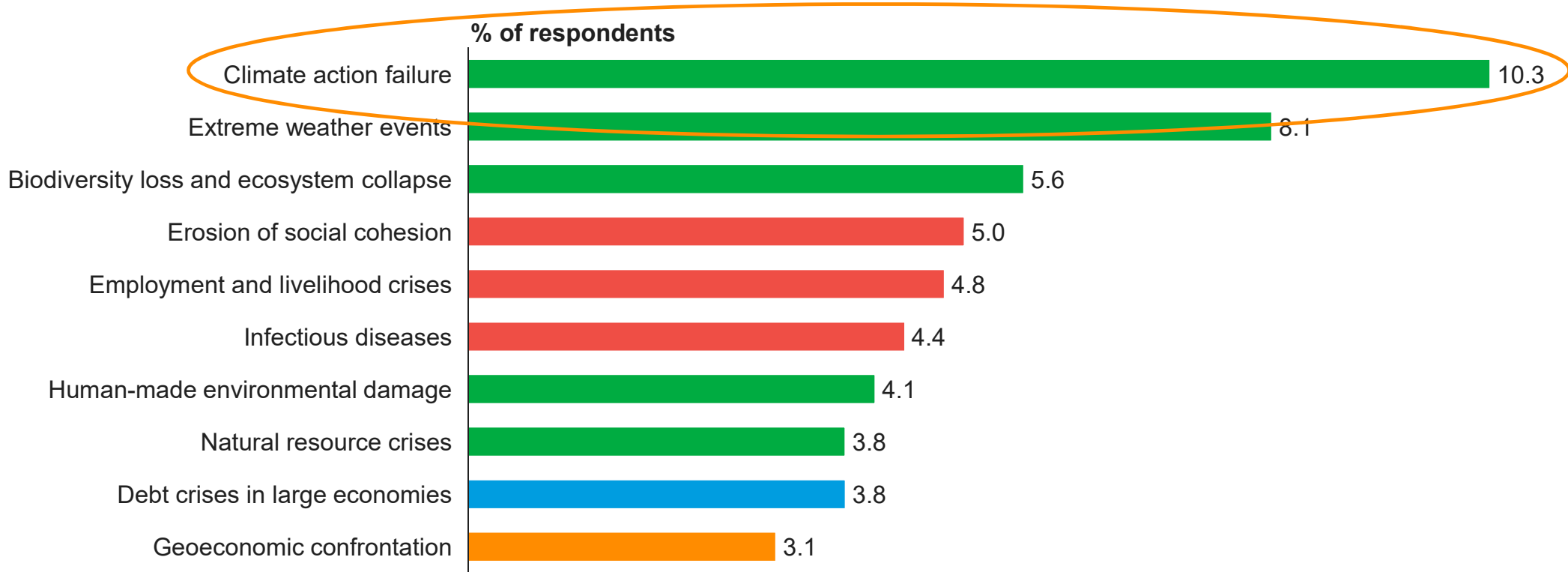
August 2022

Top risks that have worsened since the start of the COVID-19 pandemic



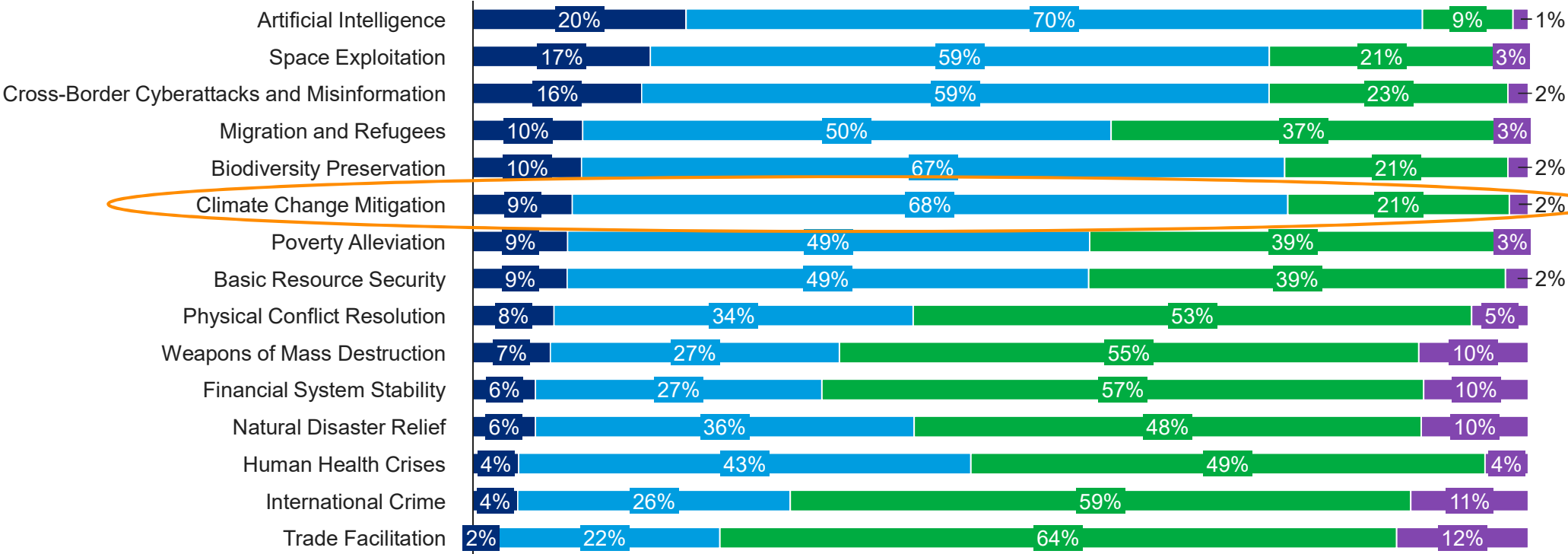
■ Economic ■ Environmental ■ Geopolitical ■ Societal ■ Technological

Top ten risks perceived to become most severe in the next decade



■ Economic ■ Environmental ■ Geopolitical ■ Societal ■ Technological

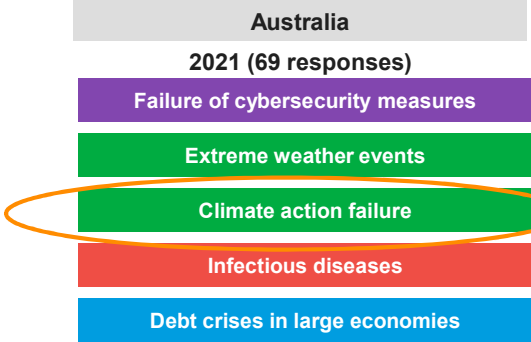
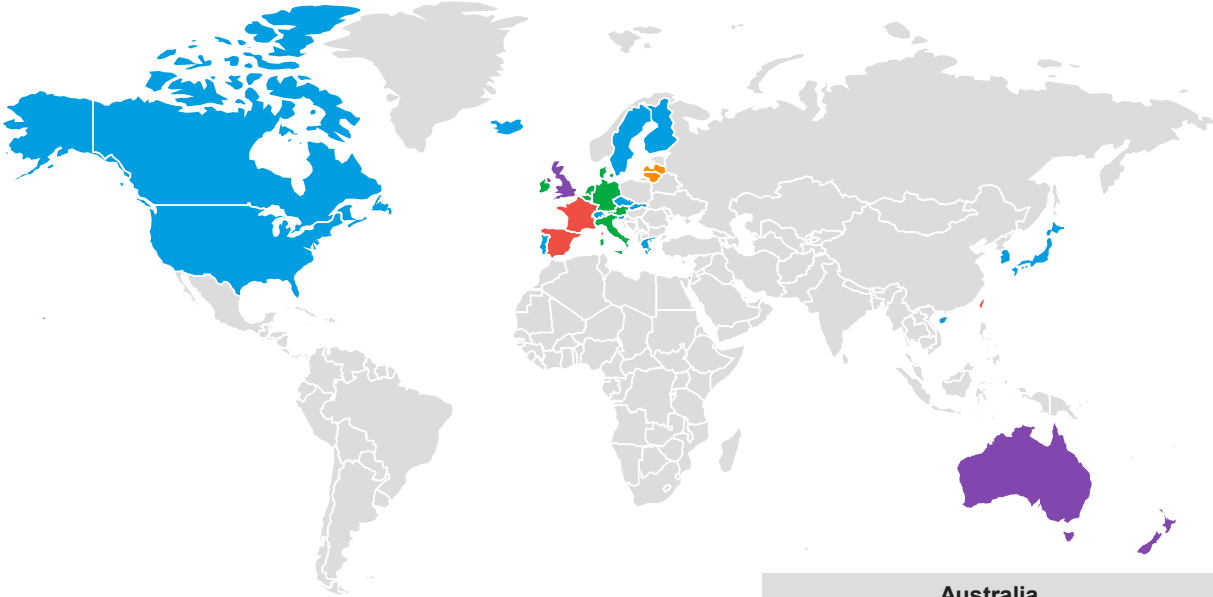
State of risk mitigation efforts categorized by area of risk



■ Not Started
 ■ Early Development
 ■ Established
 ■ Effective

Concerns for the next two years of executives in advanced economies

Rank	Risk
1	Climate action failure
2	Debt crises
3	Prolonged economic stagnation
4	Asset bubble
5	Infectious diseases
6	Failure of cybersecurity measures
7	Extreme weather events
8	Geopolitization of strategic resources
9	Fracture of interstate relations
10	Employment and livelihood crises



■ Economic
 ■ Environmental
 ■ Geopolitical
 ■ Societal
 ■ Technological

IMF definitions for advanced economies and emerging markets are used.
Source: WEF EOS 2021, MMC analysis



A disorderly climate transition



Headwinds and tailwinds

Despite growing consensus on the need for a quicker climate transition, divergent interests and policy complexities will complicate action and hamper progress



Sociopolitical bifurcation

Countries that move faster will be able to consolidate their own national capabilities and clean tech industries; those that move more slowly will lack competitiveness in these domains. Global competition for resources could mean that emerging adaptation and mitigation solutions become largely dominated by a small number of countries



Discontinuities and disruptions

Rapid termination of carbon-intense industries could trigger economic volatility and increase societal and geopolitical tensions. Adopting low-carbon and more sustainable technologies too hastily, in a way that neglects systemic interdependencies, could lead to shortages and disrupt secondary economic cycles



Breakdowns in trust

Laggards as well as governments and businesses seen as complicit in, if not responsible for, climate change will suffer reputational damage and liability issues, leading to breakdowns in trust and the possibility of sanctions



Technological ripple effects

Untested net zero biotechnical and geoengineering technologies—such as weather modification or solar radiation management (SRM)—could spiral out of control or create friction if they are used for geopolitical advantage in the absence of any governance framework

What is ESG?

- **Environmental, Social and Governance (ESG)** are a set of principles that companies and organisations are aiming to embrace both by choice and by requirement.
- The E, S and G categories refer to aspects of a business that reveal the foundational values of an organisation.
- How serious they are about their environmental and social responsibility and working within a sound governance framework form the basis of ESG.

- Under each E S & G there are subcategories.
- Think of an ERM framework - comprises a number of categories and subcategories.
- ESG complements the ERM framework.

Background

Direct link to the UN's SDGs

- Climate Change and the United Nations efforts.
- 2015 developed the Sustainable Development Goals (SDGs).
- There is pressure to adopt more sustainable business practices.
- There is a shift around the world for social environmental and economic practices that are sustainable.
- The need to adopt more sustainable business practices is here and now.
- UN – corporate requirements (**TCFD**) and consumers feel the pressure.
- Influencing the pressure coming from employees consumers/ public perception and communities leading to effective ESG practices.

TCFD

The Task Force on Climate-Related Financial Disclosures was created in 2015 by the Financial Stability Board (FSB) to develop consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders



Why is it important?

- Embedding ESG is increasingly a source of competitive advantage for the companies – shareholders, stakeholders, the market and insurers.
 - Reporting requirements already in place
 - Doing business with companies will eventually impact on the Public Sector
 - Public Sector should now consider the principles of ESG
-
- Consumer demand for companies and organisations to adopt a socially and environmentally responsible approach is constantly growing
 - Employees are seeking to work for organisations with a good ESG profile
 - It is driving product sourcing, design and packaging - the full life cycle
 - Local government relies on goods, resources and services from companies and will be impacted



Ethical



Responsibly sourced



Sustainable



Animal free



Human rights






Environmentally friendly



Fair labour

Why is it important?

ESG is a framework to map out an organisation's impact on the world, and what it is doing about it

	<p>Environmental captures climate change, energy efficiencies, carbon footprints, and other environmentally sensitive issues.</p>
	<p>Social covers labour standards, wages and benefits, diversity, human rights, health and safety, supply chain, and other social justice issues.</p>
	<p>Governance captures the governing of the "E" and the "S" categories plus corporate governance considerations.</p>

Stakeholders are demanding transformational change; a view on ESG performance is critical.

<p>1 Capital Providers <i>Incl. Insurers</i></p>	<p>ESG is linked to financial out-performance</p>	<p>Up to 5% out-performance by top quintile on material sustainability issues over bottom quintile over a 20-year period; Nervousness in D&O insurance around "event-driven" litigation against boards such as diversity, climate, and ESG.</p>
<p>2 Regulators</p>	<p>Regulation on ESG topics is tightening</p>	<p>Over 1,800 climate-related laws and policies are already in place globally.</p>
<p>3 Customers</p>	<p>Customers are favouring companies with a good ESG story</p>	<p>76% of consumers would refuse to purchase a product if the company supported an issue contrary to their beliefs.</p>
<p>4 Employees</p>	<p>Good ESG helps win the competition for talent</p>	<p>16% higher productivity, with measurable impact on shareholder value.</p>
<p>5 Partners/Suppliers</p>	<p>Businesses are requiring ESG adherence from vendors</p>	<p>Setting emissions standards for supply chain helped capture US\$12.4 billion in savings for group of major companies.</p>

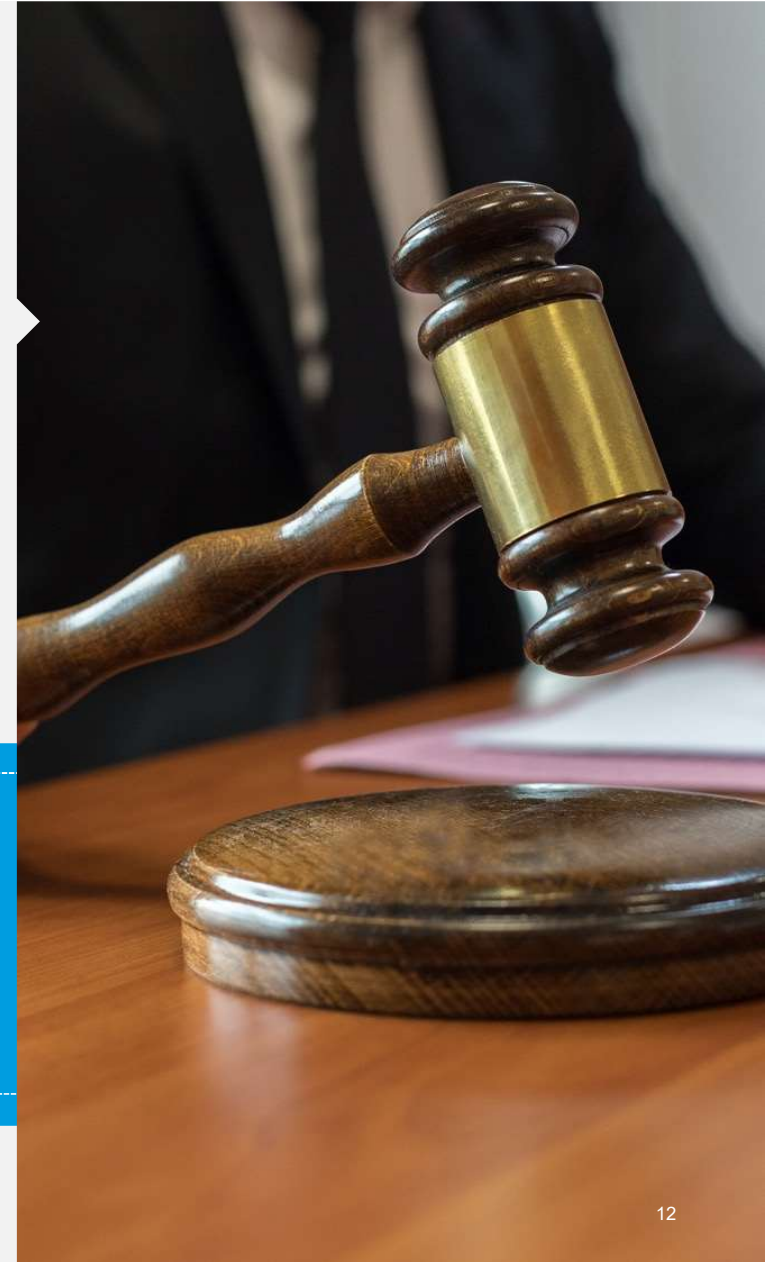
Why is it important to Local Government?

Local Government has a **choice**

- Wait:
 - Until the impact is felt
 - Directed to take action (legislation or stakeholder demand)
- OR
- Take action now and lead the way

**Good
News!**

- You are already doing it!
- But to what extent?
- Do you know?



Looking at ESG through the lens of risk

If you don't assess your ESG risk, someone else will



D&O Risk

As climate-related disclosures rise and shareholder activism continues, leadership teams are increasingly interested in the D&O implications of ESG.



Physical Risk & Supply Chain

The effects of climate change on the production and delivery of products can cause material disruptions to your supply chain.



Transition Risk

Customer expectations are evolving, causing shifts in markets and driving changes in company behavior throughout the value chain.



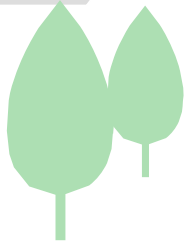
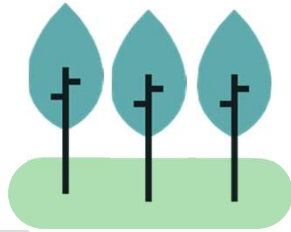
Insurability

The insurance sector is suffering from overexposure to environmentally unsustainable assets which may become stranded.



ESG Resilience Roadmap

Risk managers, along with the Executive Level have critical roles to play...



1. DIAGNOSIS



- ✓ Deploy ESG Tool
- ✓ Validate responses
- ✓ Report

2. MATERIALITY ASSESSMENT



- ✓ Materiality assessment
- ✓ Identify E, S and G elements
- ✓ Perform Gap Analysis

3. ESG FRAMEWORK



- ✓ Formulate Strategic goals
- ✓ Develop Strategic policy and Framework
- ✓ **ERM** integration

4. FRAMEWORK IMPLEMENTATION



- ✓ Identify key Stakeholders
- ✓ Identify priority actions
- ✓ Develop Action Plan
- ✓ Key performance indicators

5. MONITORING REVIEW & REPORTING



1. Reporting
2. Evaluation of Targets/ metrics
3. Risk management
4. Continuous Improvement

How the ESG Spotlight Maturity Assessment Works



ESG Questionnaire Core Themes

The Environmental, Social and Governance (ESG) question set consists of **14 questions** which together seek to assess the extent and quality of ESG at your organisation.

Each category comprises several statements and contextual guidance in order to assist the conversation.



E

Environmental captures:

- Climate change,
- Energy efficiencies,
- Carbon footprints,
- Greenhouse gas emissions,
- Deforestation,
- Biodiversity,
- Contaminated land,
- Material sourcing and efficiency
- Pollution mitigation,
- Hazardous chemicals,
- Waste management, and
- Water usage



S

Social captures:

- Labour standards,
- Wages and benefits,
- Workplace and board diversity,
- Racial justice,
- Pay equity,
- Human rights,
- Modern slavery
- Talent management,
- Community relations,
- Privacy and data protection,
- Health and safety,
- Supply chain,
- And other social justice issues



G

Governance captures the Governing of the “E” and the “S” categories, plus corporate governance considerations, including:

- Senior leadership
- Composition and structure,
- Strategic sustainability
- Oversight and compliance,
- Executive compensation, and
- Enterprise risk management

ESG Spotlight Assessment Tool

Report

Brief Report produced for Client with results and recommendations for improvement

04



Acceptance

Client formally agrees to participate

01



Interviews

Interviews held with respondent group to verify/ clarify answers

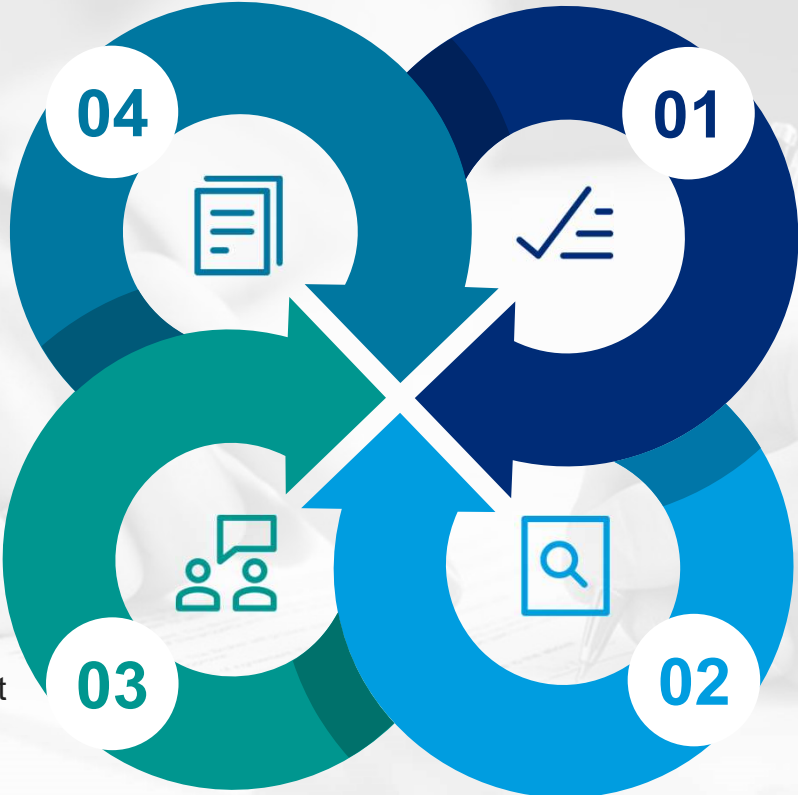
03



Survey

Introductory Presentation & Client receives link to the online Survey (can be shared with multiple respondents)

02



ESG Spotlight Assessment - Qualtrics

https://marsh.az1.qualtrics.com/jfe/preview/SV_8kTidFVuDoFLCYu

The screenshot displays a survey preview interface. At the top, there are buttons for 'Restart Survey' and 'Place Bookmark', along with 'Mobile view on' and 'Tools' options. The main content area features the Marsh logo and the title 'Assessment Elements of ESG Resilience Practices and Principles'. Below the title, there are two paragraphs: one for 'Environmental' (covering climate change, energy efficiencies, carbon footprints, greenhouse gas emissions, deforestation, biodiversity, pollution mitigation, waste management, and water usage) and one for 'Social' (covering labour standards, wages and benefits, workplace and board diversity, racial justice, pay equity, human rights, talent management, community relations, privacy and data protection, health and safety, supply chain, and other social justice issues). A progress bar is visible below the text. At the bottom of the main content area, there are 'Back' and 'Next' navigation buttons, and a footer stating 'A business of Marsh McLennan'.

Assessment Elements of ESG Resilience Practices and Principles

Environmental – this includes climate change, energy efficiencies, carbon footprints, greenhouse gas emissions, deforestation, biodiversity, pollution mitigation, waste management, and water usage.

Social – covers labour standards, wages and benefits, workplace and board diversity, racial justice, pay equity, human rights, talent management, community relations, privacy and data protection, health and safety, supply chain, and other social justice issues.

<< Back Next >>

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Question Sample



Leadership, Strategy and Governance



Technical Components



Insurance Understanding



Business Critical Risks

SECTION 1: LEADERSHIP, STRATEGY, AND GOVERNANCE

This section considers how your organisation ensures ESG resilience factors are understood by key stakeholders, and are aligned with the organisation's strategy, corporate governance, and direction of the business.

a) Executive Commitment

Question:

To what level does your organisation's senior executive demonstrate commitment and leadership for ESG resilience and active involvement in driving continuous improvement?

- | | |
|--|---|
| <input type="radio"/> Level 0 - Not applicable | <input type="radio"/> Level 3 - Moderate |
| <input type="radio"/> Level 1 - Not in place | <input type="radio"/> Level 4 - Good |
| <input type="radio"/> Level 2 - Poor | <input type="radio"/> Level 5 - Excellent |

Please state why you selected Level 3 - Moderate and how you achieve this. You may consider the following example to inform your response.

Example response: The Executive and key stakeholders within our organisation demonstrate strong commitment to and leadership for ESG through:

- Awareness of the topic and future regulatory requirements;
- The changing cultural attitude of the public, staff and business partners;
- Demonstrated public commitment to ESG resilience leadership standards or principles;
- A committee / decision-maker forum established to be responsible and accountable for implementing and managing issues related to ESG resilience;
- Meeting our legal obligations by considering, managing and disclosing all material risks that may affect the organisation, including any risks arising from climate change (physical or transitional risks);
- All employees are aware of ESG resilience; Leadership communicates its importance through scheduled meetings, periodic reports, company newsletters, employee gatherings and a designated intranet.


Assessment Criteria

A consistent scoring scheme used to answer survey questions

	Maturity Score	Description
	Not Applicable	This statement does not apply to our organisation/ department. it is not relevant due to the nature of our business.
■	Not in place	Our organisation has very little or none of the processes in place that fulfil this statement.
■	Poor	Some components relating to this statement have been established although significant improvement is still required. Any related actions performed by our organisation are often conducted on an ad hoc basis by individuals.
■	Moderate	Any processes / procedures concerning this statement are largely in place although our organisation's response is still typically reactive.
■	Good	Our organisation has in place all the necessary policies and procedures relating to this statement and they are well-understood amongst key stakeholders in the business.
■	Excellent	Key stakeholders and staff with designated responsibilities fully understand all aspects that relate to this statement and there are well-defined feedback processes in place allowing our organisation to continue improving its alignment to this statement.

ESG Spotlight Assessment - Qualtrics

PDF Report



We thank you for your time spent taking this survey.
Your response has been recorded.

Below is a summary of your responses [Download PDF](#)

OVERVIEW
The purpose of this survey is to understand and measure the level of Environmental, Social, and Governance (ESG) resilience within your organisation.

The survey seeks to understand the level of identification/anticipation, integration, mitigation, and measurement of risk relating to ESG resilience.

This is a "Health Check" for your organisation to understand your own current approach to ESG resilience.

OVERVIEW
The Health Check consists of 4 sub-sections, exploring the topics of governance, technical components, insurance, and critical business risks, which together seek to assess the extent and quality of ESG resilience practices implemented within your organisation. Each category comprises several statements and contextual guidance in order to facilitate the conversation.

ESG Spotlight Assessment and
Recommendations Report

Example



Maturity Assessment

Executive Summary – Staff Survey Results

Module	Staff Survey Scores for Core Module Themes			Commentary (e.g., best practice, what we see at other organisations)
	Leadership, Strategy, Governance	Technical Components	Insurance Alignment	
Environment	●	●	●	
Social	●	●	●	
Governance	●	●	●	
Measure and Reporting	●	●	●	

Maturity Score	
0	Not Applicable
1	Not in place
2	Poor
3	Moderate
4	Good
5	Excellent

Q&A / Open Discussion





Thank you

For more information, please contact:
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