

Part II: The risk manager's contribution to sustainability

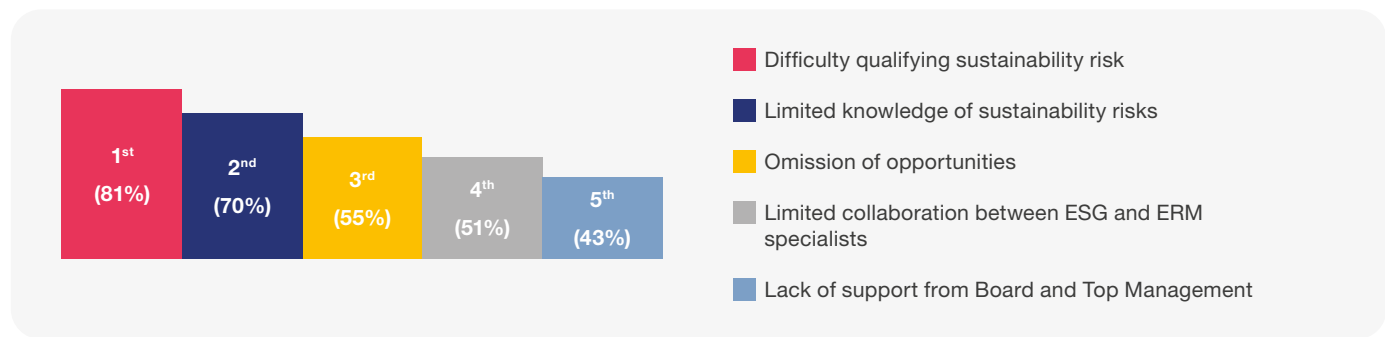
An encouraging 40% of respondents say they are playing or are planning to play a specific role regarding environmental, social and governance-related risks. ESG issues are closely linked with the transition to sustainability in the European Green Deal.

78% of the risk managers involved in sustainability are contributing to the development of ESG reports (risk mapping, extra-financial reporting) and 22% are ESG coordinators within their organisations.



11% of the respondents are currently developing a risk map dedicated to Corporate Social Responsibility (CSR) risks.

The chart below provides insights on the 5 greatest challenges for risk managers in integrating ESG into the risk management process.



These numbers demonstrate that **while risks related to ESG issues, especially the environment, are considered as significant concerns over the next 10 years, risk managers say they are currently not sufficiently equipped to address them.**

The first challenge faced by risk managers is the difficulty of qualifying or defining sustainability risks (81%). This relates directly to the second challenge

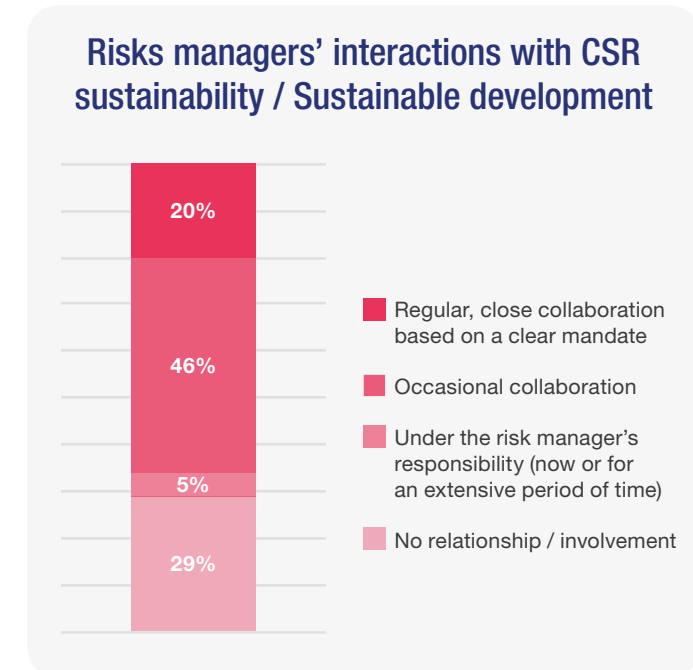
raised by 70% of the respondents: the limited knowledge of sustainability risks and the difficulty of measuring and quantifying their impacts. This is a complex process that requires internal data about the company's activities and resources and expertise that are not necessarily available in risk management teams.

The omission of opportunities, the third obstacle, may indicate that many organisations treat ESG predominantly as a compliance task to meet increased non-financial disclosure obligations and CSR requirements. As such, ESG may not come within the scope of the risk managers' activities.

“Managing sustainability is not limited to mitigating the financial impact of natural catastrophes. Risk managers can also play a role in developing sustainability within their organisations.” FERMA

The fourth challenge seems to confirm this finding and indicates the need for risk managers to have a closer relationship with the CSR department in order to play a wider role. Currently, only 25% have a close collaboration with the CSR department or have the CSR function within their scope of activity (35% in 2018). 29% of the risk managers interviewed have no collaboration with this department (24% in 2018).

In part V, the interactions between risk managers and the other functions are highlighted. They demonstrate that those with CSR are too weak to enable close working and sharing knowledge on such major transformation.



“This drop-in interaction since 2018 may be evidence that when there is a specific CSR function, risk managers are less likely to be involved.” FERMA

The last challenge faced by the respondents is the lack of support from the Board and top management. The transition from simple awareness of the need for green transformation to effective business decisions is still ongoing with different levels of maturity among organisations.

These challenges are evidence that when a threat is becoming major and strategic, companies should adjust their internal governance to allow appropriate ownership and management of the risks. Additionally, while risk managers are involved in strategic subjects that have implications in the short term, such as digital transformation (refer to part II), they may be less involved in issues that top management regards as long term.

Environmental risk is one of top concerns for European risk managers for the years coming, in line with the Global Risks Report 2020 from the World Economic Forum² and The 23rd PwC CEOs Survey³. The 2 new risks entering the Top 15 identified by the 2020 FERMA survey are environmental: **extreme weather events and natural disaster.**

Yet moving to a sustainable environment will bring many challenges and drive actions. European Sustainable Finance policies require financial services companies to assess sustainability risks. In the context of the Green New Deal, risk managers from all business sectors can be involved in managing the potential financial consequences of such risks, but also in taking advantage of opportunities generated by the transformation to sustainability.

Furthermore, the Covid-19 crisis demonstrates the need to consider and better address systemic risks and notably climate-related risks (identified this year as top long-term threats by risk managers).

“We can expect more practical actions in the near future, following the current crisis, and an acceleration of thinking around the environmental challenge.” FERMA

However, as the pandemic crisis turns into a severe economic, it may affect the ability to finance the environmental transition.

² The Global Risks Report 2020 by the World Economic Forum (WEF) <https://www.weforum.org/reports/the-global-risks-report-2020>. In this specific case, the environmental risk includes the following risks: Climate change and environmental damage, extreme weather events, natural disaster.

³ 23rd CEOs Survey: <https://www.pwc.com/gx/en/ceo-survey/2020/reports/pwc-23rd-global-ceo-survey.pdf>