

INTRODUCTION

Aim and approach

This document aims to provide corporate risk and insurance managers with guidance on dealing with the increasingly significant topic of sustainability. Corporate Social Responsibility (CSR) and Environmental, Social and Governance (ESG) issues are not new. They are increasingly blending into the inclusive term sustainability. We, therefore, believe it is an important moment to assemble current thinking on these topics and what they mean for risk management.

Over the winter 2020/2021, FERMA polled its members on what they would find useful in a guide on sustainability. The risk managers who responded have generally been involved in some way with their organisation's approach to sustainability. Therefore, the feedback received can be considered as reflections on the 'sustainability journey' to date.

Then, to help us further develop the guide we organised exchanges of good practice among members of the FERMA Sustainability Committee. To complement this, we also sought views from other experienced risk managers through nine semi-structured interviews.



Existing guidance and best practices

- World Business Council for Sustainable Development (wbcSD) and COSO, Applying Enterprise Risk Management to Environmental, Social and Governance-related Risks
- Task Force on Climate-Related Financial Disclosures (TCFD), Implementing the Recommendations of the TCFD
- ISO 31000 'Risk Management' and ISO 26000 'Social Responsibility'

It is important to stress that this guide is not meant to replace existing guidelines or processes. It is intended as a reference point for further consideration and exploration.

Context for the risk manager

Companies have been communicating on non-financial matters such as CSR for decades, widening into ESG matters more recently. An enterprise-wide approach to sustainability that incorporates opportunities and risks over the long term is one of the latest parts of this evolution.

According to the input received, many risk managers have been involved in their companies' reporting on sustainability, for example the preparation of their non-financial reporting disclosures, annual reports, or reports on sustainability. But evidently, a risk manager's primary role is to warn and anticipate rather than to report.

Organisations are at different stages of maturity in their sustainability approach and have different ways of identifying, analysing, assessing and dealing with the risks and opportunities. Our focus in this report is how the risk management function fits within this picture.

FERMA makes the following observations on the state of play between risk management and sustainability.

- A corporate culture that embraces enterprise-wide risk management is a fundamental factor in determining how organisations approach and deal with sustainability.
- Managing sustainability requires mature risk management as a long-term project to build resilience and take advantage of opportunities from the green transition.



- Risk management can help identify and communicate sustainability issues that are specific to the company.
- Risk management is in a strong position to support specialist functions' knowledge of activities and operations across the enterprise and methods of treating risk.
- Risk management can facilitate cross-function communication.
- The ERM framework may offer a consolidated model of good governance and practices that can eventually allow the integration of sustainability into risk management.



A brief policy context

The increase in speed in pursuit of sustainability goals through policy post-financial crisis can be, broadly speaking, traced back to the [UN Sustainable Development Goals](#). Ultimately, the aim of these goals is to promote prosperity while protecting the planet, achieving a better and more sustainable future.

On this front, the EU is particularly ambitious. In 2020, the EU announced its strategy for climate neutrality by 2050 as part of the [European Green Deal](#), which is a key pillar of European Commission President Ursula von der Leyen's strategy for her time in office.

The European Green Deal is a response to climate and environmental challenges. It is intended, in the words of the Commission, as a new growth strategy to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy. It expects businesses to behave not just as good corporate citizens, but also to use their operations and assets to strengthen the resilience of the community.

Significantly, the Green Deal has for the first time set out a legal commitment for the EU to target climate-neutrality by 2050, with the [European Climate Law](#). This act will also ensure that all EU policies contribute to this overall goal, and that all sectors of the economy and society play their part.

To support the green transition, the EU aims to channel more investment into greener activities. This aim has been formalised in the European Commission's [Strategy for Sustainable Finance](#). In this strategy, the Commission identified the financial sector as a key enabler to support economic growth, while reducing pressures on the environment and taking into account social and governance aspects. There will be a renewed strategy on sustainable finance before the Summer of 2021. It is expected

to pick up the theme of reorienting capital towards more sustainable activities.

An important enabler of 'greener' investments is data. In a bid to improve both supply and quality of data on the sustainability of economic activities, the Commission has encouraged increased disclosure of climate and environmental data so that investors – and stakeholders – are better informed. More specifically, organisations are increasingly required to disclose information on how and to what extent their activities are associated with environmentally sustainable economic activities.

Vital in this regard is the [Non-Financial Reporting Directive](#) (NFRD), which is an instrument aimed at enhancing the transparency of social and environmental information provided by undertakings (of a certain size) in all sectors. The NFRD is currently under review and an updated proposal is expected for Q2 2021.

Further, the ambition to ensure transparency on risks related to ESG factors that may impact the financial system and the mitigation of such risks through the appropriate governance of financial and corporate actors is articulated through the Commission's work on the [EU Taxonomy](#). This taxonomy is an effort to provide a common classification system for sustainable economic activities (by ESG).

It is also anticipated that the Commission will propose an initiative on [sustainable corporate governance](#) in the first half of 2021. Stemming from this initiative we could see mandatory supply chain due diligence and a duty of care for directors. This work has taken inspiration from legislation at national level, e.g. Article 169 of the French law on Business Growth and Transformation (the PACTE law), as well as that at supranational level, such as the OECD's work on due diligence guidance for responsible business conduct.

More recently, the political agreement reached by the European Parliament and the Council on the EU economic recovery package requires Member States to devote at least 37% of their expenditure to investments and reforms that support climate objectives. The so-called [Recovery and Resilience Facility](#) will also require Member States to support the green transition by obliging them to apply the 'do no significant harm' principle on all measures.

The above is a selection of the various strands of public policy aimed at reorienting the economic system away from short-term maximisation of shareholder value and towards a longer-term, more sustainable vision. They provide a short and targeted context for this guide.