PEOPLE, PLANET & PERFORMANCE

The Contribution of Enterprise Risk Management to Sustainability

40+ YEARS

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About FERMA

The Federation of European Risk Management Associations brings together 22 national risk management associations in 21 European countries. FERMA represents the interests of nearly 5000 risk and insurance managers in Europe active in a wide range of business sectors from major industrial and commercial companies to financial institutions and local government bodies. More information can be found at [www.ferma.eu](http://www.ferma.eu)
FERMA presents this guide on sustainability in the midst of the global COVID-19 pandemic. Less than a third of risk managers had a global pandemic as part of their risk register in September of 2019. Yet, in 2020, that risk became reality. The financial and societal impacts have been far-reaching already and will be felt for years to come.

Among the many consequences of this pandemic, FERMA has observed a renewed focus on 1) the risk environment; and 2) how to make businesses more resilient. We, risk managers, are being looked to – perhaps more than ever – for our insights on what will come next and how to better manage the associated risks, with a view to making our companies more resilient.

Risk managers provide their organisations with an enterprise-wide view of both the potential impacts and the opportunities related to the various risks that can materialise. One of the tools of the risk manager, Enterprise Risk Management (ERM), facilitates this process. ERM provides a robust framework to identify, assess and mitigate risks. Inherent in the risk manager’s role is also the ability to prioritise risks that should be at the forefront for the Board.

More is happening on sustainability every day. This is set against a policy background of the European Green Deal, in which the EU makes a legal commitment to climate-neutrality by 2050. There are other initiatives in many parts of the world. Part of our role as risk managers is to translate these initiatives into their implications for our organisations. Some risk managers have been doing this for years, but organisations vary in their maturity on the topic.

Our European Risk Manager Report 2020 revealed that 60% of risk managers were not yet involved in ESG-related risks in their organisation. To help fill this gap, as well as to take stock of where we are now, FERMA’s Sustainability Committee has created this guide with two goals: 1) as a practical guide for risk managers who wish to embed more sustainability considerations into their processes and into their organisations. 2) as examples of good practices from work that risk managers have already carried out on sustainability.

Our guide can, therefore, be both a starting point and material for reflection for risk managers. It cannot provide guidelines on every aspect of the increasingly vast range of topics that broadly belong to the term sustainability.

Finally, a warm thank you and congratulations to the FERMA Sustainability Committee for its hard work in producing this guide. We also thank the risk managers who generously contributed their knowledge and experience.

**FOREWORD**

Valentina Paduano, Chairwoman of the Sustainability Committee

"In our view sustainability should now be front and centre of everyone’s mind."
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.

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.

Existing guidance and best practices

- World Business Council for Sustainable Development (wbcisd) 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’
• 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.
WHAT DO WE MEAN BY SUSTAINABILITY AND SUSTAINABILITY RISKS?

For the sake of clarity in this publication, we outline here what we mean by some key terms, since sustainability and ESG tend to be used interchangeably. Ideally, the definition will be principles-based and not try to cover every eventuality.

**Sustainability:** encouraging businesses to frame decisions in terms of financial, environmental (including climate, biodiversity), social and human effects ensuring resilience and long-term value creation. – FERMA Sustainability Committee

**Sustainability risk:** Uncertain social or environmental event or condition that, if it occurs, can cause significant negative impact on the company. It also includes the opportunity that may be available to an organisation because of changing social or environmental factors (wbcsd and COSO).

**ESG-related risks:** Environmental, social and governance risks and/or opportunities that may impact an entity are commonly referred to as sustainability, non-financial or extra-financial risks. (wbcsd and COSO).

As a broad term, sustainability has different implications for different companies. The risks associated with it will relate to the ESG practices of the business, its strategy and the sector and territories in which it operates. By saying that, we consider that ‘ESG’ belongs to sustainability—i.e., that sustainability is the broader concept. To illustrate what we consider as ESG, we provide the following classification agreed by the FERMA Sustainability Committee:

FERMA classification of ESG:

1 Inspired by the European Commission’s definition of sustainability in the consultation on Sustainable Corporate Governance: Sustainability encompasses encouraging businesses to frame decisions in terms of environmental (including climate, biodiversity), social, and human impact for the long-term, rather than on short-term gains
2 Diagram adapted from MSCI what is ESG? https://www.msci.com/what-is-esg
Risk managers on sustainability

For me, it is actually the umbrella for most things you do as a business...it is not limited to environment.
- Risk manager, Sweden

It’s part of responsibility in our company. It is better to understand that it is part of being a responsible person in a responsible company. This includes the compliance-based requirements and then it goes into ‘how’ you operate.
- Risk manager, Finland

We have three elements when we talk about it. There is the financial sustainability element of it, of course. It is a huge part. Then there is the environmental one, which we have captured for many years in that we always ask in risk management for the non-financial impact and risks. We ask everyone in the company, independent from the financial threshold for this calculation. Then it is also in the social part and there we talk about health and safety, human rights, supply chain topics.
- Risk manager, Sweden

As a risk manager, sustainability is really an important issue. The first point I want to mention is that when you are a risk manager, you need to mitigate risk, and you need to make your best effort to avoid a claim and business interruption... the second point is that today there is a green wave, which is coming in our companies.

And, we want our businesses to be low-carbon impact, so we want to reduce the impact of our activities. Here the risk manager can help the company to find and evaluate the risk associated with that.
- Risk manager, France

Perhaps sustainability has always existed in companies as financial sustainability in order to avoid bankruptcy? Nowadays the meaning is around ESG, but the aim remains to survive, thus adapt and transform the company to a rapidly changing context. Whatever the domain is, the role of ERM is to anticipate and avoid negative impacts, and set up a risk culture that is key to enable all stakeholders’ contribution to the aim of collective goals.
- Risk manager, France

Sustainability is a target to be considered. These are strategic targets, like business targets. I consider it as something that could be impacted by a risk. So we have to manage ESG like other topics that are important to the continuity of business.
- Risk manager, Italy

Sustainability is everything that allows us to create value, not just taking into consideration actual needs, but also taking into our needs into the future. It is not just economic and financial, but we also take into account additional aspects, such as environmental, social, and all the possible ways of improving wellbeing.
- Risk manager, Italy
SUSTAINABILITY RISK MANAGEMENT PROCESS

Sustainability risk management is a business process supporting the company’s sustainability goals. It aims at aligning sustainability with risk management by using the principles of enterprise-wide risk management.

– FERMA Sustainability Committee

There is no one size fits all solution for sustainability risk management. But based on our exchange of views, there are some key themes that emerge, which we will explore in this section.

We propose a template to consider these issues based on the common risk management process:

• Preliminary settings
• Risk identification and prioritisation
• Risk assessment and treatment
• Risk reporting, communication and disclosure

Those that are well underway in their ‘sustainability journey’ take an enterprise-wide approach to ESG risks and link them to overall strategic objectives. This is done by focusing on material ESG issues that could threaten the strategic goals of the organisation (as well as offer opportunities).

At the other end of the scale, some organisations may be starting to consider how to integrate sustainability risks into their overall approach, or may consider starting with a different approach to sustainability before integrating it at a later date.

“Do not re-invent the wheel! Sustainability risk management should use the same methodology as for other risks.”
– Risk manager, Italy
Illustration of the sustainability risk management process

**Strategic goals & risk appetite**

- Risk reporting, communication & disclosure
  - Internally for decision making
  - Externally to meet regulatory requirement and inform stakeholders

- Preliminary settings and context
  - Internal factors
  - External factors
  - Time horizon

- Risk assessment and treatment
  - High priority risk focus
  - Stakeholder input, internal and external
  - Risk responses

- Risk identification and prioritisation
  - Risk register/catalogue
  - Committees
  - Data
Risk managers on integrating sustainability into risk management

The identification and assessment of sustainability risk are an integrated part of our company’s process for identifying, quantifying and managing risk. Hence ESG concerns are in focus at all levels and functions of the organisation. ERM is also part of the team putting together the annual sustainability report.

– Risk manager, Sweden

As our CEO says, we do not have a sustainability strategy. Our strategy is sustainable. For us sustainability is fully integrated into our processes. We do not have a dedicated category of risks defined as sustainability.

– Risk manager, Sweden

For me it means that the tasks and the understanding of enterprise risk management and risk management in a company should change. At least what I observe is that many are still struggling to find that right way. There are many old ways of thinking that are an obstacle. For example, a core financial risk manager might say something like risk is deviation from business plan. But this doesn’t capture the problem we are talking about. It does not deal with the fact that there could be child labour in the supply chain, or the climate change impact on our company...The sustainability topic is really key not just talking about it but really implementing it and changing ways of working where it is really necessary, and risk management is one of those, I think.

– Risk manager, Sweden

It is better to have a light procedure to sustainability risk management since you cannot be prepared for everything, as the COVID-19 pandemic crisis has shown. It is better to be pragmatic.

– Risk manager, France

We have to go beyond traditional risk management. For me traditional risk management is that we as a company are doing these activities, and if we are going to do that what are the risks going to be? But now, we have to switch from these post-strategy risks to a pre-strategy mindset. And that is really looking at what is happening in the world, now and in the future and how that can be translated to us as a company. For each company that’s going to be different.

– Risk manager, Belgium

In our organisation, the risk management and sustainability departments were merged some months ago, under the same director (myself). We are now studying a way to create continuous synergies between the two activities with the aim of developing a Sustainability ERM in the next months.

– Risk manager, Italy

For ERM practitioners, the process is similar to all other risks. Specificities come with 1/ the long-term effects of most ESG risks (though we may wonder whether it is still long-term!) and 2/ the laws on reporting and information for companies ESG risks. From my perspective it is absolutely the case that ESG/ sustainability has led risk management (and risk managers) to work in depth and even more with functions such as corporate social responsibility / human resources / health and safety / security / business continuity and crisis management / etc.

– Risk manager, France
Preliminary settings

Context

A foundation for any of the next steps is first establishing the context in which you operate. A good way of looking at this is to consider both internal and external factors confronting your organisation.

<table>
<thead>
<tr>
<th>Internal factors to consider</th>
<th>External factors to consider</th>
</tr>
</thead>
</table>
| Map your internal stakeholders  
*Is there a sustainability colleague or department?*  
*Who else would be good to involve?*  
*Who needs to be involved?*  
Consider your governance structure  
*Is there an important committee to influence/be part of? What are your reporting lines? Who are the key influencers or sponsors of risk and sustainability?*  
Consider organisational culture  
*Do you have to push this, bottom-up? Is the direction coming from the top management?*  
| Map your external stakeholders  
*Suppliers, customers, investors, but also since sustainability is broader this also means considering the communities you operate in*  
Local, national, and international environment  
*Rules and regulations, cultures and norms, etc.*  
Your organisations industrial sector  
*For instance, if in energy is there a heightened scrutiny on environmental performance?*  

Most of the risk managers we have spoken to have emphasised the enterprise-wide perspective they can take as being a foundational part of their sustainability approach. It is good to analyse and map out the key elements to your own organisation before looking outside of it. Risk should be aligned with the other sustainability related functions.

In several instances, we have spoken with risk managers who are also the head of their sustainability function. Wearing these two hats may be a good strategy. However, it also can come with pitfalls. Potentially the advantage of having a risk manager ‘independent’ from sustainability is that they can offer a different perspective.

We have also heard risk managers regularly mention the importance of ‘culture’, which is difficult to define but also – and crucially – hard to change. This is why it is important to establish the context and analyse the key people in your organisation to effect change in the realm of sustainability.

For external matters, the effect of changes in public opinion and policy, with EU and international goals for carbon neutrality, sustainable investments and social responsibility, are less specific. The effect on the business may be gradual or could happen all of a sudden (as in the case of the COVID-19 pandemic). These unforeseen events could be more serious in the long term.
The impact of external factors – difficult to map and estimate - could be a ‘reputational’ risk for the company to be qualitatively evaluated by the management.

**Time horizon**

It is important to analyse sustainability risks by their potential impacts on operations and strategic goals while applying a time scale. This is standard risk management practice, but for sustainability, the time element is likely to be more important than for most fortuitous risks. This means a strong case for resource allocation will need to be made.

In the diagram below, we provide a visual idea of areas for consideration in setting the time horizon. Fundamentally, the sustainability approach should be aligned with the overall strategic plan of the organisation. You can try setting your horizon on sustainability risks the same as for other risks. The longer-term risks will likely be part of the company risk profile, but may not currently fall into the heat-map due to not being as immediate as other risks.

The time horizon is a necessary clarification to address the management discussion on which topics to focus attention and balance the expected impacts.
Risk Identification and Prioritisation

The key question to ask is how would you normally identify risks?

- If your approach is based on keeping a risk register, then you can consider thinking about ESG/sustainability risks in this register or catalogue.
- If the approach is to set-up a committee of colleagues and discuss the various perspectives, then perhaps the best idea is to also bring in a sustainability perspective.
- Several risk managers sort their risks into buckets, such as ‘strategic – operational – external’. If this is the case, then adding a sustainability overlay to this existing process could be helpful.
- Or, you may wish to think about it differently and set up a deep analysis of all sustainability risks on your radar.

**Table idea for ESG risk identification**

<table>
<thead>
<tr>
<th>ESG category</th>
<th>Risk area</th>
<th>Risk events</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENVIRONMENT</td>
<td>Climate change</td>
<td>Changes in policy and regulatory context</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Timely development of innovative and eco-responsible products and technologies, supporting reduction of CO2 emissions and consumer preferences</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Effective deployment of industrial and logistics carbon footprint, supporting reduction of energy consumption in production processes in favour of renewable energy, etc.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Business interruption due to chronic (e.g., temperature increase, precipitation, etc.) or extreme events (e.g., floods, cyclones, etc.) on key company assets – i.e. physical risk</td>
</tr>
<tr>
<td>Responsible use of</td>
<td>Natural resources</td>
<td>Optimisation of material cycles in industrial processes, in terms of recycling, re-using parts, reconditioning components and waste management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Preservation of biodiversity and land use</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sustainable water management</td>
</tr>
<tr>
<td>ESG category</td>
<td>Risk area</td>
<td>Risk events</td>
</tr>
<tr>
<td>---------------------------</td>
<td>---------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>SOCIAL</strong></td>
<td><strong>Human resources management</strong></td>
<td>Protection of occupational health and safety</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Attraction, retention and professional development of talents</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Diversity, equal opportunities and well-being within the organisation</td>
</tr>
<tr>
<td></td>
<td><strong>Product liabilities</strong></td>
<td>Product reliability, guaranteeing the compliance with quality and safety regulations</td>
</tr>
<tr>
<td></td>
<td><strong>Company impact in communities in which we operate</strong></td>
<td>Breach of trust in local areas</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Balanced governance and distribution of added value</td>
</tr>
<tr>
<td><strong>GOVERNANCE</strong></td>
<td><strong>Business ethics and integrity (corporate behaviour)</strong></td>
<td>Prevention, detection and countering any unlawful behaviour by employees and collaborators (incl. corruption, extortion and bribery) and compliance with related national and international legislation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Adoption of responsible procurement practices across global value chain, preventing ethics violations</td>
</tr>
</tbody>
</table>

The above list should be adapted, customised and finalised through consultation with your colleagues and management.
Risk identification and ways of looking at ESG risks - examples from risk managers

We established an assurance working group where all assurance parties work together. We start from risk-based topics and follow-up and report on those. This group meets quarterly. And, we have a dashboard on this, where we look into prevention, monitoring and reaction/action (including remediation action taken those) on the sustainability topics that can affect us.
- Risk manager, Finland

Environmental risk: We have worked with other departments to identify some key environmental risks, such as a water shortage.
- Risk manager, Sweden

The identification and assessment of sustainability risk are an integrated part of [our company's] process for identifying, quantifying and managing risk. Hence ESG concerns are in focus at all levels and functions of the organisation. ERM is also part of the team putting together the annual sustainability report.
- Risk manager, Sweden

Social risk: The Covid-19 situation allowed risk managers to show their added value in the protection of human capital, which is key. For instance, last year I worked with the HR Department to improve travel risk for our employees abroad. The problem we had was to follow our travellers, to localise them and to communicate with them. The travel tracker tool provide by our supplier allows the HR Director and me to assess risky situations more quickly and know who can be affected by them.
- Risk manager, France

We are now working on improving this activity of risk analysis concerning ESG-topics. We will do this by surveying our top- and middle- management on their view on potential risks related to ESG in their department. By doing so we aim to improve and expand our risk universe and to have all of these events for consideration in our risk analysis.
- Risk manager, Italy

Governance risk: For governance risks, I work closely with the CSR Department, and it is a good point, since it is not always the case in other companies. I bring them the risk mapping methodology, a non-specialist view and my knowledge of other related risks. We build a strong and complementary team.
- Risk manager, France

We have to encourage our people to be sustainability-minded and make it part of our DNA. We have formalised the CSR role, and we also work with external parties to look into various aspects of how we operate. For example, how much paper we go through, how much garbage we produce, how much electricity we use, etc. This was part of our normal being and doing, but now we have formalised the role, so it makes sure that there is really someone looking into these types of risks.
- Risk manager, Belgium
The above sample of ESG risks will also support the development of a common language on ESG risks within the organisation. It should allow the risk manager to see whether there are gaps in the existing risk catalogue.

This analysis should leave the risk manager with a picture of how ESG risks are currently managed and treated within the organisation.

Once discussed with the top management, the identified risks can be tracked in the overall risk register (or catalogue, however it's defined within your organisation), together with other business risks. A specific classification as ‘ESG-related risks’ could be highlighted as below.

**Sample of risk register/catalogue integrated with ESG-related risks:**

<table>
<thead>
<tr>
<th>N°</th>
<th>Risk description</th>
<th>ESG-related</th>
<th>Priority current year</th>
<th>Changes from previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Timely development of innovative and eco-responsible products and technologies,</td>
<td>Yes</td>
<td>High</td>
<td>New risk</td>
</tr>
<tr>
<td></td>
<td>supporting new mobility solutions in the automotive industry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Dependence on key critical suppliers that are in a single sourcing relation and/or</td>
<td>-</td>
<td>Medium</td>
<td>Confirmed</td>
</tr>
<tr>
<td></td>
<td>not financially reliable that could compromise the business operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Unfavourable change in public opinion regarding organisation's product due to</td>
<td>Yes</td>
<td>Medium</td>
<td>No change</td>
</tr>
<tr>
<td></td>
<td>perception it is no longer green or sustainable.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Since the aim of the ERM model is to focus on the main critical risks could negatively affect the achievement of strategic targets, the results of the risk identification phase will be a list of high priority risks on which to focus the next steps. Such sustainability risks will be part of that list.
Risk Assessment and Treatment

The risk assessment phase aims at estimating the potential exposure of a risk by quantifying its likelihood and impact. With regards to sustainability, the assessment must be broader. It must also consider the potential effects on the company’s stakeholders, the reputation of the company and its longevity.

Matching the risks and possible impacts to the strategic objectives of the company is fundamental in the area of sustainability. This also requires the strategic objectives to be clear!

From our discussions with risk managers, we see that a key impediment to getting the risk assessment right at this stage is a shortage of precise information. While you could argue that there is more information available on sustainability than ever before, the trick is finding the specific information that is going to tell you most about that risk. It may be relatively straightforward to assess the short-term consequences of some risks, such as a fire in a factory, but secondary impacts can be difficult to quantify.

The risk management function can be the centre of competence for risk assessment and treatment drawing on other expertise within the organisation and reducing silos. Improving cross-function collaboration may involve building stronger relationships with other functions, such as research and development and engineering, etc.

If need be, the risk scoring scales defined in the ERM framework should be revised to provide more weight to those longer-term risks.
Some examples of approaches to sustainability risk assessment

<table>
<thead>
<tr>
<th>ESG Risk</th>
<th>Analysis Approach</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk of business interruption due to extreme events (e.g., floods,</td>
<td><strong>Objective:</strong> Identify the key/strategic production plants potentially exposed to extreme weather events and evaluate the related resilience level.</td>
<td>• List of production plants potentially exposed to specific NatCat risks.</td>
</tr>
<tr>
<td>cyclones, etc.) on key company assets</td>
<td><strong>How:</strong> Using a specialised weather forecast service and related modelling of the evolution of natural catastrophic risks (NatCat) on a worldwide scale, it is possible to match the geographical location of each production plant with the NatCat exposure. Each plant and specific NatCat risk should be evaluated along with the existing counter-measures that could mitigate the consequences (e.g., site/buildings elevation, presence of underground floors, etc.). Finally estimate the potential business interruption in case of risk occurrence. Note – A second level of analysis, more structured and locally managed, could be useful, depending on available resources, to evaluate potential consequences on the company supply chain, availability of roads and transport, etc.</td>
<td>• List of existing countermeasures mitigating the risk exposure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Business interruption estimate (economic impact)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Action plan with further countermeasures to implement</td>
</tr>
<tr>
<td>Social uprising/civil disobedience in multiple countries (inspired by</td>
<td><strong>Objective:</strong> Identify any concrete effects in terms of people, business operations and company performance that this kind of event could generate.</td>
<td>• Map of company perimeter potentially exposed to risk</td>
</tr>
<tr>
<td>France’s Gilets Jaunes, for example)</td>
<td><strong>How:</strong> Map the potentially affected company perimeter (e.g., locations, countries, number of involved employees, expected timing, etc.). Define a risk scenario estimating the potential interruptions to business, key possible physical impacts to physical infrastructure and supply chain, and quantification of related economic-financial losses and any indirect effect. Map any existing/timely implemented countermeasures, such as business contingency plan, adoption of teleworking / health &amp; safety arrangements, etc.</td>
<td>• List of existing countermeasures mitigating the potential risk exposure</td>
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<td>• Risk estimate (economic/financial impact and any other indirect effects)</td>
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<td>• Action plan with further countermeasures to implement</td>
</tr>
</tbody>
</table>
Risk reporting, Communication and Disclosure

How do you report, and what do you report normally? Communication and collaboration are vital. A pre-requisite is to create and use a common language. This starts with fundamental questions such as what is sustainability to your organisation and what is a sustainability risk?

These terms must then be defined within the context of a methodology and framework, such as by integrating ESG-related risk assessment into a consolidated ERM framework. To create coherence, the company’s sustainability goals should be mapped with the risk framework across the enterprise.

The results of sustainability risk assessment can be communicated for different purposes:

1. They can become part of regular risk reporting to top management and the board of directors
   › the responsible committee at working-level (which may be audit, risk, governance or CSR) will analyse sustainability topics with a view to making the sustainability risks relevant to the overall strategic direction of management and the board.

2. Sustainability risk could be treated separately until it becomes more understood within the organisation
   › for consideration is to have a different report for the sustainability-type risks to raise attention to them. A pitfall here could be that it creates reporting overlap.

3. They will be input for sustainability self-assessment questionnaires, such as for the Carbon Disclosure Project, that require companies to describe the main risks and opportunities with regard to ESG topics.
   › Negative events may be at the same time translated in business opportunities. For example, the development of disruptive technological innovation and a consequent loss of market share could generate an opportunity to invest in other innovations that increase volumes, margins and market share.

4. They will be disclosed in the Non-Financial Reporting Statement and used as input to the materiality assessment process.
   › identified ESG risks can be associated with specific ESG aspects, then subject to a materiality evaluation in compliance with the EU Non-Financial Reporting Directive.
Chair
Valentina Paduano, ANRA

María Isabel Martínez Torre-Enciso, AGERS

Mario Ramírez Ortúzar, AGERS

Annemarie Schouw, NARIM

Adri van der Waart, NARIM

Tapio Huovinen, FINRIMA

Maja Sustersic, SI.RISK

Adriana Cavaliere, BELRIM

Alberino Battagliola, ANRA

Philippe Noirot, AMRAE

Leopold Larios, AMRAE

Zhetcho Kalitchin, BRIMA

Nataliya Todorova, AIRMIC

Secretariat
Typhaine Beauperin, FERMA

Secretariat
Charles Low, FERMA
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Task Force on Climate-Related Financial Disclosures (TCDF), Recommendations on the Task Force on Climate-related Financial Disclosures https://www.fsb-tcfd.org/


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European Climate Law https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12108-Climate-Law


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Further reading:


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