Climate Change: Value at Risk to Investment and Aviva's Strategic Response

Launch event: 24 July 2015- Aviva, London

Monica Woodley, Editorial Director, The Economist Intelligence Unit
The report warns that if a 5-6°C global temperature rise is exceeded, this is likely to translate into a 5 – 10 % loss of global assets. This is significant because, unlike stock market downturns, this change would be a permanent impairment, marking a sharp divergence towards lower growth, diminished prosperity and lower living standards. Specific impacts from a financial perspective include lower asset performance and less opportunities for investors to diversify as the impacts will be felt across an entire portfolio, even by assets not directly exposed to physical damage. The study concluded that there is no excuse for government inaction on climate change risk. There are inherent problems in the system, such as no structure for managing climate change risk exposure and governments must introduce robust carbon taxing. Indeed, COP-21 will be a wasted opportunity if concrete measures are not put in place, and will be pointless without strong reinforcement.

Mark Wilson, CEO of Aviva
Wilson outlined the business case for a low carbon future, arguing that it makes complete economic sense when looking at the increased frequency of weather events leading to rising costs to insurers and society more broadly. He reflected on the current challenge of short-term investing as undermining long-term economic growth. He announced that one of the responses Aviva is making, in reaction to this research, is investing $500m annually in renewable energy and energy efficiency projects until 2020, reflecting carbon risk in their investment decisions, using their influence to change the activities of fossil fuel companies and divesting where insufficient progress is being made, increasing their engagement with policy makers and supporting legally binding action in Paris in December.

Rt Hon Amber Rudd MP
In her first major speech as the Energy and Climate Change Secretary, Amber Rudd outlined the government's policies and actions to combat climate change as illustrated by the report. Rudd addressed the controversial withdrawal of renewable energy subsidies, and the importance of legally binding targets to be set at COP-21 in Paris later this year. See the News item page for the ClimateWise summary.

Steve Waygood, Chief Responsible Investment Officer, Aviva Investors
Waygood argued that every individual should be concerned about their own investments and should use their influence to support anti-climate change behaviours and policies. There is a need for increased efforts towards taking climate change risks into account in investment policies, that there should be standards of responsible investment to adhere to as regards climate change risks, similar to other aspects of risk analysis. Furthermore, there is need for a systemic review of investment practices in response to climate change risksas shown by the report, to address issues such as the threat of litigation and by the evolution of fiduciary duty. Waygood also discussed the issue of short-termism in investment. He emphasised that government policy is key in the push for change; that the most important action for policy is carbon pricing rather than carbon footprinting. The new report demonstrates that physical climate change is relevant to the financial sector, not just because of stranded assets, but because of underlying systemic weaknesses that will be opened up. Individual responses by those like Aviva are all very well; systemic response is needed, as individuals cannot act alone.

ClimateWise summary
The report highlighted the damaging effects that climate change is likely to have on long-term global economic growth, prosperity and standards of living. As significant investors, positive actions by the insurance industry will be crucial in support of a reduction in the risks associated with climate change. As such, insurers need to become more proactive in trying to link their investment activities with potential, systemic, benefits in their underwriting.

caroline.bentham@cisl.cam.ac.uk
@ClimateWise

UNIVERSITY OF CAMBRIDGE
INSTITUTE FOR SUSTAINABILITY LEADERSHIP

Head Office: 1 Trumpington Street, Cambridge, CB2 1QA, United Kingdom
Brussels Office: The Periclès Building, Rue de la Science 23, B-1040 Brussels, Belgium
Telephone: +44 (0)1223 768850
www.cisl.cam.ac.uk/climatewise
Patron: HRH The Prince of Wales