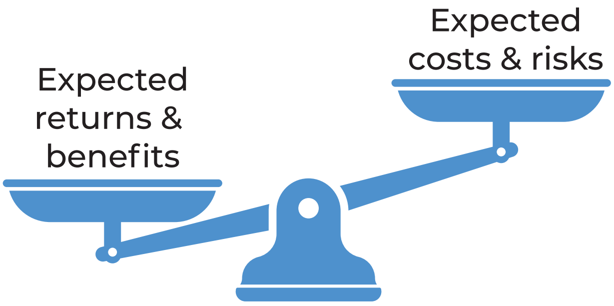
The Business Case for Adaptation



Climate change impacts, along with changes in regulatory and business landscapes in anticipation of or in response to these impacts, pose significant risks to businesses in all sectors around the world. By helping companies prepare for and reduce these risks, **adaptation** - the act of making changes in processes, practices, and structures to moderate potential damage or benefit from opportunities associated with climate change-equips companies with the tools needed to help ensure business continuity and respond to changing market and environmental conditions.

Making the **business case for adaptation** generally precedes a company's decision to invest in adaptation action, and involves weighing the expected costs and risks of proposed actions against the expected returns and benefits. While the business case for adaptation must be tailored to each company and sector, there are many overarching risks and opportunities related to climate change impacts and adaptation that affect the private sector as a whole. This brief presents an introductory overview of some of these primary risks and opportunities.

Risks of climate change to business

Physical risk

Physical risks include damage to physical assets, such as real estate and equipment, resulting from climate change impacts. This includes both rapid onset impacts, such as floods or heatwaves, or slow onset impacts, such as temperature rise or sea level rise. Such impacts can negatively affect company performance.

Price risk

Price risk arises from climate change impacts on the prices of raw materials and commodities more broadly. This can include, for example, the price of water being driven up by drought, or the price of crops being driven up by storm damage. Ultimately, these impacts result in increased price volatility.

Regulation risk

Regulation risk refers to potential business impacts resulting from the actions governments take to combat climate change, including new regulations that impose added costs of business or the withdrawal of subsidies.

Reputation risk

Reputation risk arises when the public perceives a company's or industry's actions as harmful or inadequate in the context of climate change. It encompasses the risk of a loss of profits through boycotts, damaged investor relationships, or other developments stemming from a company's action or inaction on climate change.

Liability risk

Liability risks arise when individuals, businesses, governments, or other actors seek compensation from a company for losses suffered as a result of a company's alleged contribution to the problem of climate change or their failure to adapt their practices. This might include investors seeking compensation for losses when a company fails to account for or disclose climate change risks.

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Companies must begin investing now to manage these risks and ensure the long-term viability of their business in the face of adverse climate change impacts. Underscoring this imperative, the World Economic Forum's Global Risks Report identifies extreme weather and failure of climate change adaptation and mitigation as the gravest threats in the coming decade. Recent research has shown that, in the face of these risks, there are significant blind spots in the private sector's assessment of the impacts of climate change and their plans for coping with these impacts, ranging from the magnitude and costs of physical risks to nonlinear risks and the need for radical change. Adaptation actions companies can pursue to overcome their blind spots and manage their risks encompass a wide range, from investing in climate-resilient infrastructure and communities to considering climate in procurement decisions.

> *Now more than ever it is critical for companies to consider the impact of climate change and associated mitigation and adaptation efforts on their strategies and operations and disclose related material information.*
>
> - Task force on Climate-related Financial Disclosures 2019 Status Report

Opportunities arising from climate change adaptation

In addition to avoiding damage and costs inflicted by climate change impacts, climate change adaptation efforts offer companies a wealth of opportunities. Many of these benefits, highlighted in the figure below, are the counterparts of the risks delineated above. This demonstrates how private sector adaptation action offers companies an avenue to not only prevent harm by reducing their exposure to risks, but to also achieve net-positive outcomes for their business.

Private sector adaptation

Capitalize on emerging opportunities

- Offer new products and services for understanding, planning for, and responding to climate change
- Be a leader in the growing market for climate-resilient solutions

Improve business operations and bolster competitiveness

- Increase efficiency and reduce operational costs
- Support business continuity and risk management

Build corporate brand

- Gain reputational benefits from investing in company and community resilience
- Earn social license to operate

Protect the value chain

- Preserve natural resources and invest in communities and infrastructure that are fundamental to long-term ability to do business