Managing Climate Risk:

Implications and opportunities around TCFD for companies in India

In conversation with Indian and global thought leaders on the drivers and implications for corporates in India adopting the Task Force for Climate Related Financial Disclosures (TCFD).

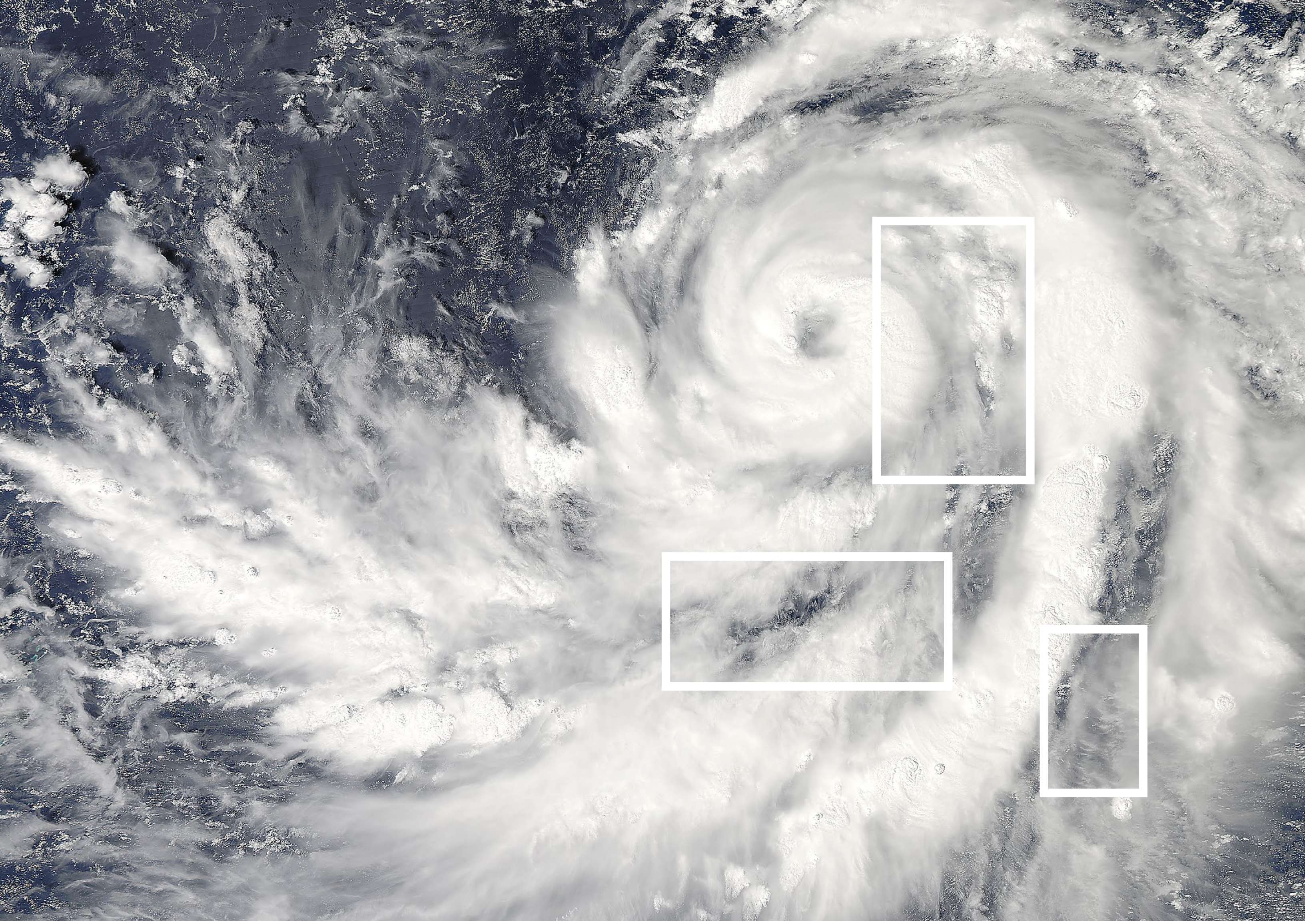
The impacts of climate change are already being felt across the world at different scales and intensity. According to a **Special Report** by the Intergovernmental Panel on Climate Change (IPCC), limiting global warming to 1.5 ˚C will require urgent and radical shifts in societies and economies, including a global transition to a lower carbon economy. Recognising that climate change presents physical and transition risks as well as opportunities for organisations, the Task Force on Climate-related Financial Disclosures (TCFD) was set up as a voluntary disclosure initiative, to support companies to assess and disclose the financial implications of climate change to their investors and shareholders. The underlying driver of this effort is the recognition that inadequate information about risks can lead to mispricing of assets and misallocation of capital, which can impact the financial stability of the economy.

Through its four pillars (Figure 1), the TCFD aims to support organisations to better understand their carbon related financial assets and their financial system's exposure to climate risks. The objective of the TCFD is to help financial and non-financial companies mainstream climate challenges and opportunities in their financial strategies and operations and enable more informed investments and decision making in the short and long term.

Figure 1: **Core elements of recommended climate related financial disclosures**

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organisation's governance around climate related risks and opportunities	Disclose the actual and potential impacts of climate related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.	Disclose how the organisation identifies, assesses and manages climate related risks.	Disclose the metrics and targets used to assess and manage relevant climate related risks and opportunities where such information is material.

South Asia is particularly vulnerable to climate change and India is ranked as the **7th most affected** country by climate change. Indian companies are gradually recognising the importance of assessing their risks from the physical impacts of climate change as well as risks arising from the country's transition to a lower-carbon economy. Thus far, 37 Indian companies are TCFD signatories, with 65% of these companies signing into TCFD in 2020 and 2021. This indicates that momentum in the climate finance disclosure space is growing.



In this context, Willis Towers Watson (WTW), India, organised a webinar on 'Managing Climate Risk: Implications and Opportunities around TCFD for Companies in India' to kickstart a conversation and deepen understanding around:

- Climate risks and opportunities to Indian businesses
- What the TCFD entails and how companies can use these recommendations to put in place systems and processes to better understand, assess, and manage the financial implications of climate risks to their businesses

The webinar drew upon experiences and opinions of a diverse set of speakers and was designed to be interactive with multiple poll questions interwoven across different sessions and a Q&A round to gauge participants' perceptions and opinions.

Speakers and panelists included:

Saurabh Mishra
Joint Secretary, Ministry of Finance, Government of India

Shikhar Jain
Principal Counsellor, Confederation of Indian Industry (CII)

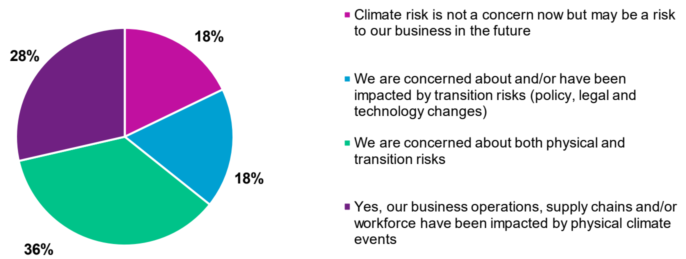
Praveen Anant
Head-Sustainability, Adani Energy Vertical

Tony Rooke
Director, Climate and Resilience Hub, Willis Towers Watson

Damandeep Singh
Director, Carbon Disclosure Project, India

Anu Jogesh
Associate Director, Climate and Resilience Hub, Willis Towers Watson (Moderator)

Figure 2: **Audience poll question: Is climate change a risk to your organisation?**

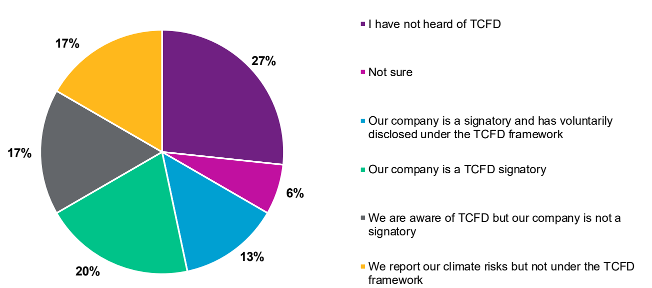


Role of the public and private sector, specifically the insurance industry, in addressing climate risks in India

Mr. Saurabh Mishra, Joint Secretary, Ministry of Finance, set the Indian climate policy and regulatory context. He acknowledged that the magnitude and intensity of climate change in India requires urgent action. He spoke about the government's efforts at tackling climate change through policies like the National Action Plan for Climate Change (NAPCC), India's commitment to the Paris Agreement, and setting up the Coalition for Disaster Resilient Infrastructure (CDRI), a multi-stakeholder global partnership. He noted that regulatory bodies like the Reserve Bank of India (RBI) and The Insurance Regulatory and Development Authority (IRDAI) have acknowledged the impact of climate change to the financial sector.

Specifically, Mr Mishra highlighted the importance of involving insurers and insurance intermediaries in climate risk assessments as they have a pool of risk exposure and loss data in place along with analytic tools that help quantify the risk companies and organisations are exposed to. There is a need to build consistent logic through developing an integrated view on insurance underwriting and investment. He concluded his presentation by stating that climate risk assessment and management needs to be mainstreamed in the planning process by companies, regulators need to collaborate with experts to provide a clear roadmap and more companies need to adopt the TCFD guidelines.

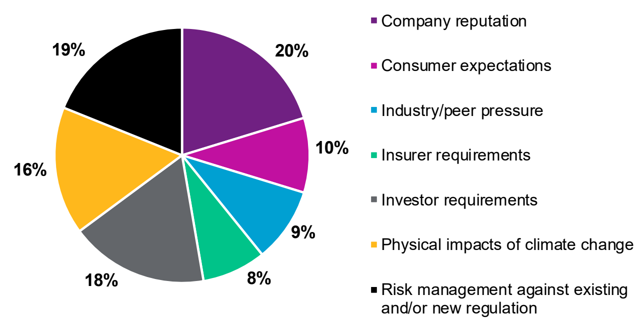
Figure 3: **Audience poll question: To what extent has your organisation engaged with the Task-force for Climate related Financial Disclosures?**



TCFD adoption in India: Trends, implications, challenges, and opportunities

Mr. Shikhar Jain, Principal Counsellor, CII shared the industry association's perspective during the session. While CII has been involved in carbon disclosure, foot printing and neutrality, the organisation has found it challenging to bring financial institutions on board. TCFD signatories have started identifying and assessing physical and transition risks, however some key challenges that CII faces while engaging with companies are securing board level buy-in, limited experience of companies in conducting climate change scenario analysis and quantification of financial impact, and lack of investor awareness in certain geographies. Indian companies therefore have a lot of ground to cover. There is a strong need to build capacity and provide technical guidance to Indian companies for climate related financial disclosures. Mr Jain also added that identifying opportunities arising out of better climate risk assessment and management can be drivers of change such as more informed strategic planning, improved evaluation, pricing, and management of climate risks in markets, easier and better access to capital through increased investor and lender confidence, improved preparedness for new regulations and long-term competitive advantage for companies.

Figure 4: **Audience poll question: What are your organisation's current, or likely future, drivers in engaging with the TCFD?**



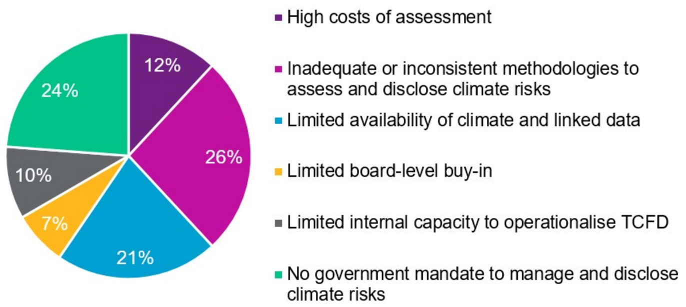
TCFD disclosure journey: Getting started and lessons learned

Mr. Praveen Anant, Head- Sustainability, Adani Energy Vertical shared his company's experience of making disclosures under TCFD, including the motivation and challenges for companies in the electric utility sector. He noted that the National Energy Policy which focuses on energy security and transition to clean energy, as well as risks and opportunities in India transitioning to a low carbon economy are some key drivers for electric utility companies to become TCFD signatories.

With two board level committees (the "Sustainability and Corporate Social Responsibility (CSR) Committee and Risk Management Committee"), in place, all listed companies in Adani Energy Vertical, that are Adani Power Limited (APL), Adani Transmission Limited (ATL) and Adani Green Energy Limited (AGEL) has Board level oversight on TCFD-linked policies and strategies, and targets to ensure integration of climate concerns at the governance, strategy, risk management level, and in the company's metrics and targets. In addition, building a robust management framework is one of the company's key pillars. The Apex Sustainability Committee (ASC) chaired by the head of management identifies climate related physical and market transition risks and opportunities. APL and ATL is also working towards aligning intrinsic and extrinsic motivational drivers of its employees with Environmental, Social, and Corporate Governance (ESG) efforts.

Going forward, the company aims to set up a framework for internal carbon pricing, conduct a sensitivity analysis of its operational units, integrate climate scenarios into project planning and focus on balancing its energy mix as a step towards Net Zero Emissions. Mr. Anant concluded his presentation by stating that investors are already interested in climate resilient businesses. Indian businesses need to identify this opportunity and change their viewpoint accordingly.

Figure 5: **Audience poll question: What would your organisation find most challenging in making TCFD disclosures?**



Global best practices and recommendations

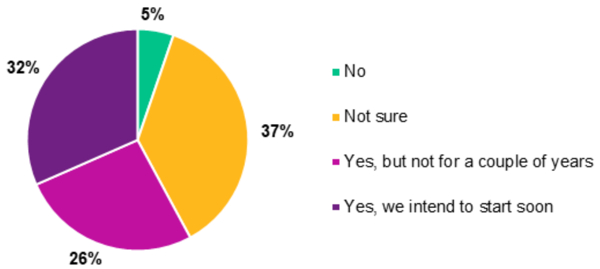
Dr. Tony Rooke, Director, Climate and Resilience Hub, Willis Towers Watson, discussed the status of TCFD adoption globally, the regulatory mechanisms in place for climate related disclosures, and the maturity of companies in making disclosures. TCFD has been gaining regulatory attention with ongoing discussions in countries such as UK, New Zealand and Switzerland to make climate risk disclosure mandatory. Various international organisations such as the United Nations Environment Programme Finance Initiative (UNEP- FI), the G20 forum and the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) have been instrumental in driving climate risk mitigation and identifying climate related opportunities for managing systemic risks to the global economy.

Disclosing under TCFD and other frameworks such as the CDP is highly important to demonstrate to multiple stakeholders, such as governments and financial institutions, progress towards the Paris agreement. This is particularly relevant through the setting of Paris-meaningful emissions reductions targets, as accredited by the Science Based Targets initiative (SBTi), as over 63% of countries have set net-zero targets, which will require businesses, financial institutions and governments to work together to achieve. Focussing on the Indian context, Dr. Rooke observed that recognition of risks and opportunities presented by the impacts of climate change are mostly driven by physical risk and regulation. This is different to the global scenario where most companies are switching attention to transition risks as more immediate manifestations of climate risk. In India, on the other hand, reported transition risks are about a third of physical risks reported.

Willis Towers Watson, one of the world's leading risk advisory companies, became a TCFD signatory in 2017 and is uniquely positioned to implement TCFD with its clients and help them strategically in understanding and assessing climate risks, maximising opportunities, and meeting their disclosure requirements, further illustrated in Figure 6.

Figure 6: **How Willis Towers Watson can support organisations to understand climate risk and maximise opportunity**

Figure 7: **Audience poll question: Do you think your organisation needs to become a signatory and make a TCFD disclosure?**



Panel Discussion: Ensuring TCFD is more than a tick-boxing exercise: What can companies do to assess and manage climate risks?

Following presentations by key speakers, a panel discussion was conducted to further delve into companies' drivers and incentives in assessing and managing climate risks and how organisations can overcome existing challenges in disclosing under TCFD.

The discussion was moderated by Ms. Anu Jogesh, Associate Director, Climate and Resilience Hub, Willis Towers Watson and included Mr. Shikhar Jain, Mr. Praveen Anant, Dr. Tony Rooke and Mr. Damandeep Singh, Director, CDP India. Key takeaways from the panel discussion include:

Dr. Rooke: By using TCFD as a tick boxing exercise, companies will fail to realise the value and miss the opportunities climate related disclosure entail. TCFD can be used as a strategic planning tool to build resilience to physical, transition and liability risks as well as spot opportunities. Climate related disclosures also help demonstrate to markets, clients, customers, and employees that companies take the issue seriously. TCFD can also help drive cost savings. Data is a key element, underpinning all disclosure related action. Bonuses tied to staff performance can be an important incentive to embed this strategic priority into the organisation.

Shikhar Jain: Availability of resources for the scale and scope of work required to disclose is a challenge for the private sector. There is a need to build awareness around TCFD and put in place data points both at the provincial and national levels in India to justify reporting and actions. India needs to focus on climate data needs of different stakeholders. The financial and scientific fraternities can be of help in this regard.

Praveen Anant: There is a clear dichotomy between climate related disclosures being market driven vs. being led by regulatory mechanisms. Climate related disclosure and climate action can be market driven as the process entails significant opportunities. In addition, the government can also incentivise action. For example, the **Perform Achieve and Trade** (PAT) scheme is already in place targeting energy efficiency improvements.

Damandeep Singh: Globally, it has been a challenge for companies to bring about structural changes in existing governance frameworks and institutional mechanisms to mainstream climate change. It is important to generate a public debate around disclosing climate risks. Along with board level oversight, companies need to allocate more resources to disclosure to ensure formation of requisite strategy and data collection methods. CDP is working towards building a scenario analysis toolkit to support disclosure processes. Most standardized frameworks, like the one we use at CDP has already aligned their questionnaires with TCFD, disclosing through which will empower businesses to measure their environmental impact and take urgent climate action.

Audience Q&A

Q: How do you see risks emerging from legacy long-term contracts that DISCOMs have with coal-based generators?

If the TCFD framework is used wisely for identifying risks and opportunities, long term contracts can be honoured with more ease. In the long term, there might be incentives in place for honouring contracts. From a global perspective, coal power stations aim to reduce their emissions. There are two major drivers in the energy sector. Price of renewables has considerably reduced over the past few years, making it cheaper to build renewables. Secondly, coal plants do not necessarily need to be decommissioned, rather the focus can be on improving their efficiency.

Q: What tools / resources can be looked at when it comes to India specific scenario analysis both Physical and Transition?

Currently, states in India have been developing physical climate risk and vulnerability assessments using downscaled CORDEX data from the Indian Institute of Tropical Meteorology (IITM). However, this data is disaggregated, making it challenging to access and use them pan-India for physical risk assessments. As part of the SBTi methodology, CDP has been taking global scenarios and emissions data, and modelling them down to specific requirements of companies. For this purpose, CDP has set up an SBT incubator.

Q. TCFD has a Preparer Forum for different industries. Is there a similar group that has been created for helping Indian companies?

The TCFD framework has been integrated into the CDP questionnaire, providing the opportunity for companies disclosing under CDP to be TCFD compliant as well as influence strategies. CDP's outputs from the questionnaire can help in TCFD filings. The CDP questionnaire helps shape thinking, understand climate issues and think about climate risks and scenarios and how to prepare for the future accordingly. Alongside, CII has stepped up and introduced the CAP 2.0° programme for businesses to become climate resilient. A lot of industry associations are taking initiative and preparing companies. There is definitely a lot of synergy and action required across various platforms.

Q: How is the government considering climate risk for coastal cities and new public infrastructure which is under development or planned?

Infrastructure development is a key focus area in India's Union Budget, 2021, with the government of India announcing a National Infrastructure Pipeline (NIP) consisting of close to 7,000 projects with the purpose of reviving the country's post COVID economy. This provides an opportunity to integrate climate resilience across various infrastructure projects in the country, as indicated by the country's Finance Minister who urged advanced economies to scale up climate financing commitments and assist emerging economies in building climate resilient infrastructure. Existing policies, strategies and initiatives such as The National Mission on Sustainable Habitats, one of the eight missions under the NAPCC, the Smart Cities initiatives, and City Resilience Strategies[1], (completed for 13 cities), such as the **Surat Resilience Strategy** specifically focus on building resilience of cities, including coastal cities, to climate change.

Q: How many Indian companies are currently signatories of TCFD? What sectors do they belong to?

As of 2021, 37 Indian companies are signatories of TCFD spanning energy, utilities, industrials, materials, financials, consumer discretionary, real estate, health care and information technology sectors.

1 Prepared under the Asian Cities Climate Change Resilience Network (ACCCRN) – Translation and Scaling Up Project supported by Rockefeller Foundation.

Concluding remarks

It is important to recognise that climate change is a complex and systemic issue and there are considerable challenges that companies may face in re-structuring their business processes in alignment with TCFD recommendations. However, the impact of COVID on the global economy indicates the urgent need to assess systemic risks and their short-term and long-term impacts on businesses, economies and people. Climate change is a systemic risk, with deep sectoral interdependencies and largely nonlinear impacts. In the climate related disclosure space in India, it is heartening to see that companies are gradually coming forward. Further deliberations are needed on how other companies can be brought on board to recognise and address physical and transition risks more effectively.

Several Willis Towers Watson clients have sought guidance on how to best manage and mitigate climate risks and this webinar is just the beginning of many such initiatives to share most relevant views and best practices in the climate related disclosure space from around the world.

For more information or to chart your organisations path towards a more climate resilient future, **write to us.**

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