

# A path through uncertainty

If board members are seeking certainty about the physical risks of climate change, they're sure to be disappointed, says Energetics CEO Dr Mary Stewart GAICD.



Dr Mary Stewart GAICD, CEO of climate risk and energy transition consulting firm Energetics, says uncertainty is only set to increase and boards must build resilience in the face of the climate risk challenge.

"Boards need to understand that the transition required to reach net zero is only part of the challenge. The physical risks accompanying climate change, can't be assessed with a flat matrix model. You must shore up your business, and business model, for the changing natural environment, while making sure the decisions you make don't lock you into a pathway that's untenable in 2030 or 2040. These decisions aren't easy, but they can't be avoided. The only wrong decision is the decision not to act. Companies have to find a path through uncertainty."

APRA and ASIC cite the guidance of the Taskforce on Climate-related Financial Disclosures as best practice for disclosing the financial implications of climate risk. The framework identifies two main classes of climate risk — the

transition to a lower-carbon economy; and the physical impacts of climate change, such as natural disasters.

"It's unlikely that one strategy will address both areas of risk," says Stewart. "For instance, physical risk requires looking at each of your assets and asking questions like, what happens if there is catastrophic bushfire, or if we have another summer of severe rains? What happens to my workforce if they can't do their jobs because of a natural disaster?"

ASIC has also raised the issue of liability risks. "This is a risk of litigation if you don't adequately address transition and physical risks," says Stewart. "Directors need the ability to engage with an ongoing stream of bad news and to personally manage their way through that, because when it comes to climate, the age of plenty is over."

Boards must also build intuition about climate change. "Many directors have an intuition about cyber risk or financial risk, but they have to skill themselves up on understanding

climate risk," says Stewart. "They have to engage with the science."

In addition to providing climate strategy advice, Energetics works with boards to build their climate capacity.

"A lot of consultants in this space talk to the opportunity in transitioning to net zero — and there is absolutely an opportunity," says Stewart. "But achieving net zero is a difficult task, and you can't only sell the upside. When it comes to addressing the physical changes underway in the climate, you need resilience, because there's not always good news. Turning physical risk into opportunity is certainly possible, because businesses need to evolve to meet the needs of a changing marketplace, but directors must first face up to the scale of the risk and build their knowledge."

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