

SUMMARY OF KEY MESSAGES

October 2024



Summary of key messages

What is this?

The guide is aimed at asset managers, banks, insurers and data providers facilitating capital allocation in the UK but also internationally. It provides guidance to financial institutions wishing to better understand and price physical climate change-related risks – and facilitate increased levels of investment into adaptation to respond to that risk as an opportunity.

The guidance and tools provided can be used to:

- Support the development of adaptation-inclusive transition plans.
- Support financial risk management and disclosure.
- Identify and create new adaptation-focused opportunities.

Who should use it?

- Banks – mortgage portfolio managers; corporate and investment banking client relationship managers especially working in real estate, infrastructure and agriculture; business development; risk management; and sustainability strategy/reporting teams.
- Asset managers – ESG and stewardship/engagement teams; real estate and infrastructure investment; risk management; business development; sustainability strategy/reporting teams.
- Insurers – client/business development managers; risk management; and sustainability strategy/reporting teams.

What is in it?

An introduction to the adaptation opportunity – and current barriers facing financial institutions in deploying capital to solutions.

Advice from the scientific community on how to start to overcome those barriers – including through improving scenario analysis. Advice focus on which climate scenarios and datasets should be ideally used by the finance sector over differing timescales.

For the short-term (up to 5 years) advice is the focus should be on understanding weather variability, and using local hazard data to support analysis with a particular focus on understanding potential tail risks. A database of hazard data sources is provided to support financial institutions in this endeavour. It is important to recognise that the present day period has already experienced climate change.

Looking out beyond approximately 5 to 10 years, further climate change must be considered, with the uncertainty in the climate response taken into account. Beyond roughly 10 years, users will need to consider both different possible emissions pathways and also climate response uncertainties.

We suggest an **Aim-Build-Contingency (ABC framework)** be used to support for decision-making under uncertainty. Here we have labelled the scenarios with the global warming up to 2050 relative to pre-industrial times, but firms may perform the risk assessment beyond 2050 if appropriate:

- **Aiming** for 1.5°C (a suitable proxy for this is the IPCC's SSP1-1.9 pathway and taking the median climate response).
- **Building and budgeting** for 2°C by 2050 (the best proxy for this is the IPCC's SSP2-4.5 scenario and taking the median climate response).
- **Contingency planning** for 2.5°C by 2050 (this is represented by the IPCC's SSP3-7.0 pathway, and taking the 95th percentile of the climate response).

It is possible to substitute appropriate NGFS scenarios for the IPCC scenarios in some cases. This is covered in Section 3, of the report.

Through the report, we provide examples of how this framework can be used in different forms of adaptation decisions, including improving risks assessments, client and investee company engagement and product development. Finally, proposals are included on the opportunities for policy makers and regulators to also accelerate action.

What else is relevant?

Alongside the report is provided the following:

- A set of adaptation finance-focused case studies.
- A summary of the results of a survey of CFRF AWG members and data providers on sources of physical risk data current in use.
- A searchable database of hazard data sources.
- A searchable taxonomy database.

The guidance also references and builds upon the work of others, notably: IIGCC – Physical Climate Risk Assessment Methodology, UNEP FI – Climate Adaptation Target Setting Guidance, CBI – Climate Resilience Principles, CCC's Investment for a Well Adapted UK , GFI-Oxford Mission Climate Ready, OECD-Oxford Framework for Climate Resilient Finance and Investment, CISL's 2022 report and 2019, The Triple Resilience Dividend concept and its application across sectors and geographies, Oxford Guidance on Adaptation Targets and Metrics, TCFD Guidance on Risk Management Integration and Disclosure and previous CFRF Scenario analysis and Risk Management reports.

How recently was it written?

To be published in October 2024.