India Inc can no longer ignore climate shocks

By at least one estimate, India has lost about $80 billion dollars in the last 20 years to climate-related disasters. And that number is expected to escalate. But is corporate India sufficiently aware of climate risks and has it put in place mechanisms to address it? Or will companies play catch-up?

Available climate data supports an increase in the magnitude and frequency of climate-linked events, projected to further affect agriculture productivity, impact infrastructure assets and services, reduce productivity of labour force, cause supply chain disruptions to companies and result in financial losses to businesses. Equally costly going forward is the economic fallout of the global transition to a low carbon economy. The recent CDP report calculated that 42 Indian companies together foresee a ₹714000 crores at risk from climate change, both from physical and transition risks. It is thus imperative that the public and the private sector build back sustainably, with an eye on mapping and managing climate-related future shocks.

Globally, the private sector has put its weight behind the Task Force for Climate Related Financial Disclosures or TCFD. TCFD is seen as a key platform and framework for businesses to asses, manage, and disclose the financial impacts of climate change. In India, 43 companies have signed up to the TCFD, with 72% of the Indian signatories coming on board in 2020 and 2021. Several factors are likely driving this new momentum, including greater board level awareness, growing investor pressure, and physical climate impacts increasingly disrupting business continuity.

So, India Inc has begun acknowledging climate risks to its business, however, concrete efforts are still nascent. While there is greater momentum around ESG reporting, company initiatives tend to focus on driving stewardship rather than addressing material risks to operations and value chains. Moreover, sustainability reports are largely disparate and do not allow for any comparability or industry benchmarking. Finally, very few companies are quantifying their current and future climate risks in financial terms. For the nascent but growing companies wanting to tackle climate change, there are two key challenges; limited access to complex datasets and tools to assess their risks, and lack of a government framework or mandate to undertake these efforts.

These bottlenecks must be addressed. First, to build greater appetite for action, stakeholders from the climate and business space need to come together to raise awareness and make a business case around the economic costs of climate inaction.

Second, companies who are signing up to do more need to tap into global efforts at building frameworks and methodologies for businesses to assess and disclose their climate risks. In addition, insurers and insurance intermediaries have sophisticated risk exposure and loss data to quantify physical risks.

Finally, in terms of a public sector mandate, while India has not officially endorsed the TCFD, in the last month, two key initiatives have provided some regulatory push. SEBI released its latest Business Responsibility and Sustainability Reporting (BRSR) format, and the Reserve Bank of India (*RBI*) joined the Central Banks and Supervisors Network for Greening the Financial System (*NGFS*). The BRSR guidelines, applicable to the top 1000 companies by market capitalization, require companies to disclose their energy and water usage, and plans around their GHG emission reduction. More broadly the guidelines ask companies to quantify material risks and opportunities to their businesses. In addition, RBI's membership to the NGFS is hopefully the first step for the central bank to apply global best practices on the management of climate risk for the financial sector.

Building company resilience to climate change should be viewed as a shared mandate to a more resilient economy. It is imperative that current economic recovery efforts, both by the public and private sector, put in place systems and governance processes to better mainstream climate risks.

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