Why is climate risk management rising up the agenda of investors?

A recent poll claimed that Britons spent around 6 months of their life talking about the weather. I'll withhold comment around whether I'm surprised that the figure isn't higher, but it's safe to say 2023's weather events already provided plenty of talking points.

Last month was the hottest June on record in the UK, and large parts of Europe are experiencing a severe drought, following 2022's once-in-500 years drought. In East Africa droughts led to some of the worst levels of famine the region had seen for 40 years. Heatwaves across India and Pakistan reached the highest levels recorded, creating land-surface temperatures of *65ºC*. 2023 has carried on where last year left off with Arizona recently hitting 46ºC and severe flooding in China and Chile which declared a state of disaster.

We know that these extreme weather events are occurring more frequently and with increased severity. We also understand how climate change is driving these events, even *supercharging* them. As the likelihood of being affected by these climate-fuelled weather impacts escalates, the need to develop robust and effective approaches to managing and minimising these risks is inescapable.

The cause for concern is apparent, but there is some room for optimism too. Encouragingly, innovators are responding to the clear and apparent need for climate action and the appetite from investors is thriving.

Last year, climate tech raised *$82B*, meanwhile, its fledgling sub-sector, climate fintech, where startups drive decarbonisation through the financial sector, rose to *$2.9B* a 2.4x annual increase. The scale of capital raised and growth in this young space highlights the shift in investors' attitudes towards climate change, the commitment to finding innovative solutions and the levels of conviction to back these founders with larger sums.

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Climate risks are broadly categorised as either 'physical' risks or 'transition' risks by the Taskforce on Climate-Related Financial Disclosures (*TCFD*). Physical risks are those that directly affect us, and can be acute – such as floods – or chronic – as in rising sea levels. On the other hand, transition risks are those that emerge as we move towards a lower-carbon economy, and take into account legal, policy, market and reputational factors.

It's now obvious that any meaningful long-term business strategy will have to take into account these risks, mitigating and building resilience to the relevant threats in their geographies and sectors. Helpfully, broad climate-specific risk disclosures are being introduced in the shape of the UK's *SDR*, the US' *S.E.C rules* and the EU's *CSRD*, combining to force the recognition and disclosure of climate-related risks into business as standard.

As every industry and geography responds to its climate-related risks, the need is clear for expert advisors, tools and solutions to support businesses on their journey to fully understand their exposure to these risks in meaningful detail, as well as their efforts to minimise harmful impacts.

This need is reflected in the *statistics* that show 2022's funding volumes in the climate risk space increased to $343M (from $304M in 2021). One of the earliest climate fintech niches to establish itself, alongside the likes of carbon accounting and carbon offsetting, climate risk management's growing maturity is reinforced by the increasing amount of larger sums of later-stage capital from investors.

It's undeniably true that the funding landscape has slowed down considerably in recent times. However, the convergence of a huge addressable market, a supportive regulatory environment and rising demand from corporates and investors means that the climate risk management space is set to grow further – bringing innovators like *ClimateX* or *Kita* into centre-stage.

As Kita's founder and CEO Natalia Dorfman points out, "*climate change is accelerating and thus the risk of climate change related impacts is also accelerating. The risks will at some point be too large for 'risk' industries to handle, which is a disaster as insurance is essential to rebuilding after crises such as natural disasters*".

So, while clouds are certainly on the horizon, it's by recognising the need for action and embedding climate risk management into industries and sectors around the world that we can protect societies against some of climate change's most harmful impacts and ensure that our businesses can continue to compete and grow.

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