

# Spotlight On Environmental Risk 2023



# Executive Summary

**From natural catastrophes to fast evolving regulation and increasing media scrutiny of environmental liability risks, climate change and the energy transition will have a far-reaching, global impact on the future of risk management.**

The pace of environmental change is set to define business decision-making for years to come and reshape how businesses approach risk.

However, our survey of 2,000 global business **leaders** revealed that, for many, dealing with the immediate pressures of energy transition in an uncertain geopolitical landscape and accountability for greenhouse gas emissions on the journey to net zero are proving a distraction from dealing with the overarching, immense threat posed by climate change itself.

This latest **Spotlight On Environmental Risk** report explores what it will mean for executives as they continue to prioritise short-term environmental challenges over the bigger picture. We also explore the essential role of insurance in mitigating environmental risks that are emerging today and those further out on the horizon.

Nations working to realise net zero milestones are facing increasing scrutiny and legal challenges, and individual companies are finding that their sustainability positions are being forensically analysed for any evidence of 'greenwashing'.

This report paints a picture of a business world in turmoil. Executives are growing more aware of the threat of climate change, yet continue to firefight one immediate crisis to the next. Achieving a critical mass of business leaders who can step back, see the wood from the trees and adopt the long-term thinking and actions necessary seems further away than ever.

Insurance has a clear and crucial role to play in supporting a responsible energy transition. The growing divergence between awareness and action, risk versus resilience, should serve as a wakeup call. Our industry needs to step forward.



# Businesses overlook climate change as energy transition dominates

## But is business optimism for a quick resolution to energy transition issues justified?

February marked the first anniversary of the conflict in Ukraine. The rupturing of peace in Europe shaped global debate and captured the focus of boardrooms. From supply chain disruption to energy, the impact has been immense.

In the latest edition of our **Spotlight On Environmental Risk**, we can see how the perception of risks, both man-made and natural, which affect our environments are changing. The energy transition, undoubtedly linked to the Russian invasion of Ukraine, has become the key area of concern globally. Yet businesses do not expect this to last. Executives appear to believe the problem will dissipate, possibly linked to peace in Europe and a swift resolution of the conflict. But is this optimism justified?

Some of the **key findings** from this year's report include:

22%



of businesses believe **energy transition risk** is the **number one environmental risk** they are concerned about today, jumping from 8% in 2021

Yet, only

9%



predict that it will be their **top environmental risk in 12 months' time**

34%

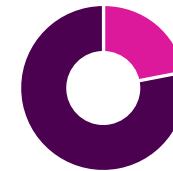


in the US predict that **climate change** will be the **biggest risk they will face in 12 months' time**

### Energy transition risk by market



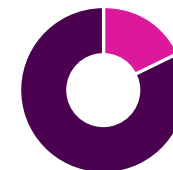
27%  
United Kingdom



22%  
Canada



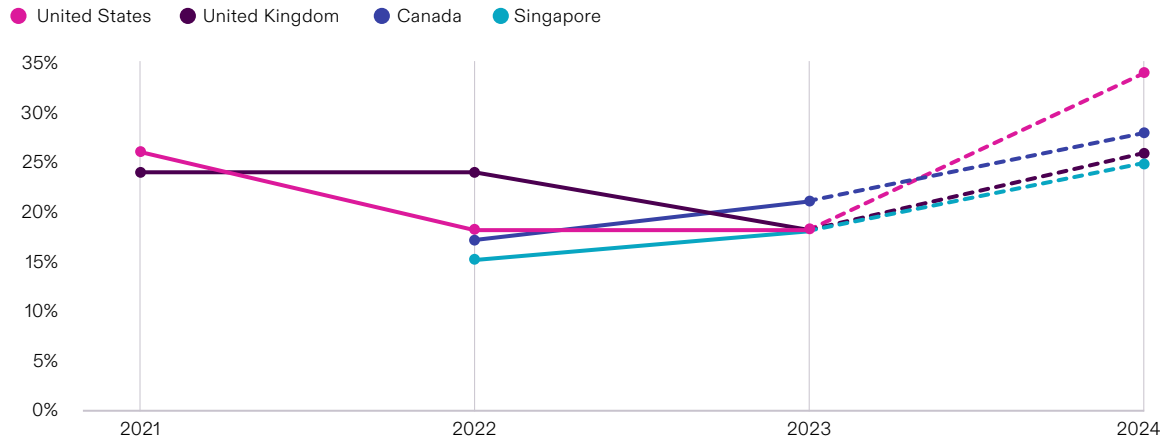
21%  
Singapore



18%  
United States  
percentage of business leaders that view the energy transition as their top environmental risk currently

### Climate change risk to leap into lead position in 2024

Percentage of executives ranking climate change as their top risk now and in 12 months' time

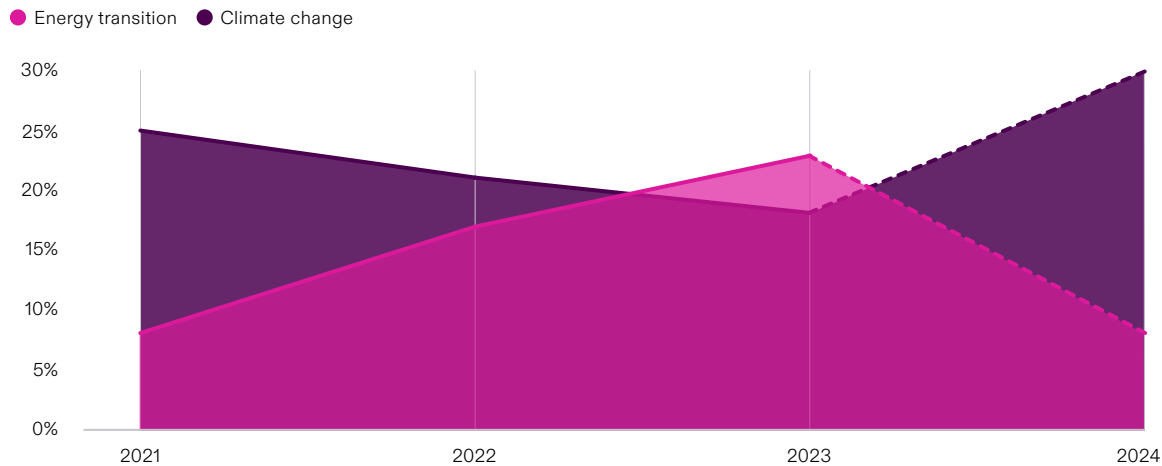


Across the globe, business leaders view the current climate change risk as considerably lower today than it will be in 12 months' time, as the graph on the left shows. The gulf between expected and actual risk is widening significantly year-on-year with a quarter of global business leaders saying they are unprepared for the impact of climate change.

The widespread disruption to energy transition plans triggered by the war in Ukraine, coupled with the increasingly severe impacts of weather changes, mean that environmental risks are generally no longer an afterthought. While this statement would seem intuitive, our data shows how this risk has rapidly progressed over the past three years from the periphery to occupy the foreground of future business planning.

### Short-term energy transition concerns dominate today

Change in environmental risk perception (UK & US)



## What's the link between 1666 and a new cargo ship?

Pressure to adapt to a greener future is felt acutely in the transportation sector, with three in ten (30%) business leaders stating they do not feel prepared for the risks of energy transition – versus 25% of all businesses.

Owners like those of vast cargo ships that can be a quarter of a mile in length are having to adapt rapidly for changing international decarbonisation requirements, which can mean equipping existing ships to use more than one fuel type and new vessels with entirely new technology, engineering, and safety management protocols. The cost of getting this wrong could be devastating financially and for the environment.

Kelly Malynn, Product Leader Cyber Physical Damage, ESG Strategy – Marine, discusses how the marine industry, a crucial sector in the efforts to reach net zero by 2050, is adapting its fleets and processes and the challenges this presents for shipowners, underwriters and legislators.

# 3 in 10



global business leaders in the transportation sector say they **do not feel prepared** for the risks of energy transition – versus **25% of all businesses**

“

Assisting with mitigating the risk associated with fuel transition, is comparable to the requirements for fire insurance, post the fire of London, and it's where insurance has the opportunity to make a tangible difference”

**Kelly Malynn**  
Product Leader Cyber Physical Damage, ESG Strategy – Marine



## A green revolution or return to old habits?

Where and how businesses obtain their energy has rapidly become a subject of significant concern. The problem facing business leaders in the short-term is that the renewables sector is unable to scale up fast enough to counterbalance the desired immediate withdrawal from Russian fossil fuels, and long-term withdrawal from fossil fuels more generally.

This does not mean that business ambition has dimmed. And in every market, the risks created by energy transition are expected to reduce so that in 12 months' time it will represent the environmental risk of least concern. However, this does not mean that the collective efforts to secure new sources of non-Russian energy will be green solutions - at least not immediately.

When faced with near-term versus longer-term risks, there is little doubt that business leaders, focused on delivering consistent, positive, quarterly reporting, will find it easier to take short-term action to solve the problem.

Globally, optimism is growing around the transition from fossil fuels to low-carbon energy sources, with less than one in ten (9%) of our survey respondents expecting the associated costs to be their main environmental challenge in 12 months' time. A perceived sense of optimism around the energy transition could stem from the fact that companies have already made business-critical changes in order to survive the uncertain geopolitical environment, which also happen to improve the sustainability of their operations.

Less than

# 1 in 10



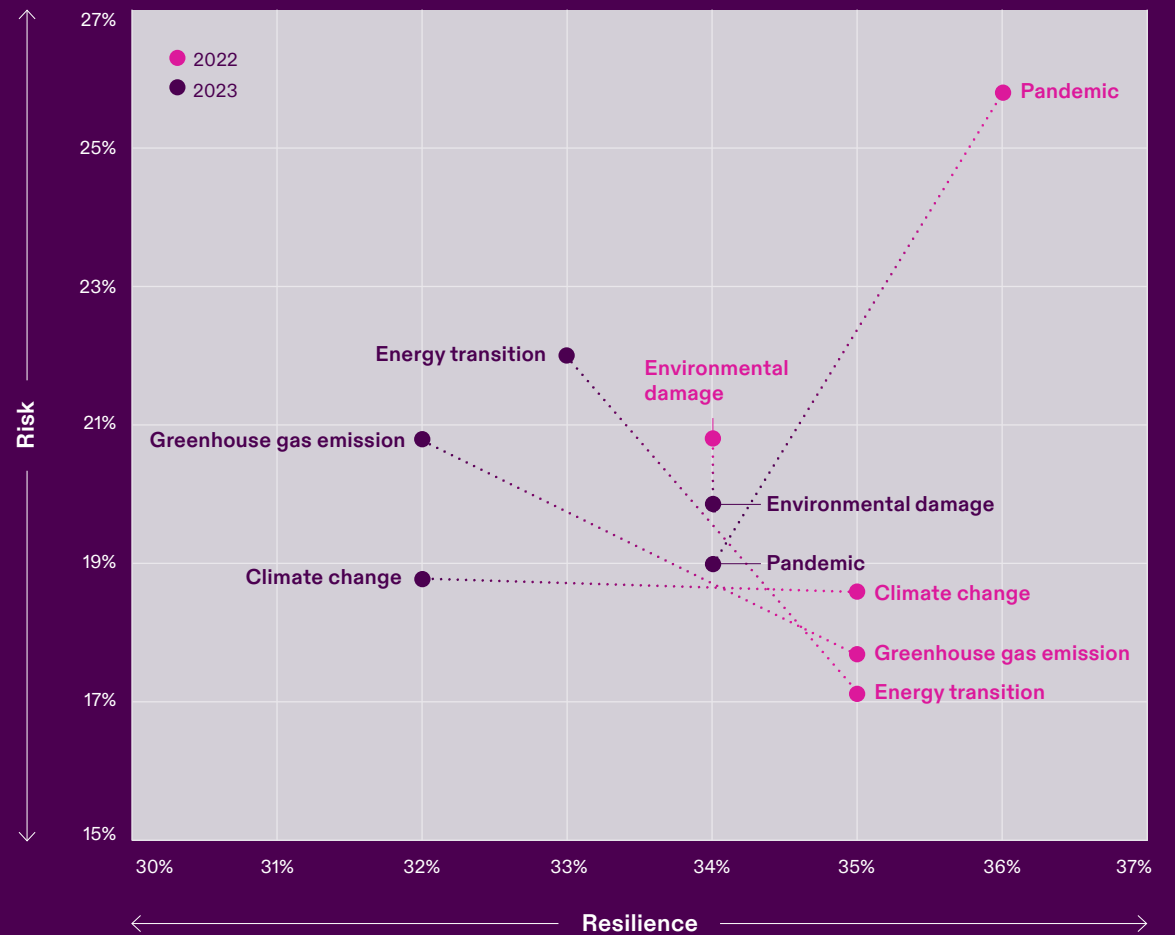
of our survey respondents are expecting the **associated costs of energy transition to be their main environmental challenge** in 12 months' time

# Resilience falls sharply

Just as environmental risks are climbing up the agenda, so business confidence in its resilience is dropping fast. Clearly, the impact on energy resources of the Ukraine war over the last 12 months has had a significant impact on thinking and perception of resilience to environmental risks.

## Environmental and climate resilience declines globally

Global year-on-year change of business' risk and resilience to environmental issues 2022-23



## Short-term gain, long-term pain?

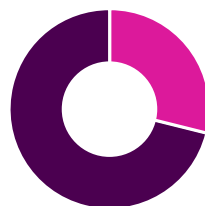
The long-term risk posed by climate change is now near or at the top of boardroom agendas globally. Our data shows how this risk has rapidly progressed from the periphery to occupy the foreground of future business planning (2022: 19% 2023: 28%).

Yet, while business leaders see the long-term threat posed by climate change as a grave concern, their perception of the immediate threat remains unchanged (2022: 19% - 2023: 19%). This dynamic is creating a widening gulf between the attention paid to climate change today, and action businesses must take to be resilient in the future to a risk they acknowledge is intensifying.

No other country is more keenly aware of the long-term threat of climate change than the US. Perhaps this is unsurprising given the myriad of increasingly severe impacts from climate change which have been felt across different states.

Over the past six months alone, the US was exposed to the full gamut of catastrophic events from hurricanes and floods to wildfires and convective storms. However, recognition of the threat has left more businesses feeling exposed, with 29% now saying they feel unprepared for the risks posed by climate change, increasing from 15% last year.

At the other end of the spectrum, US businesses which feel very prepared for climate change have plummeted from 42% in 2022 to just 29% today. This declining confidence may also, in part, be attributed to the growing financial exposure to climate change litigation.



# 29%

of businesses surveyed now feel **exposed and unprepared for the risks posed by climate change**, increasing from 15% last year

### Applying positive pressure

The energy transition, undoubtedly linked to the Russian invasion of Ukraine, has become the key area of concern globally. For business leaders facing this immediate crisis, it is unsurprising that the focus is on mitigating the short-term impacts rather than focusing on the steps they need to take to adapt for the long-term. However, the current low levels of resilience that many business leaders feel in the face of climate change, coupled with the reality of the effects we have seen over the past 12 months, means a change of mindset is urgently needed.

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**Bob Quane**  
Chief Underwriting  
Officer, Beazley





# Size and sector impact preparedness and risk awareness

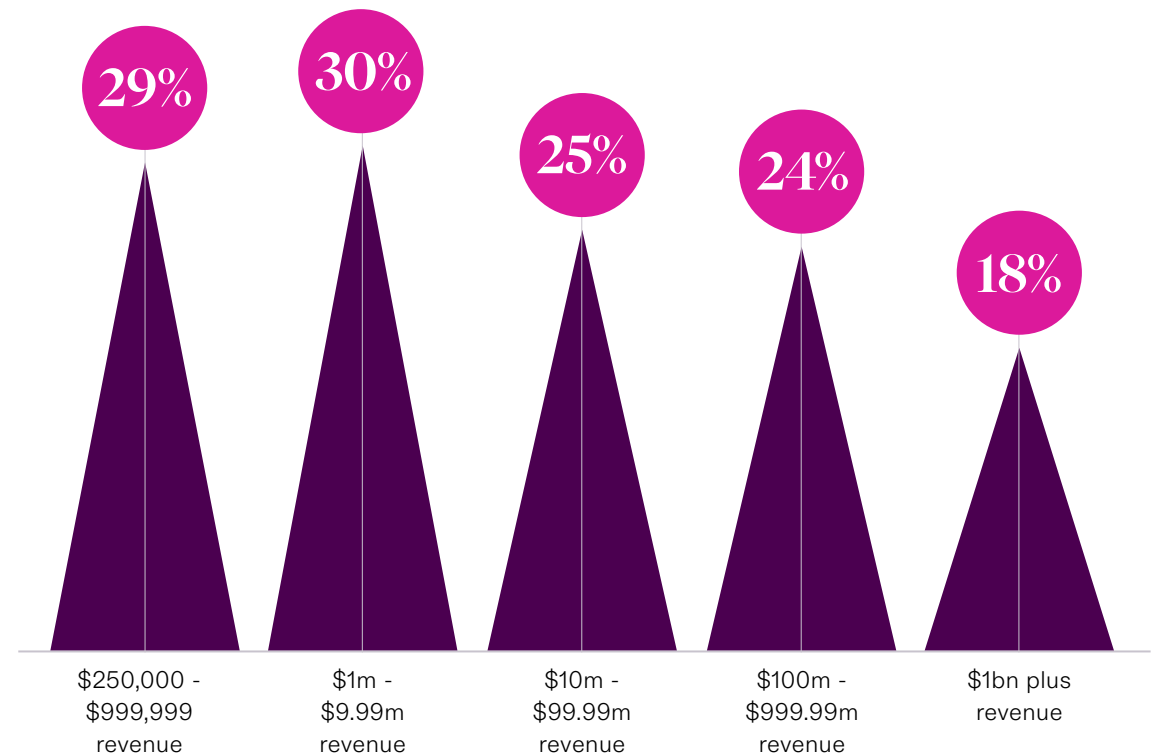
## Smaller businesses feel the least well-equipped to mitigate the potential impacts of climate change.

A quarter of businesses (25%) globally feel unprepared for the impact of climate change with small and medium-sized businesses feeling the least resilient (28% versus 22% with revenue over 100m for SMEs).\*

This picture is the same with at least three in ten SMEs in every region citing a lack of preparedness for climate change.

## Companies feeling least prepared to anticipate and respond to climate change and associated catastrophic risk

Net percentage of businesses surveyed not prepared to anticipate and respond to climate change and associated catastrophic risk

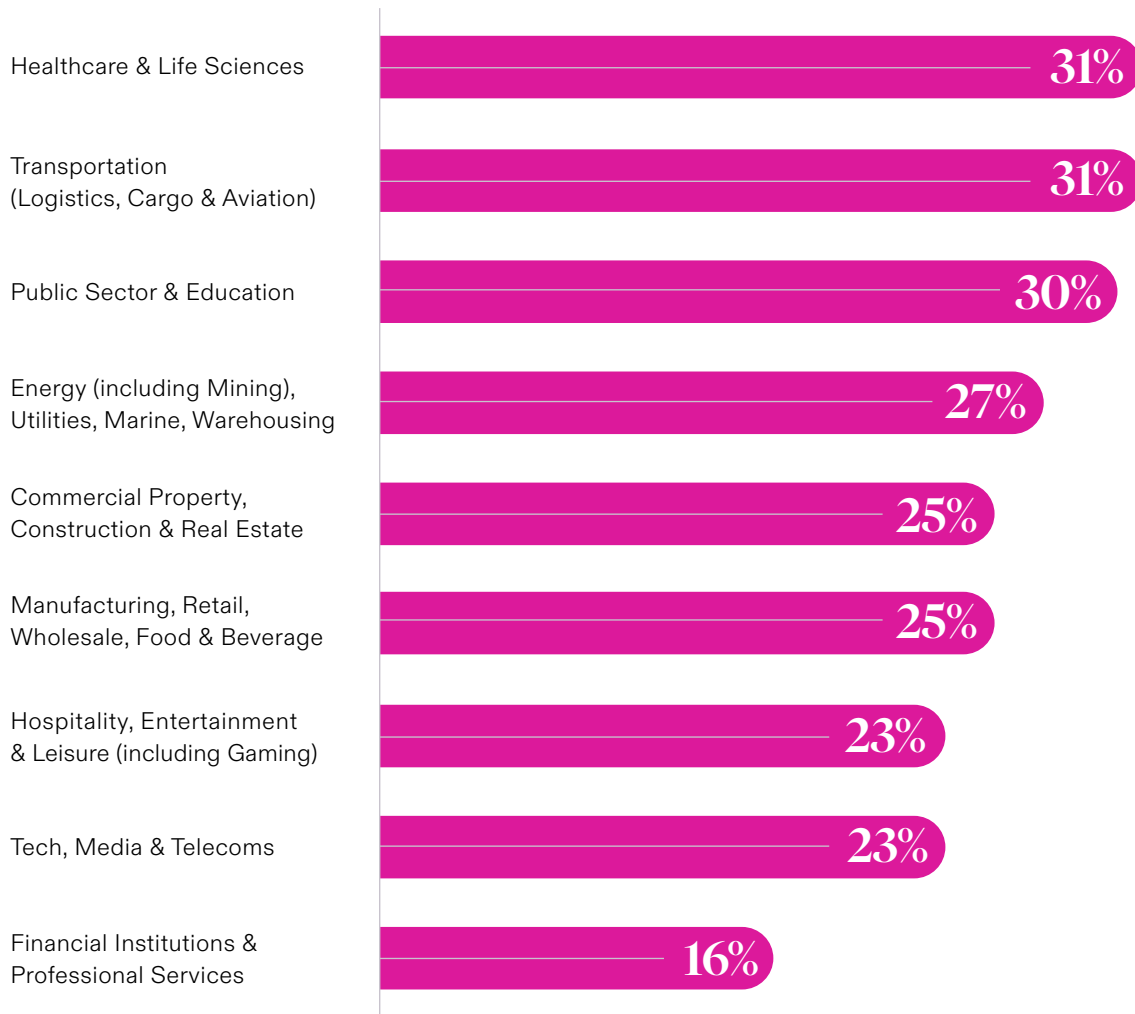


\* 'Unprepared' refers to those who stated 'Not very well prepared' or 'Not at all prepared'.

Company size in USD

## Sectors feeling least prepared to anticipate and respond to climate change and associated catastrophic risks

Net percentage feeling not prepared



## Those sectors most exposed feel the strain

Healthcare and the transportation sector, from rail to aviation, are the industries which feel the least well-equipped (31%) for the effects of more extreme weather patterns and catastrophic events. Those expecting that governments will provide the solution to climate change may be disappointed to learn that the executives working in the public sector feel almost as exposed, with 30% citing a lack of preparedness.

Indeed, those working in the civil sector feel, comparatively, ill-equipped for almost every environmental risk, with at least three in every ten public sector and education executives stating that their organisation is not prepared to anticipate and respond to these environmental risks (except for pandemic risk (27%).

In the commercial property, real estate, and construction sector, 25% feel unprepared for climate change and associated catastrophic risks. The physical damage caused by increasingly severe weather patterns means this figure may be put to the test more quickly than for other industries less visibly exposed to climate change as well as the part which the property and construction industry can play in mitigating the worst impacts of climate change.

3 in 10



public sector and education global executives stating that their organisation has **not made the necessary preparations to anticipate and respond to climate change risks**

# Regulatory pressure adds to the need for action

**But even if climate risk action is ‘displaced’ into nearer term priorities, there can be no doubt that stakeholder and regulatory pressures, through new reporting requirements such as the Corporate Sustainability Reporting Directive, mean the need for businesses to show greater efforts to mitigate and adapt to climate change will increase.**

David Schechter, Claims Focus Group Leader – Environmental, at Beazley notes that a series of lawsuits being brought by towns, cities and states across the US against oil producers alleging their role in causing climate-change related damage.

Depending on the outcome of these test cases, they may only be the first wave of such litigation. At present, these lawsuits are restricted to those deemed to be directly responsible, but we see a ripple effect extending out to businesses along the carbon fuels supply chain, from car manufacturers to transporters of oil and gas.

The spectrum of potential damages which businesses in the US are now facing, due to increasingly chaotic weather patterns, is also widening, with Californian companies now exposed to flood claims and Texans having to consider whether their pipes will withstand extreme cold.



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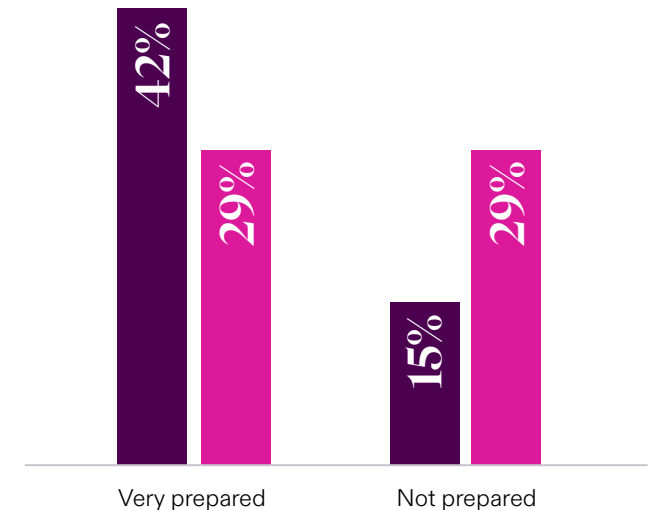
**David Schechter**  
Claims Focus  
Group Leader -  
Environmental,  
Beazley



## Level of those who feel very prepared against the risks of climate change among US businesses falls by 13% from 2022 to 2023

US business leaders ranking how prepared they feel against the risks of climate change

● 2022 ● 2023



## The impact of our daily lives

Advancements in technology are exposing a plethora of environmental risks to which businesses were previously unaware. Everyday chemicals that had been regarded safe for decades – such as the dry-cleaning agent **tetrachlorethylene** and the protective coating **PFAS**, used to stain guard carpets and curtains and coat cooking utensils – and have been making their way into wastewater and drinking water for as many years, may contain human carcinogens according to the **EPA**. As chemical analysis techniques grow in sophistication, so too does the sheer volume of the unknown and long-term risks associated with using these chemicals, for which businesses may be liable should people or the environment come to any subsequent harm.

While our ability to assess new and emerging risks is improving, changes in our physical environment are adding unforeseen layers of exposure. For example, when Winter Storm Uri brought The Great Freeze to Texas in February 2021, pipes froze and burst, disrupting citizens' access to water and causing US\$20bn in property damage.

At the time, **Winter Storm Uri was estimated to be a 1 in 50-year event**. Just two years later, in January 2023, Texas experienced another winter storm to a similar devastating effect. As the energy production state of the US, water was far from the only substance carried in Texan pipes that burst. The polluting impacts of industrial and petro-chemicals into public spaces remains to be seen, as does the liability.

Greater understanding of these risks is always a step in the right direction, however alarming the findings. Ultimately, knowing where to look will lead to an evolution in the regulation that keeps us safe. But it could spell big liability claims for businesses. As regulators and consumers become more aware of the risks, businesses may face liability claims based on historic actions which have consequences that would have been incredibly difficult to predict at the time.

“

When Winter Storm Uri brought The Great Freeze to Texas in February 2021, pipes froze and burst, disrupting citizens' access to water and causing US\$20bn in property damage”

Jayne Cunningham  
Head of Environmental  
Liability, Beazley



# The shadow of COVID-19

When our Spotlight On Environmental Risk report was first compiled in 2021, the number one environmental risk globally was pandemics.

With over half of the world's population and 90 countries or territories imposing an unprecedented restriction on movement, executives' focus raised few eyebrows.

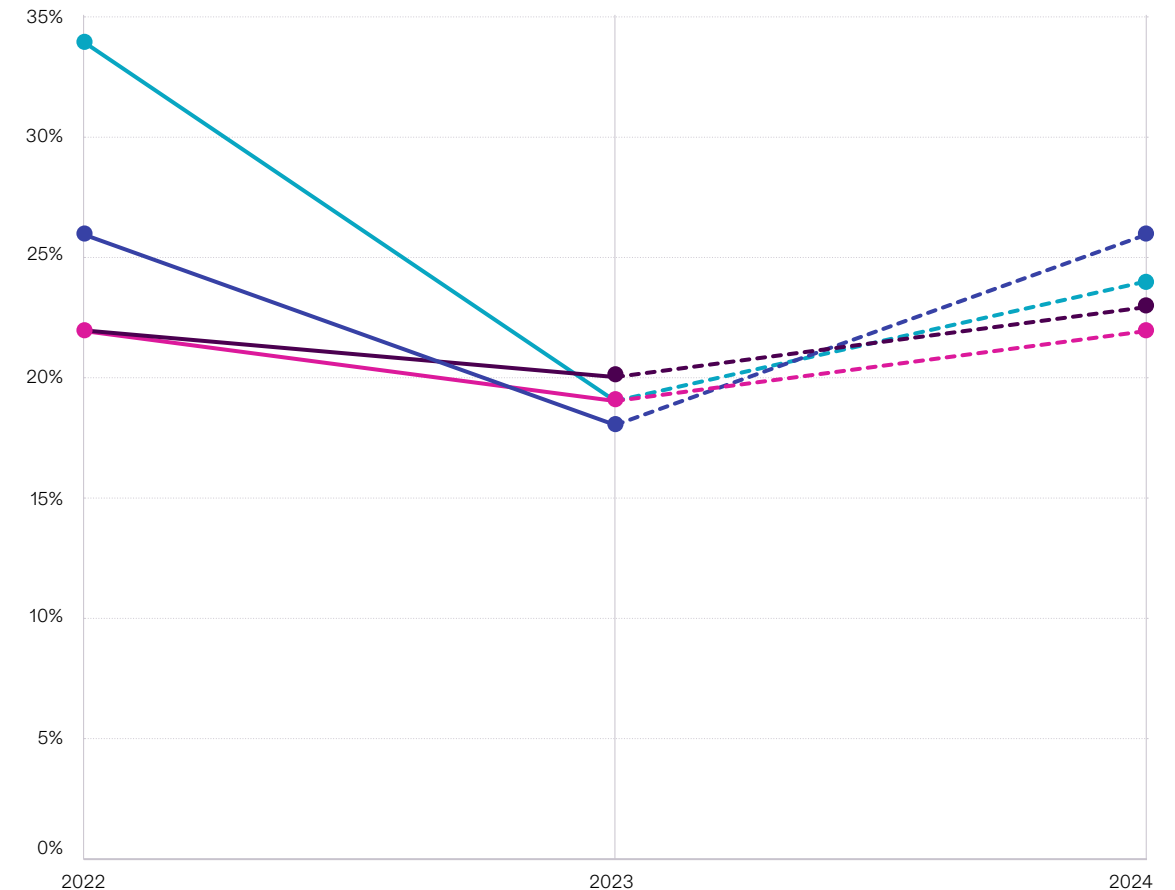
Over the past two years, with the impact of COVID-19 diminishing as we have learned to live with the virus, there has been a divergence in the view of pandemic risk around the world. In the US and UK, pandemic risk is expected to remain a low priority. Whereas in Canada the view is that, while the risk is 18%, it will increase to 26% in 12 months' time. In Singapore, a laser-sharp focus on pandemic-related concerns (34% in 2022) has given way to divided attention, between accelerating climate change (18%) and environmental damage risks (21%).

However, while the threat has dissipated for the time being, every market predicts that the risk will increase next year, suggesting that the fight against COVID-19 may not be won yet, or that the appearance of another pathogen could pose a significant threat.

## Pandemic risk is set to increase globally

Percentage of executives ranking the pandemic as their top risk

● United States ● United Kingdom ● Canada ● Singapore



# The role of insurance

**The insurance industry can play a key role in supporting the transition to a greener future through its underwriting and investment policies.**

Globally, the trust placed in the value of insurance has increased for 45% of businesses, so too has the trust which business leaders have in their insurance partners (46%). It is heartening to see that trust in insurers is increasing, but it also confers responsibility. Insurers can use their position as facilitators of transition and enablers of progress – but we also have a responsibility to encourage resilience and to challenge clients to develop their clean energy strategies, emphasising both the commercial advantages and reputational risks of failing to keep pace.

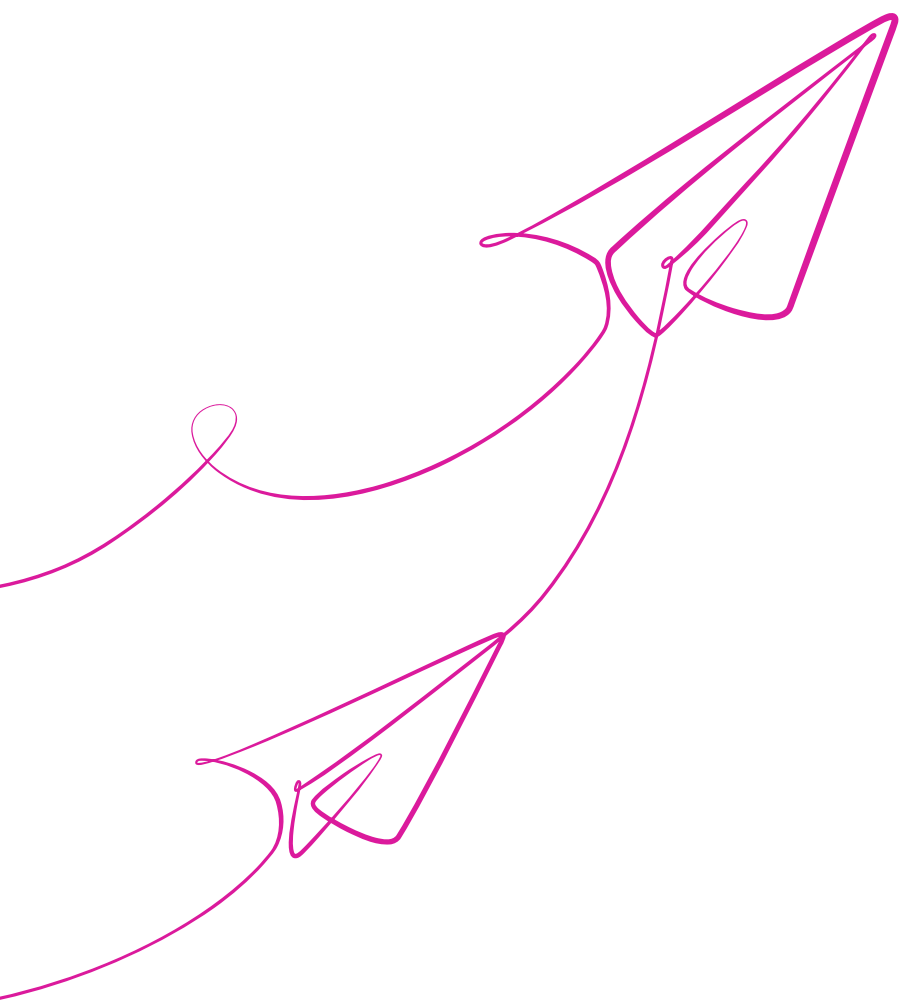
Companies need to focus on developing a clean energy strategy. The impacts of not having one are no longer just reputational. Insurers are increasingly looking for a demonstrable commitment to environmentally friendly production. Searching questions should be asked about how clients' businesses are dealing with environmental concerns. The insurance industry also needs to explore how companies are monitoring and managing risk in these areas. This should be part of every Directors & Officers' liability renewal meeting discussion.

“

**Our clear focus is on helping clients transition to a greener future. That means supporting them to take the often complex and expensive steps needed, mindful that decisions taken today can have long-term consequences”**

**Bob Quane**  
Chief Underwriting  
Officer, Beazley





Climate change-related litigation is on the rise, and the organisations named in court filings are from an increasingly wide range of industry sectors. Within this wider legislative trend, there is also a growing incidence of cases brought against firms for engaging in so-called 'greenwashing'. This can range from accusations that firms are making unsubstantiated or misleading claims about the environmentally-friendly credentials of their products or services, to making highly selective disclosures about the environmental impacts of their business practices, to misleading and/or overstated claims about their performance in the context of halting climate change (sometimes referred to as 'climate-washing').

With so much external focus on environmental risks, we believe it is important to support clients who are actively managing such risks. By introducing a pioneering underwriting syndicate in Lloyd's, which focuses exclusively on offering additional capacity to businesses that perform well against Environmental, Social and Governance (ESG) metrics, we hope to highlight what the insurance industry can offer to its customers by helping them manage environmental as well as social and governance risks and the potentially costly implications of greenwashing and other climate-related litigation.

Bob Quane, Chief Underwriting Officer at Beazley further adds: "As a specialty insurer, we have a duty to proactively innovate, be that developing parametric products for managing property risks or helping mariners navigate the move to alternative fuels. I feel optimistic about the role that insurers can play in enabling the energy transition that will help to mitigate the worst impacts of climate change."



45%

of business leaders **have increased their trust in the value** of insurance, and their insurance partners (which has increased to 46%)

# Methodology

## About the Risk & Resilience research

During the 3<sup>rd</sup> of January and 13<sup>th</sup> of February 2023, we commissioned research company Opinion Matters to survey the opinions of 2,000 business leaders and insurance buyers of businesses based in the UK, US, Canada and Singapore with international operations.

Survey participants were asked about their views on insurers and insurance, as well as on four categories of risk:

- **Environmental** – including climate change and associated catastrophic risks, environmental damage, greenhouse gas emission, pandemic, food insecurity and energy transition risk.
- **Cyber & Technology** – including the threat of disruption, failure to keep pace with changing technology, cyber risk and IP risk.
- **Business** – including supply chain instability, business interruption, boardroom risk, crime, reputational and employer risk and failure to comply with ESG regulations and reporting requirements.
- **Geopolitical** – including strikes and civil disruption, changes in legislation and regulation, economic uncertainty, inflation and war & terror.

Of the firms surveyed, there was an equal split of respondents across company sizes of: US\$250,000 - US\$1 million, US\$1,000,001 - US\$10 million, US\$10,000,001 - US\$100 million, US\$100,000,001 - US\$1 billion, more than US\$1 billion revenue.

Opinion Matters abides by and employs members of the Market Research Society and follows the MRS code of conduct which is based on the ESOMAR principles.

With a minimum of 50 respondents per country per industry sector, respondents represented businesses operating in:

- Healthcare & Life Sciences
- Manufacturing, Retail, Wholesale and Food & Beverage
- Commercial Property, Real Estate and Construction
- Hospitality, Entertainment and Leisure (including Gaming)
- Financial Institutions and Professional Services
- Energy and Utilities (including Mining), Marine and Warehousing
- Public Sector and Education
- Tech, Media and Telecoms
- Transportation, Logistics, Cargo and Aviation

Previous editions of the survey were undertaken between 01.02.2021 and 10.02.2021 as well as 10.01.2022 – 24.01.2022.

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