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Nature risk and the emerging reporting framework

As discussed in [Can We Insure the Natural World](#), nature offers both risks and opportunities for businesses.

In 2020, research by the World Economic Forum (WEF) indicated that more than half of global GDP, US\$44 trillion of economic value generation, is moderately or highly dependent on nature and its services.¹ Yet threats to nature are accelerating, creating new risks for organizations.

There is a significant international will to counter nature loss. The UN Convention on Biological Diversity (CBD) Secretariat launched in 2021 a first draft of a new Global Framework for managing nature by 2030. Other global alliances, such as the Science Based Targets Network (SBTN) and Earth Commission identify tipping points, science-based targets, and guidance to predict and transform the relationship between companies, societies, and nature. Moreover, organizations such as the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) have collaborated with central banks to mobilize the finance needed for this transition to a nature-positive economy.²

While much of this is guidance and best practice at the current time, we can expect to see more regulation which may result in businesses being driven to pivot their operations, potentially resulting in additional compliance costs, loss of revenue, and stranded assets, especially following the UN Nature Rescue Plan that targets 30% of the Earth's surface across land and sea to become protected areas by 2030. Amidst this uncertainty, businesses should think long term about how they look to their entire value chain and their interfaces with nature, pre-empting shifts in consumer behavior and regulatory frameworks.

Inspired by the Task Force on Climate-related Financial Disclosures, the Taskforce on Nature-related Financial Disclosures (TNFD) follows the same logic that increasing awareness of the financial materiality of nature loss will lead businesses to adopt sustainable practices.

¹ WEF, Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and Economy, January 2020.

² NGFS.net



GLOBAL FRAMEWORK FOR MANAGING NATURE

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Comprising of 21 targets and 10 milestones, en route to “**living in harmony with nature**” by 2050.

30%

Amongst others, the framework sets a goal of **protecting 30% of the globe's land and water by the year 2030.**

About TNFD

The TNFD formed in June 2021 to deliver a risk management and disclosure framework, with the ultimate goal of redirecting capital flows towards nature-positive outcomes. With endorsements from the United Nations, leading financial institutions, and members representing a market capitalization of over US\$19.4 trillion,³ the TNFD follows an open innovation approach to enable organizations to:

- Incorporate nature in corporate risk management.
- Provide standardized assessment and disclosure metrics and targets for corporations and authorities.
- Inform financial institutions to identify and quantify nature-related financial risks as well as opportunities.

To test and promote usability and impact of its framework, the TNFD invites organizations to pilot its Beta framework and take part in the framework's development.

3 TNFD.global

PILOT PHASE UNTIL JUNE 2023



What the TNFD framework has released so far

First, the assessment framework for nature-related risk and opportunities has been developed through the Beta version 0.1 and version 0.2. Some of the key outputs of the first releases are:

- A coherent and consistent nature-related language system and fundamentals to understand nature.
- LEAP Nature Risk Assessment Approach.
- LEAP-FI, the LEAP approach for financial institutions.
- Draft guidance on dependency and impact metrics.
- Piloting guidance.

Among others, TNFD continues the development of

- Risk, opportunity, and response metrics.
- Sector-specific guidelines.
- SBTN-aligned nature-related scenarios, including the systematic relation of nature with climate change and its societal impact.
- Disclosure framework.



LOCATE

your interface with nature; map the location of assets, business processes, value chains, and downstream products to each ecosystem.



EVALUATE

your dependencies, impacts, and priorities (find indicators and metrics).



ASSESS

your risks and opportunities.



PREPARE

to respond to nature-related risks and opportunities and report.

Challenges ahead

Compared to climate, identifying and quantifying nature-related risks and opportunities are inherently more complex. There is not a sole factor to consider and impacts vary greatly across geographies, with the potential for cascading effects on a company's entire value chain. Philosophical differences over definitions, priorities, and the balance between science and practicality, remain obstacles.

Stemming from this ambiguity is a lack of standardized data and analytics on the threats of environmental degradation for businesses. The TNFD's discussion paper on data illuminated uneven levels of data coverage across different ecosystems; disparities in measurement approaches; and spatial biases in the data.⁴ This has made it challenging for companies to accurately measure their exposure and vulnerability, limiting their ability to communicate their risks in a consistent format. In turn, this compromises the ability of report users, such as financial institutions, to assess and aggregate how companies are managing nature-related risks and opportunities.

However, the space of nature-related data and analytics is expected to expand quickly in the next few years. Some organizations have created their own internal capabilities while third-party providers are moving to meet the demand.

4 TNFD Discussion paper – A landscape Assessment of Nature-related Data and Analytics Availability, March 2022.



What does this mean for clients and insurers?

Businesses will face increasing pressure from their investors, underwriters, and stakeholders to reveal their nature-related risks and opportunities. Companies that do not disclose their impacts and dependencies on nature may find their risks misrepresented by third-party estimates. As financial institutions fortify their portfolios for the future, companies that don't appear to openly address their nature risks may be an unattractive investment.

Nature loss poses a significant material risk to the insurance industry in addition to climate risk due to major uncertainties about the cost of capital, cost of insurance, and how to transfer risk. Insurers may face challenges due to lack of historical and meaningful loss data to rely on as well as relevant metrics that define value to business and value to society for their decision making. Equally, there are potential opportunities for insurers as nature-positive actions could often be aligned with risk mitigation. For example, if a company restores a wetland ecosystem within/adjacent to their site, it could reduce the likelihood and/or severity of a flood damage.

TNFD disclosures will provide key insights not only for insurers' underwriting and asset management decisions, but also for product innovation by allowing financial institutions to understand dependencies and impacts of businesses on nature and ultimately the actions needed for transition to a nature-positive economy.

As risk advisors, Marsh can bridge the gap between better risk management and a nature-positive future. TNFD disclosures will help organizations in all sectors to move towards a more resilient future.



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