

Resiliency: A Business Imperative with Profitable Benefits



Yvonne Castillo

Director, Risk Management & Global
ESG Chair



Jessica Mederson

Partner



Monika Serrano

Resilience Program Manager





Agenda

Exploring Facets of Resiliency



Building Resilient Business Models through ESG



Fostering Resilience in the Built Environment

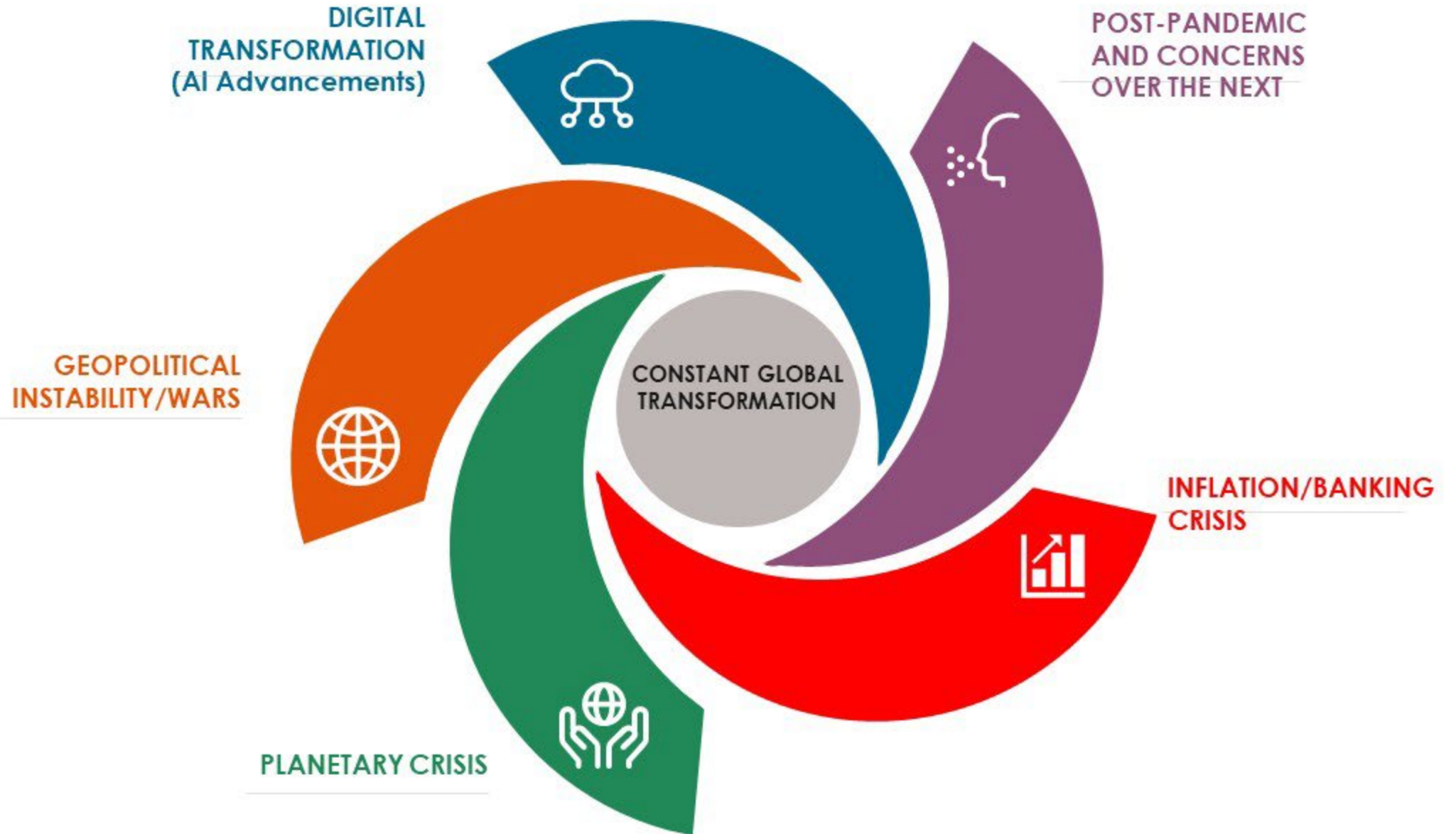


Embedding Resiliency in Legal Frameworks

ESG Risk Management



Setting the Stage for ESG



Cascading Risks - Design & Construction Markets (2023)

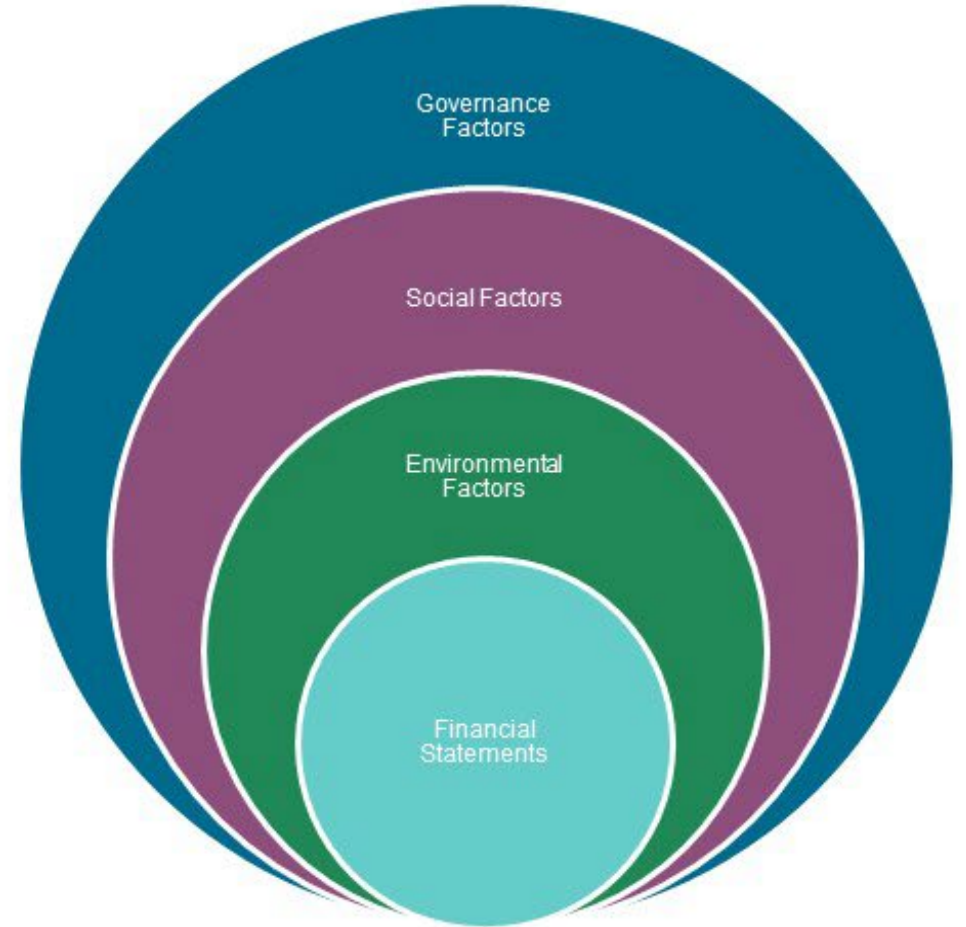


ESG Risk Analysis = Enhanced Financial Risk Model

Stands for “Environmental,
Social, and Governance”

Framework for Assessing
Corporate Performance

Against Categories of ESG
Risk Factors



ESG Risk Factors



Environmental Issues

- Climate Crisis
 - Physical risks
 - Transition risks
 - Reputation risks
- Biodiversity
- Resource Constraints (energy, water, minerals, building materials, etc)
- Pollution
- Solid Waste



Social Issues

- Talent shortages
- Upskilling/Training Workforce
- Social Unrest (Discrimination, Wealth Disparities, Pay Disparities, Social Equity, etc.)
- Workforce Safety
- Cyber Data Breaches
- Human rights/child labor
- Supply Chain Vulnerabilities
- Community Engagement
- Ethics/Compliance/Corruption



Governance

Managing Environmental and Social Risks and Optimizing Opportunity through:

- Controls – practices, procedures, policies to comply with laws, regulations, industry best practice
- Reporting – voluntary and/or mandatory disclosures on ESG performance metrics
- Resilience – strategic management of ESG risks now and in the future

ESG Metaphor

How resilient is your business to disruptive environmental and social shocks?

Shiny car = financial statements

Internal mechanisms = resilience and adaptability of the company



ESG Resources

Tools:

[ESG Risk Rating Tool](#) (free for Victor/CNA insureds) to help design firms assess their ESG risks and opportunities, measured against international frameworks and standards (e.g. TCFD, GRI, SASB), and to receive an ESG rating/scorecard.

Webinars:

[Unlock Your Firm's ESG Potential with Victor's ESG Risk Rating Tool](#)

[Demystifying ESG for Design Firms: Risks and Opportunities](#)

Writings:

<https://victorriskmanagement.blog/>

Resilient Practice Models

2

Climate risk

Physical risk



Transition risk



Acute

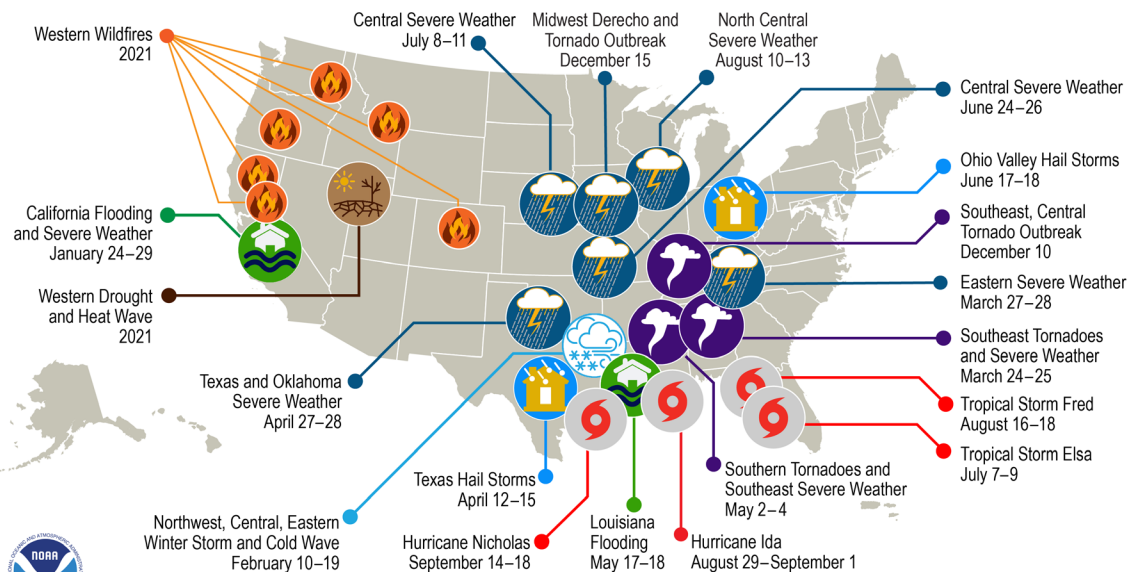


Chronic



U.S. 2021 Billion-Dollar Weather and Climate Disasters

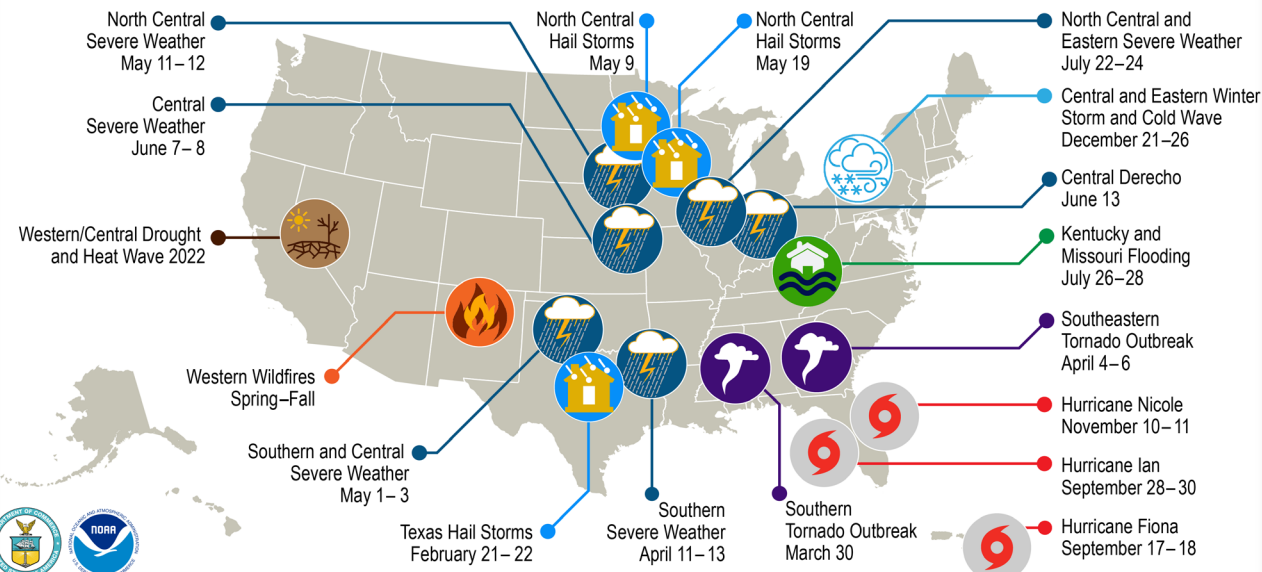
Drought/Heat Wave
 Flooding
 Hail
 Hurricane
 Tornado Outbreak
 Severe Weather
 Wildfire
 Winter Storm/Cold Wave



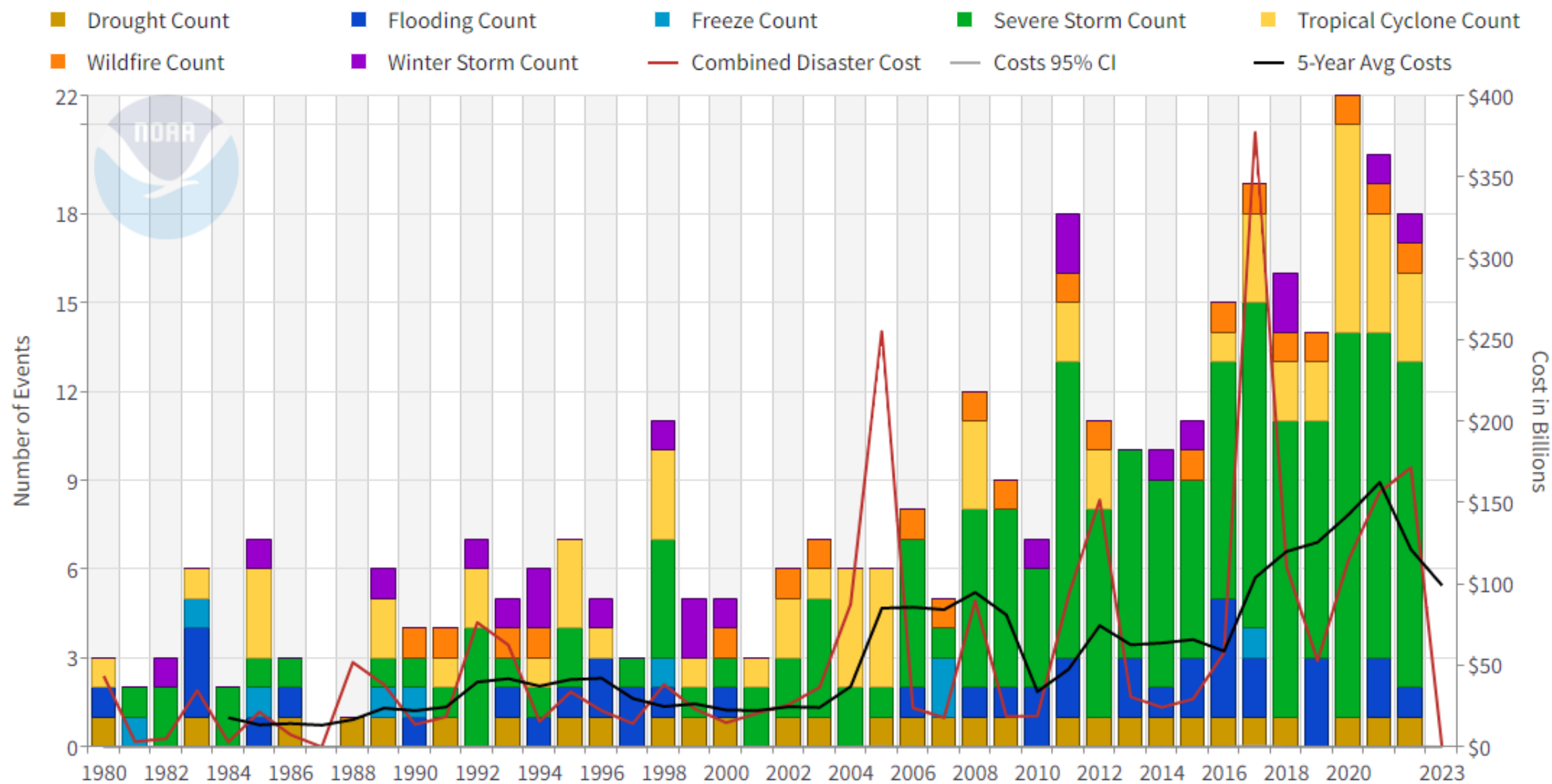
This map denotes the approximate location for each of the 20 separate billion-dollar weather and climate disasters that impacted the United States in 2021

U.S. 2022 Billion-Dollar Weather and Climate Disasters

Drought/Heat Wave
 Flooding
 Hail
 Hurricane
 Severe Weather
 Tornado Outbreak
 Wildfire
 Winter Storm/Cold Wave



This map denotes the approximate location for each of the 18 separate billion-dollar weather and climate disasters that impacted the United States in 2022.



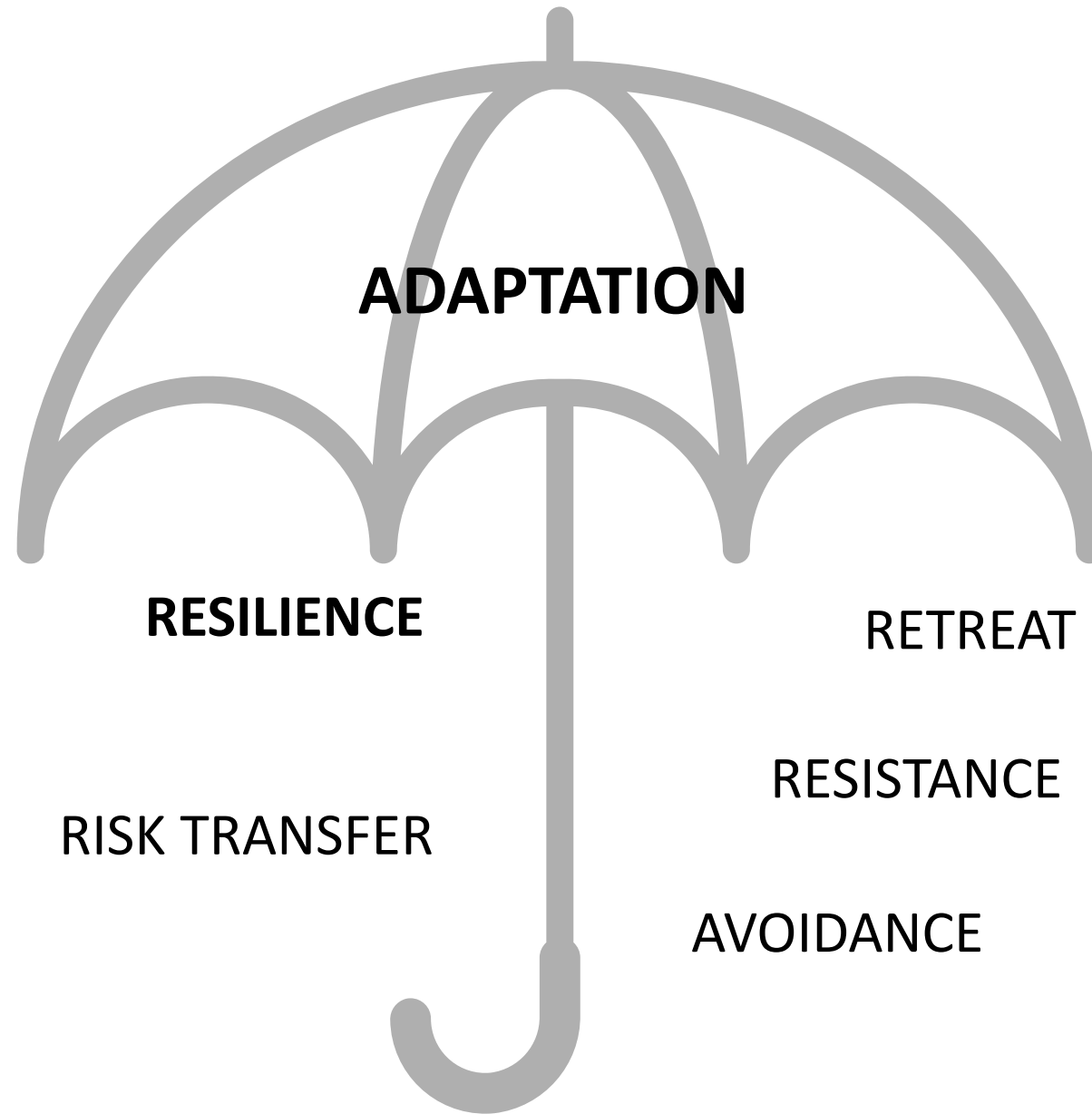
Updated: April 10, 2023

Powered by ZingChart

RESILIENCE

The ability to **recover from** or to
be **resistant to** disruptions





ADAPTATION

RESILIENCE

RETREAT

RESISTANCE

RISK TRANSFER

AVOIDANCE



Resilience

**Embracing
change**

**How does the
environment
affect the
building?**

Sustainability

**Protecting
our
resources**

**How does the
building affect
the environment?**



Resilience for how long?







Resilience of what?

Resilience to what?



Resilience of whom?

The business case of Resilience

 National Institute of BUILDING SCIENCES™		ADOPT CODE	ABOVE CODE	BUILDING RETROFIT	LIFELINE RETROFIT	FEDERAL GRANTS
Overall Benefit-Cost Ratio		11:1	4:1	4:1	4:1	6:1
Cost (\$ billion)		\$1 _{/year}	\$4 _{/year}	\$520	\$0.6	\$27
Benefit (\$ billion)		\$13 _{/year}	\$16 _{/year}	\$2200	\$2.5	\$160
	Riverine Flood	6:1	5:1	6:1	8:1	7:1
	Hurricane Surge	not applicable	7:1	not applicable	not applicable	not applicable
	Wind	10:1	5:1	6:1	7:1	5:1
	Earthquake	12:1	4:1	13:1	3:1	3:1
	Wildland-Urban Interface Fire	not applicable	4:1	2:1	not applicable	3:1

The business case of Resilience

Nearly eight in 10 institutional investors consider climate change to be a “significant risk.”

Source: EY

Every dollar spent on hurricane protection can prevent US\$105 in business property loss and disruption.

Source: FM Global

Change
is
hard



Change
is
possible



Climate Data Resources

 ClimateCheck®

FREE

 RISK FOOTPRINT™



CMRA

FREE

R I S K
F A C T O R

 JUPITER™

Legal Benefits of Resilience

3

Climate Change Related Litigation

Federal Statutory Claims

- Clean Water Act violations
- Clear Air Act
- Endangered Species Act

State Law Claims

- Utility regulations
- Enforcement cases
- Industry lawsuits

Constitutional Claims

- First Amendment
- Fourth Amendment
- Fourteenth Amendment
- Commerce Clause

Climate Change Related Litigation

Securities Claims

- Greenwashing cases
- Lawsuits over ESG-related investigations

Claims Not Obviously Related to Climate Litigation

- Construction Lawsuits
- Workers' compensation claims
- Supply chain disruptions

Legal System: Who Bears the Risk

Civil Legal System = who bears the risk?

- Evaluation of which party is in the better position
- Statutes/regulations can assign the risk to a specific party
- Parties can agree by contract to who bears the risk
- Judge and jury can decide which party should bear the risk after the fact

Examples

- ESG Disclosures: Companies should disclose information to investors
- Workers' Comp: Employers should ensure workers have safe working conditions
- Construction Projects: Which party should address climate change

Construction Litigation is Expensive & Time Consuming

Involves multiple parties

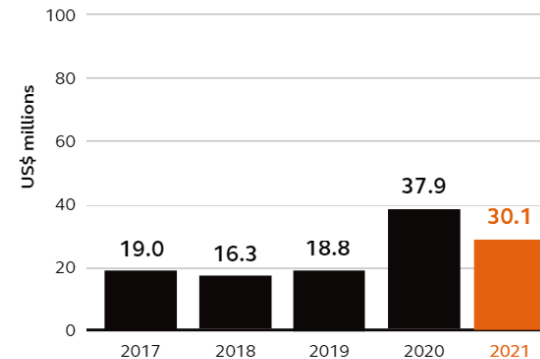
- Owner/developer
- Architect/Engineer
- General Contractor
- Subcontractors
- Material Suppliers

Fact-intensive

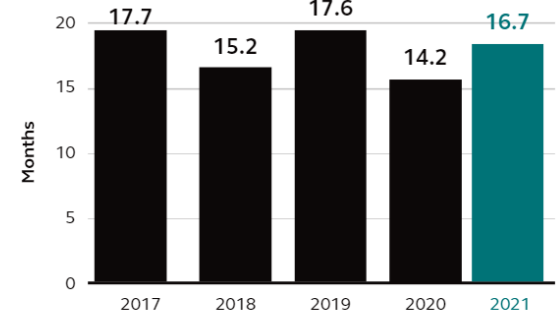
- Length development of factual record
- Expert witness opinions needed

Average cost > \$30 million in 2021 (North America)

Dispute value



Dispute length



Source: Arcadis

How Can the Legal System Help?

CONFUSION OVER WHO IS RESPONSIBLE + PROBLEMS = LITIGATION

Contracts - Identify and Assign Risk to Address Resiliency

- Construction contracts
- Supply chain contracts
- Communications contract
- Energy contracts

Takeaways

- **ESG** is a **risk framework** that can build resilient business models
- **Resilience** is a **climate risk mitigation** measure
- **Contracts** should include climate risk responsible parties



THANK YOU



This document is for illustrative purposes only and is not a contract. It is intended to provide a general overview of the program described. Please remember only the insurance policy can give actual terms, coverage, amounts, conditions and exclusions. Program availability and coverage are subject to individual underwriting criteria.

Victor Insurance Services LLC in MN | DBA in CA and NY: Victor Insurance Services | CA Ins. Lic. # 0156109