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Climate risk management solutions

Government contracting industry

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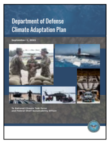
Climate risk in the GovCon industry

On January 27, 2021, President Biden issued Executive Order (EO) 14008, "Tackling the Climate Crisis at Home and Abroad," making it administration policy that climate considerations will be an essential element of United States foreign and national policy. This was followed by DOD's release of a Climate Adaptation Plan in 2021 which included several recommendations from other sources. One specific report came from the GAO in 2020 which identifies lack of DOD understanding of contractor climate risks.

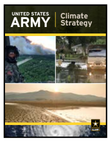
Subsequently, each individual service component has released their own climate strategy plan supporting both the DOD Climate Adaptation Plan and EO 14008. This includes the U.S. Army "Climate Strategy," Department of Navy "Climate Action 2030," and Department of U.S. Air Force "Climate Action Plan."

Most recently, on November 10, 2022, the Biden administration issued the Proposed 'Federal Suppliers Climate Risks and Resilience Rule.' This rule, a Federal Acquisition Regulation (FAR), requires contractors to disclose GHG emissions and climate-related financial risks, as well we set science-based emissions reductions targets.

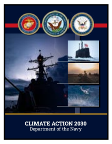
Important takeaways from some of the policies specifically addressing GovCon client service and products include:



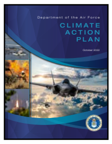
DOD Climate Action Plan: "DOD is limited in its ability to conduct climate change risk assessments of commercially owned facilities that provide contracted goods or services to DOD and which support DOD installations and weapons systems. DOD must adopt a comprehensive mission assurance framework to manage risks in a way that accounts for the Department's dependence on non-DOD owned facilities and the distribution infrastructure, including consequences of any disruptions to those facilities (Government Accountability Office [GAO] 2020)."



U.S. Army Climate Strategy: "By 2025, the Army will analyze all of its Tier 1 sources and supply chain contracts for climate change risks and vulnerabilities."



Department of Navy Climate Action 2030: "The Department will scrutinize its operational logistics and supply chains to ensure that climate-related impacts do not interrupt access to key supplies, materials, and services. DON will undertake efforts to reduce demand for key logistics drivers such as energy and water, making supply lines less vulnerable to climate disruptions and improving resilience.

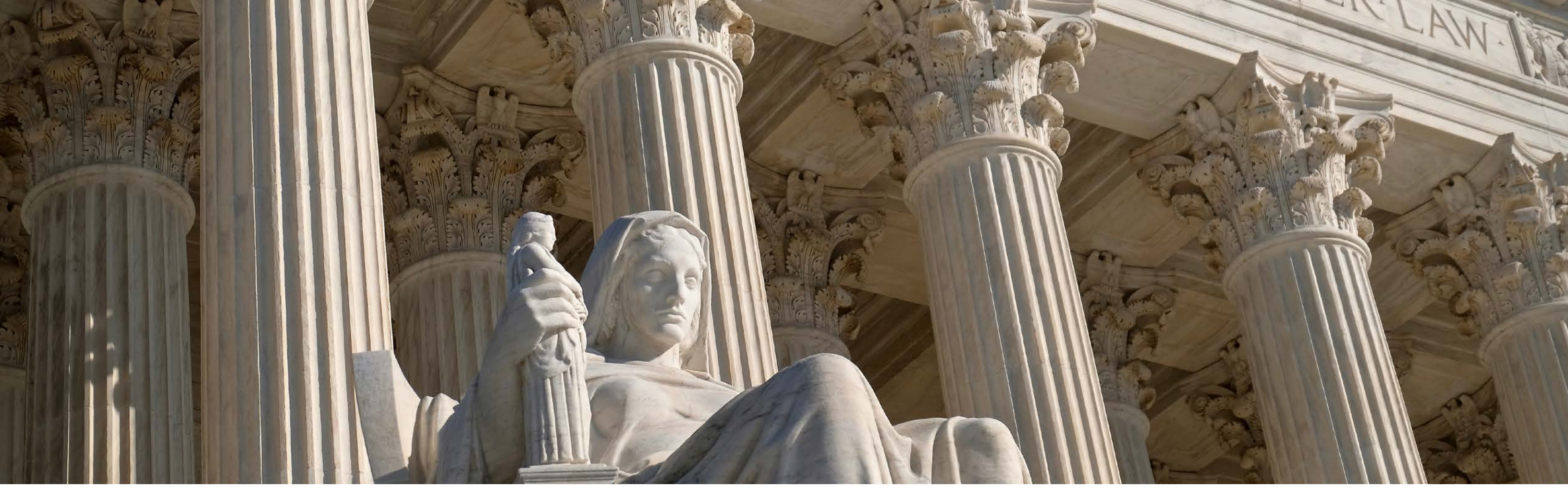


Department of U.S. Air Force Climate Action Plan: "As we work to incorporate climate considerations into supply chain guidance and strategies to increase supply chain resilience for the delivery of goods and services, we will reduce risk to the industrial base, and better prepare the department to project power globally. Ultimately, climate considerations in requirements development and acquisition have a direct impact on long term mission assurance and effectiveness."

These are all clear indications of the direction DOD is heading to ensure supply chain resiliency by incorporating several strategies to identify supply chain climate risks which will incorporate all aspects of government contracting. Now is the time for our industrial base clients to start understanding their own climate risks and be better prepared to support DOD's Climate Adaptation Plan.

While the DOD is providing leadership on climate from an operations perspective, firms working for the government require guidance on how to identify, quantify and solve for climate related risks to minimize financial business risks. WTW has the tools and expertise to help guide risk management leaders to:

- Identify and quantify climate risk
- Evaluate portfolio and define insurance coverage gaps
- Enumerate protection options
- Evaluate and optimize potential solutions
- Implement the selected insurance and non-insurance climate risk solutions



Evaluating risks

- Physical risk
  - Our state of the art analytics tools evaluate an organization's risk of loss at owned, leased or operated facilities due to river flood, sea level rise, tropical cyclone/storm, chronic heat, drought stress and wildfire over various warming scenarios and time periods.
- Transition risk
  - Transition risk is the loss or gain in the value of an asset driven by the transition to a low carbon economy, technology development, regulatory change and changes in consumer and investor demands. Assets are repriced to incorporate transition risks based on forecasted future cash flows.
  - Evaluation includes modeling of financial criteria as we move to a net zero economy, including pricing for product, projected costs of raw materials, value of current and future operating assets — all based on an assumed warning scenario. Modeled valuations are then consolidated to show cash flow over time.
- Liability risk
  - Climate liability suits arise from three main areas: emissions, regulatory and governance lapses and failure to adapt. These cases can result in directors and officers (D&O) and liability claims. There are over 1500 climate liability cases in U.S. courts currently[1]. WTW evaluates climate liability exposure based on an organization's operations, jurisdiction, public statements and industry resulting in a clear understanding of potential for climate liability suits.
  - Of particular note to government contracting firms is the increased exposure associated with reporting requirements. Inaccurate disclosure, or failure to progress towards stated goals could be a source of claims against the firms directors and officers.

Climate risk	**Physical**	**Transition**	**Liability**
Tools	**Climate diagnostics**	**Climate transition value at risk CTVaR**	**Climate liability evaluation**
Output	**Climate driven property risk mapping**	**Organizational value at risk due to transition to a net zero economy**	**Evaluation of likelihood and probable outcome of climate liability lawsuits**

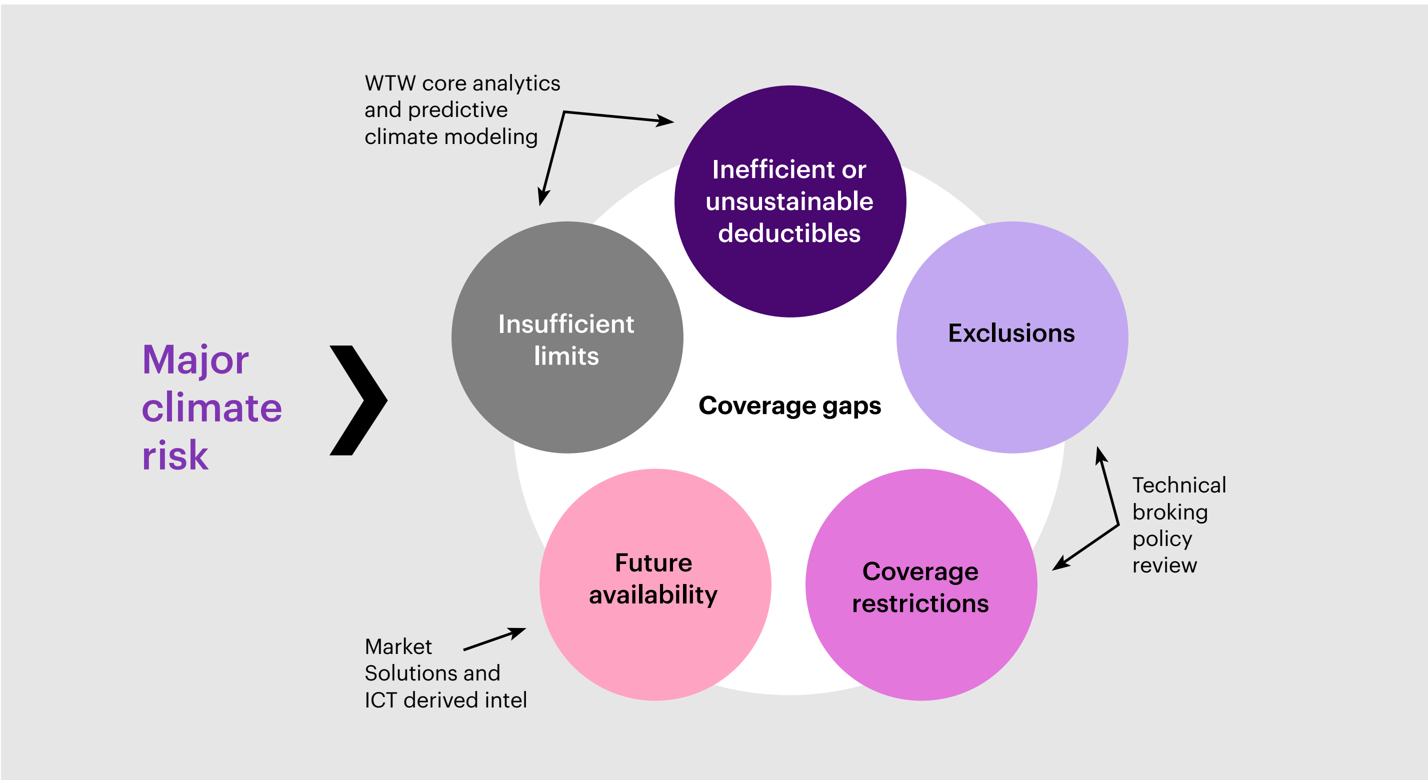
Major climate risks

[1] WTW Research Network in collaboration with Sabin Center for Climate Law at Columbia University

Insurance coverage gap analysis

Understanding how insurance coverage will respond to climate risk, both at the present and as coverage appetites change, is critical for the financial wellbeing of companies and organizations. Our gap analysis methodology, underpinned by WTW's analytics, technical broking and Insurance Consulting and Technology (ICT) arm, is at the center of how we help clients identify climate risk and its potential impacts.

WTW overlays an organization's climate risk profile onto their insurance coverage portfolio — revealing gaps in coverage. These gaps can include sites exposed to extreme weather for which the organization is underinsured; risks where frequency is projected to increase, making deductible costs too high; operations for which carriers exclude coverage; as well as risks where coverage may be available this year, but is expected to be restricted in the near future.



Risk solutions

What options are available to cover gaps? There are a variety of risk and insurance solutions that can be used to mitigate climate risk. We help clients to understand the breadth of each solution so that they can decide the most appropriate course of action for their business.

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Climate risk solutions

Traditional insurance

Current program enhancements:

- Risk aligned limits
- Efficient deductibles
- Coverage extensions/ enhancements

Alternative Risk Transfer (ART)

ART solutions:

- Parametric trigger
  - Wind
  - Drought
  - Foot fall
- Self-Insurance
  - Captive
  - Structured
  - Front

Non-insurance risk mitigation controls

Mitigation control examples include:

- Implementation of tighter contractual controls
- Installation of flood walls
- Divestitures/acquisitions of divisions
- Use of nature-based solutions
- Moving locations

Optimization

Determining the best path forward with climate risk solutions can be daunting. With WTW, our risk and analytics capabilities enable us to provide our clients with a holistic portfolio picture to best decide the optimal solution for them.

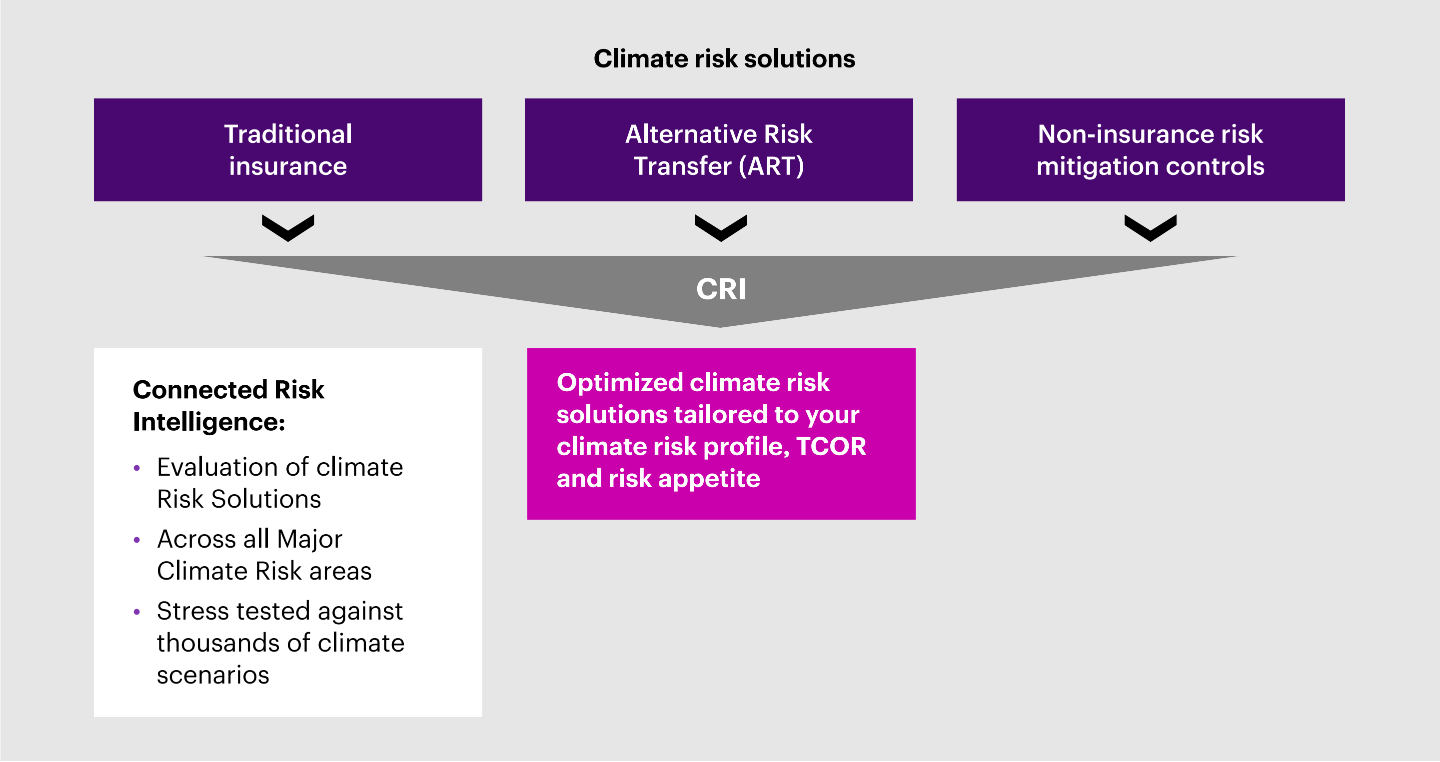
Implementation

Once a solution set has been decided upon, our technical broking and risk control teams stand ready to guide your business through the implementation process. WTW is well versed in the placement of tailored traditional and ART coverage solutions, and supporting clients through the implementation of the mitigation measures needed to manage complex and evolving risks like climate change.

WTW's Climate Risk Solutions allow risk management executives to play a leading role in understanding, and building protections for, their organization's climate risks today and long into the future.

Horizon scanning

Climate risk is dynamic. It has numerous variables that can alter an organization's exposure for better or worse, including: newly emerging local, state and/or federal regulations; court decisions; changing carrier appetites; and new risk evaluation and mitigation technologies. WTW collaborates with our carrier partners, as well as with associates in academia and government, to not only scan the horizon for, but also guide the direction of, these new developments. Keeping ahead of change allows us to be prepared rather than reactive — a better position to be in to serve our customers. As new risks and solutions emerge, we engage with and advise our clients, keeping them apprised of developments year after year — ensuring that they are protected now, and long into the future.



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About WTW

At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help you sharpen your strategy, enhance organizational resilience, motivate your workforce and maximize performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success — and provide perspective that moves you. Learn more at wtwco.com.

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