Corporations can lead the way to a net zero global economy

These four questions can help CEOs avoid climate risks and seize net zero opportunities

The climate crisis brings urgent challenges. To limit global heating to 1.5°C, experts say we must immediately reduce our greenhouse gas emissions – aiming for a 50 per cent emissions reduction target by 2030 and transitioning to net zero emissions by 2050 at the latest.

Unless we practically eliminate existing emissions and offset any residual emissions with measurable removals of greenhouse gases from the atmosphere, global temperatures will rise far above preindustrial levels, posing an existential risk to human civilisation.

As leaders of organisations that contribute to these emissions, CEOs must take on the responsibility of moving quickly to realign their business operations toward net zero targets. CEOs should ask themselves these four questions now to manage risk and seize opportunity in the coming net zero global economy:

1. What will my market look like in a net zero world?
2. What business model will enable my company to succeed in that market?
3. What changes should I make now to lay the groundwork for success in the net zero future?
4. How can I advocate for changes in the broader business ecosystem and in society at large that will support my company’s net zero business strategy?

Green champions will reap major rewards

The transition to a net zero society implies a complete transformation of every sector of the global economy: power, transportation, buildings, manufacturing, and agriculture. Beyond cutting emissions, getting to net zero and addressing historical emissions will require large-scale development of carbon removal solutions, both natural and engineered, including reforestation and ecological restoration and direct-air capture technologies.

The path to net zero also entails creative destruction. Many high-carbon assets will need to be retired and replaced before the normal end of their lifecycles. By anticipating these eventualities and acting now, CEOs can avoid spiralling costs from stranded assets.

In fact, by acting early, CEOs can capture opportunities and build competitive advantage. As the net zero transition accelerates, cutting and offsetting emissions will increasingly become a business requirement. We see this playing out already in the power sector where early movers are reaping rewards while laggards are facing major write-downs.
Let science guide you

To succeed over the next decades, CEOs and their boards need a fundamental understanding of climate science and climate risks to their businesses. Companies can start preparing now by implementing actions that are inexpensive or even cost-positive, such as reducing waste, increasing circularity, and improving energy efficiency.

When taking action on climate issues, there is no need to start from zero. This World Economic Forum paper contains resources, case examples, and steps that companies can take on the path to net zero - from reporting baseline emissions following TCFD guidelines to setting clear science-based targets for emission reductions.

Soon the world’s leaders will gather at COP26 to tackle climate change. This is the moment for CEOs to rise to the occasion and help avert the worst climate scenarios by leading their companies, their peers, their value chains, and the broader ecosystem of investors and governments toward a sustainable, net zero future.

Discover more of BCG’s latest thinking on climate and sustainability here
Leading a company at the centre of the energy transition is an honour. I’m excited about AVANGRID’s future and the opportunities that lie ahead. We have ambitious goals and I truly believe we are in the right place at the right time in the energy transition. Our industry and our company will play a critical role as we strive to decarbonise the US. Now more than ever, we are positioned to lead the way forward.

First and foremost, I believe that having ambition is critical in the transition to net zero. At AVANGRID, we aspire to be the leading sustainable energy company in the US, a bold goal, but one that is achievable. As the first utility company to set a goal for carbon neutrality back in 2017, and as the third largest wind and solar operator in the US, we are already leading the way toward a cleaner energy future – deploying wind and solar nationwide, investing in the future of offshore wind and building a stronger, more resilient grid that will serve as the backbone for this energy transition. Ultimately companies must think big to achieve big. We need to take smart risks. And we need to dream.

Secondly, it’s also about putting the right frameworks in place. We are continuing to do our part to invest in infrastructure and create a cleaner, healthier future. Every step of the way, our actions will be guided by our Environmental, Social, Governance and Financial (ESG+F) sustainability framework, as a better and balanced way to do business – doing good by doing well for our customers, employees, communities and shareholders.

Our focus to deliver financial sustainability makes it all possible, enabling our growth and driving innovation. Built on our ESG+F strategy and our commitment to a cleaner and smarter energy future, we plan to grow faster in the next five years than we ever have, with a goal of delivering bottom-line annual earnings growth of 6-8 per cent and investing over $20 billion. Through our major projects and our growing businesses, AVANGRID is making significant investments in a cleaner and connected energy future – generating financial, environmental, and societal benefits for all our stakeholders for years to come, while managing our company with a governance philosophy focused on ethics and corporate responsibility. We are also leading the emerging US offshore wind industry and are poised to make history with our 800 MW joint venture Vineyard Wind 1, the nation’s first utility-scale offshore wind farm.

Finally, it’s about having the right people in place. Our 7,000+ AVANGRID employees, and our wider network of over 35,000 people globally as part of the Iberdrola Group, make it possible for us to lead the way forward towards net zero.
Why insurance and action on tackling climate change are inextricably linked

As underwriters of the world’s assets and also major investors, the insurance industry has a cross-balance sheet role to play in the private and public sector fight back against climate change.

How the insurance industry reacts and leads on tackling climate change will have a significant bearing on how asset owners are able to mitigate and adapt to the physical and transition risks that they will face in the years to come.

From the time that merchants first came together at the Lloyd’s coffee shop in London to insure ships’ cargoes against losses in sea storms, insurers’ liabilities have always ebbed and flowed with weather and the climate. The increasing volatility of loss-causing climate-related events, along with related growing financial risks to assets in insurers’ substantial investment portfolios, present a dual threat.

Aside from the growing regulatory imperatives, it’s clearly in insurers’ interests to combat the threat, not forgetting the opportunities that are likely to be available to them. Climate uncertainty and the wide range of outcomes associated with climate change create potential new possibilities for sustainable, progressive and commercially successful strategies.

What is that likely to mean in practice?

Climate risk is insurance enterprise risk

In a recent white paper entitled The Journey To Net Zero, jointly written with asset manager Wellington Management, we argued that the starting point for insurers is to treat climate risk as an enterprise risk. So, a risk (or, more accurately, a set of risks) that needs action on both the assets and liabilities side of the balance sheet, with a common approach to quantification and analysis.

On the liability side of the balance sheet, underwriting portfolios will naturally come under scrutiny as the largest segment. The impacts of climate change will extend beyond traditional property catastrophe lines of business. As a result, insurers will need to manage rising uncertainties around liabilities and understand the implications for portfolios in the near, medium and long-terms. They will also need to find manageable ways to support clients in the high carbon industries that will face most pressure on their business models but which, equally, can’t just have risk cover switched off if economies around the world are to avoid an unruly transition to lower emissions.

On the asset side, insurers’ large investment portfolios can influence the sustainability agenda. Investment planning must evolve to account for and capture the range of outcomes – positive and negative – related to the effects of climate change. Insurers needn’t disregard the time-tested strategic asset allocation processes that have served them well; rather they can make climate-specific modifications that supplement and enhance those approaches.

Cohesive, integrated assets and liabilities strategies, with consistent oversight, will be crucial to creating a stable future risk transfer and management environment that meets society’s need for climate action and which supports governments and business to address their physical climate and transition risks.

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