ARTICLE

Financial services focus: The emerging role of the climate risk officer

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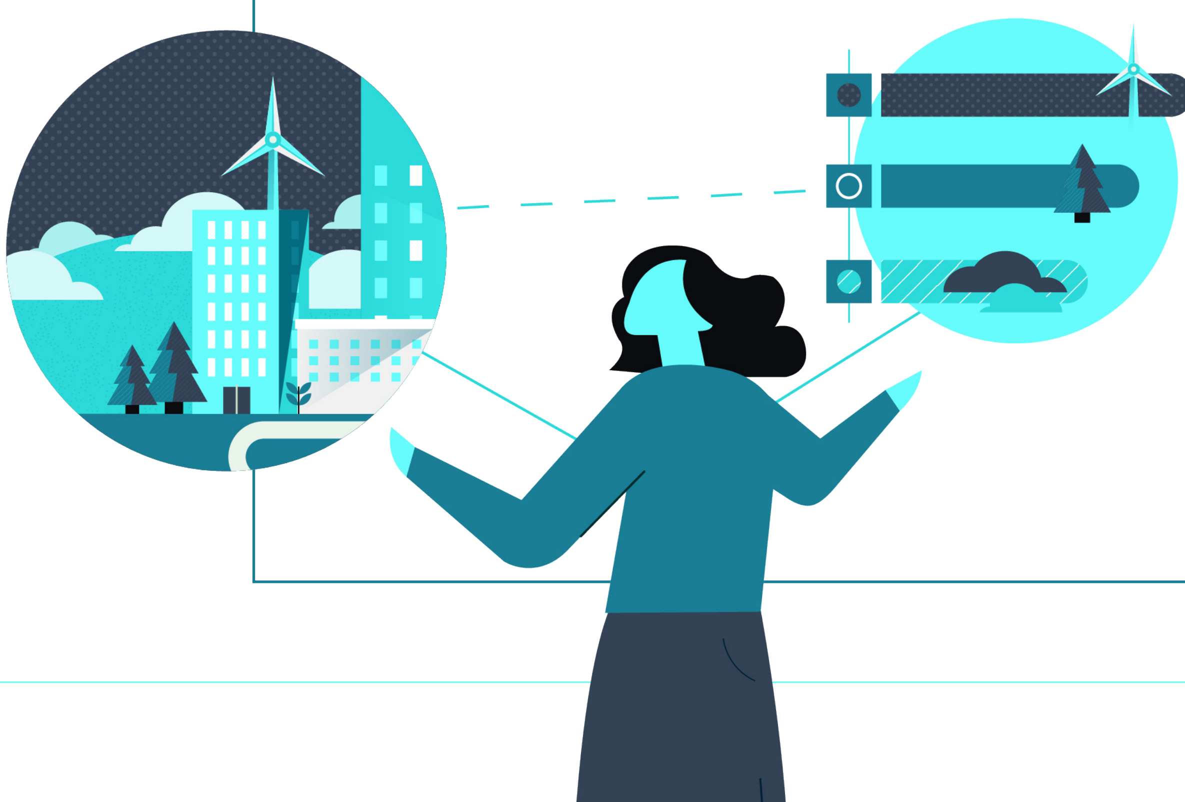
As the effects of climate change are becoming increasingly material, companies across all industries are realizing that they need a cohesive view of and response to the climate risks that can affect their business. As a result, more companies are now seeking to add climate risk to their risk profile assessment and the necessary leadership to spearhead these efforts. In most cases, this means introducing a new leader to the risk function who brings a holistic view of climate risk.

Having a climate risk officer can be critical in determining the firm's ultimate exposure across functions and business lines.

The leaders in this space have been financial institutions, though we expect to see this role develop in other industries over time. Financial institutions, which already have well-defined risk functions, have been the first to develop a comprehensive approach to address climate risk, uniting broader ESG efforts across the platform to quantify a coordinated climate risk program. This multi-dimensional approach takes into account the way the effects of climate change intersect and impact multiple areas within the platform as well as its clients. As this role is evolving, we've seen it sit in a dedicated risk function (second line of defense), while partnering with business lines and other functional areas of the platform to include broader ESG functions, finance, analytics, investment teams, executive leadership, regulators, and the board. As climate change continues to impact the environment, even a singular event can ripple across all areas of the platform and the clients it serves. Having a climate risk officer becomes critical in determining the firm's ultimate exposure across functions and business lines.

As more firms establish a head of climate risk, leaders can best position them for success by carefully considering the balance of proven expertise and ability to take on leadership of a new and emerging risk. Organizations need to consider the technical skills and leadership capabilities that a climate risk officer will need as well as how the role should be positioned within the organizational structure, its span of influence, and its ability to partner across the platform.

Climate risk refers to risk assessments based on formal analysis of the consequences, likelihoods, and responses to the impacts of climate change and how societal constraints shape adaptation options. This is increasingly relevant to the operations of companies across industries and, for financial services, for making investment decisions as well as more traditional insurance coverage decisions.



Creating a new role in financial services

Leaders who can succeed in an entirely new role must have the leadership capabilities to manage change and create support for new ways of working. These include leading though influence, being comfortable operating in ambiguity, and collaborating across boundaries.

Because these are new roles, firm leaders cannot rely only on candidates' past experience directly in the climate risk domain. Over the past year, we have seen that there are certain experiences and leadership capabilities that culminate to create a successful climate risk officer.

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Climate risk officers must also have the ability to combine their previous experiences to take on a new and emerging subject matter; the mix will vary a bit depending on the organizational and functional needs. One key shift for many firms is adding a climate risk officer to already-existing broader ESG efforts. The climate risk leader is the one who integrates climate-specific considerations into the broader portfolio and balances them with business needs. Many firms need people with a range of skills including quantitative analytics, credit risk, market risk, operational risk, and enterprise risk, as well as a broader perspective on emerging risks and how they impact the platform.

Often, people stepping into the climate risk officer role will not have a linear career path or a track record within the domain. Therefore, assessment of their skills and the leadership capabilities they developed in other roles of various kinds is critical.

The dimensions on which we have been assessing potential climate risk officers are:

- **Broad portfolio oversight:** Experience with both financial and non-financial risks and how they intersect and impact the platform, alongside experience in areas such as scenario analysis, stress testing, country risk, enterprise risk, emerging risks, scorecard, and other macro risks.
- **Analytical fluency:** The ability to take an analytical and strategic approach to complex challenges and leverage data and metrics to guide strategic decision making. Model risk or quantitative analytics are often areas in which executives hone these skills.
- **Ability to articulate vision and execute strategy:** A proven ability to gain buy-in from a broad range of stakeholders to deliver strategic initiatives focused on the end result, as well as the ability to adjust strategy as needed in an undefined and amorphous area and then execute with high integrity and a collaborative approach. Experience in other emerging areas such as CCAR can also be helpful.
- **Regulatory exposure:** A thorough understanding of regulatory expectations and requirements in this rapidly changing space and their impact on their organization's regulatory profile.

That said, it is also important for firm leaders to note that creating this new role must be more than an exercise in box-checking. For example, a successful climate risk officer does not need to be an SME in climate risk. In fact, that standing could even hinder him or her taking a balanced approach with business needs.

1 Ellen Maag, Katherine Pluck, and Todd Taylor, "Transformation in financial services: Succeeding with new leadership roles to thrive in the new normal," Heidrick & Struggles, heidrick.com.

All this means that there are many paths from which a new leader can emerge. And, although people who have demonstrated the agility to take on new remits with a breadth of risk experience are often best suited for the role, organizations should consider whether this new leader needs to come from the risk function at all.

Questions for senior leaders to consider

How will this role be positioned within the organizational structure?

- How will each candidate's leadership capabilities complement the rest of the risk team? Which capabilities will mesh easily, and which will highlight gaps? What's the right tradeoff?
- What is the scope of responsibility of the role?
- Where will this function report and to whom will they be accountable?

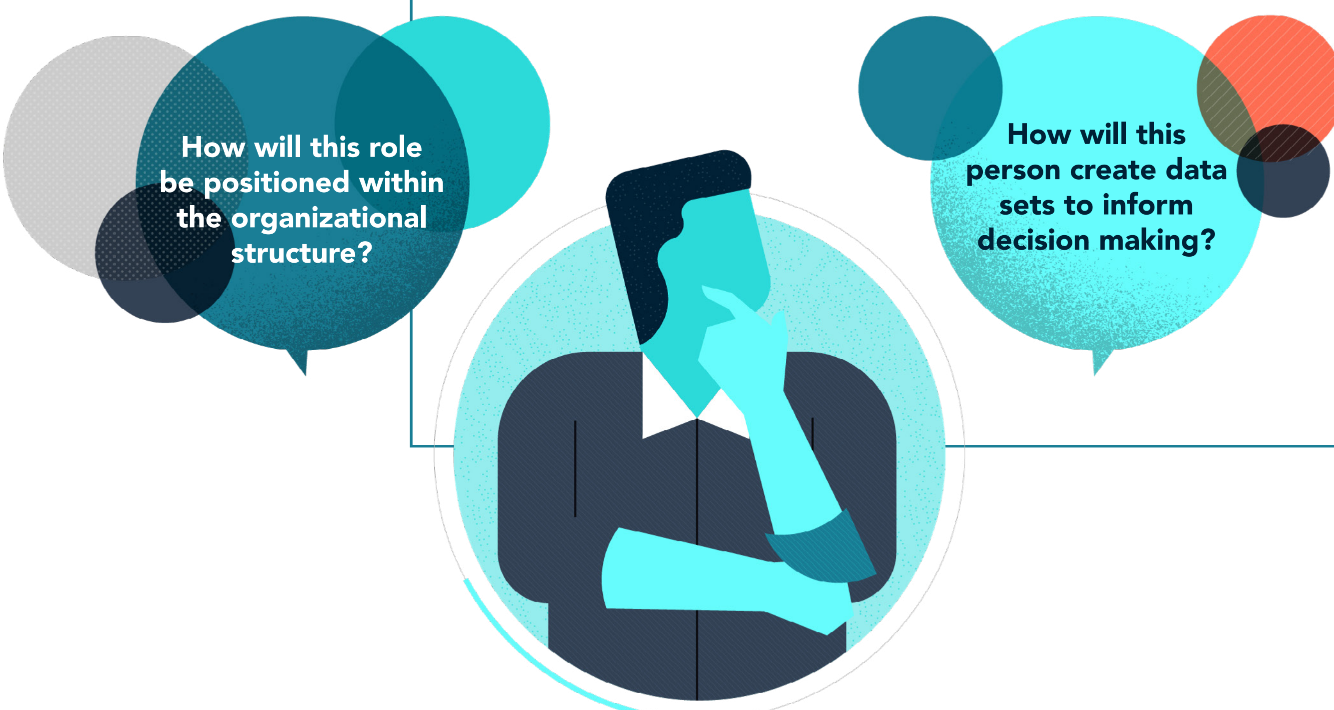
How will this role be differentiated from the organization's sustainability and ESG efforts? What are the key deliverables in this role?

- How will this person operate within ambiguity? Would experience in managing equally ambiguous situations be sufficient for success?
- How will this person create data sets to inform decision making?

How will this person influence and create buy-in from stakeholders?

- Are key stakeholders aligned in support of the person in this role? If not, how can we ensure that?
- Who are the other key stakeholders?

Based on their goals and capabilities, what specific support will the new leader and their team need to be effective from day one?



This new role of the climate risk officer is increasingly necessary for firms to meet financial and societal expectations. Firm leaders who start planning now will have the best chance of finding the right climate risk officer for their organization. And leaders should highlight the potential of this role to those who might take it on but could be wary of pioneering a new role: given its visibility to other functions, the role of the climate risk officer can become a useful steppingstone for developing leaders.

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