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Sustainability Related Risks, TPPE32

Migliorelli claims a taxonomy can explain the relationship between sustainability related- and financial risks, (Migliorelli, 2020). The taxonomy has risk factors which can be divided into four main categories, climate change, environmental degradation, social inequality and policy or technological shifts. For each factor an example of a sustainability related risk were given, see Table 1. A connection to financial risks is made in the perspective of businesses, banks and insurance companies. Each financial risk is categorized based on market, credit, liquidity, operational or reputational risk.

Sustainability -related factor	Sustainability-related risk	Risk for businesses	Risk for banks	Risk for insurance companies
Climate Change	Melting permafrost	**Operational risk:** Damage to infrastructure in Arctic regions and increased maintenance costs	**Credit risk:** Devaluation of assets in affected regions and higher credit risk	**Market risk:** Increased volatility of the value of investments in the Arctic region
Environmental degradation	Overfishing depleting fish stocks	**Operational risk:** Reduced supply for seafood businesses and higher costs	**Credit risk:** Default risks for loans to fishing and seafood industries	**Operational risk:** Increased claims for losses in the sea industry
Social inequality	Lack of affordable housing	**Operational risk:** More difficult to attract employees	**Liquidity risk:** Higher risk mortgage defaults in high-cost housing markets	**Reputational risk:** Insurers may face criticism for not offering affordable insurance products to low-income renters.
Policy and technology shifts	Mandatory adoption of green energy technologies (e.g solar panels, wind turbines)	**Reputational risk:** Companies that fail to adopt green technologies may face backlash	**Liquidity risk:** Caused by default of businesses due to high upfront costs	**Market risk:** Reduction in the value of non-sustainable industries in investment portfolios

Table 1: A taxonomy for sustainability related risks and financial risks.

Sustainability-related risks have profound financial implications across industries, requiring businesses, banks, and insurers to adapt. These examples illustrate how various risks translate into financial challenges, affecting credit stability, market performance, operational efficiency, and reputational standing. As sustainability concerns grow, financial institutions must integrate risk management strategies to mitigate these impacts and foster long-term resilience.

Sources:

M. Miglíorelli. The sustainability - financial risk nexus. Sustainability and Financial Risks: The impact of Climate Change, Environmental Degradation and Social Inequality on Financial Markets, page 1 - 29, 2020.