Sidebar

# Risk Disclosure Worsens Rich-Poor Inequality

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The latest evidence shows climate change exacerbates global economic inequality, as warming temperatures trigger declines in hotter, poorer countries and improved results in many cooler, richer countries. Complacency in the latter would be misplaced, however. A widening chasm will emerge soon between wealthy and poor communities in developed countries.

Exploding the myth that disasters are great levelers, the reality is that the least fortunate bear the greatest social, economic, health, and environmental costs. For instance, evidence grows that the poorest one-third of U.S. counties sustain greater economic hardship than their wealthier counterparts from hurricanes, rising seas, and higher temperatures.

Some of this gap may reflect the growth in physical climate risk assessment and disclosure. When the Task Force on Climate-Related Financial Disclosures, or TCFD, released its recommendations in 2017, it galvanized banks, stock funds, consumer markets, and real estate funds to disclose and reduce risky investments.

With a focus on asset risks, the market's consideration remains restricted to how physical climate changes affect those wealthy enough to have investments to lose in the first place, thus continuing to ignore the poor's plight. In addition, by ignoring how this disclosure will impact the most vulnerable, the markets are readying a flight of capital from the places most at risk. This creates a knock-on effect of increasing vulnerability and disparity between rich and poor.

Essentially, this disclosure further marginalizes the poor and strands assets — and I don't mean coal-fired power plants. Capital fleeing from climate hazard locales leaves behind those community members who are left homeless, without jobs, without schools, and without modernized infrastructure.

TCFD's number one principle for effective disclosures is that they "should represent relevant information." Are the jobless left behind as companies move their capital assets and supply chains from harm's way "relevant" to investors? Are the crumbling social services and physical infrastructure that declining tax and rate revenues spark relevant? Essentially, is the next Big Short the housing market is trending toward relevant to investors? In our current and future climate-changed era, the markets' choice is to build or dismantle communities. If the Great Recession offers any guide, however, dismantled communities aren't good for markets.

What will it require for investors to integrate social equity into their climate strategies, thus shoring up proof of investors' reasonable care? First, in those places where investor portfolios are most at risk, ask your risk analysts what will happen to community assets when your portfolio or elements of your value chain move away from the physical risks and, in dignified retreat, are invested to build community resilience for all rather than avoid risk for some.

Additionally, quantify the damage to your reputation, workforce, customers, and duty to care of ignoring or enhancing community resilience. Third, engage with the new Coalition for Climate Resilient Investment. Besides seeking to strengthen the market for private and public-sector investment in climate-resilient infrastructure and to reduce risk by shifting the flow of investment toward such infrastructure, the coalition promotes supporting vulnerable geographies to attract investment and prevent capital flight as risks intensify.

Further, use the new Climate Resilience Principles advanced by the Climate Bond Initiative to guide your investments, assessing and addressing climate risks and building climate resilience for all while insuring against harm to impacted communities. Finally, include social equity principles in investment policy goals and requirements for consultants and advisors. Ask, Will this asset improve the lives and livelihoods of poor communities?

In short, make social equity a part of risk mitigation assessments for climate-exposed assets. This broadens the scope of TCFD's recommendations to ensure that social elements are privileged.