

# Chapter 25

## Enterprise Risk Management and Climate Change: Preparing the Financial Sector in Nigeria

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### ABSTRACT

*The global exposure to climate change-induced risks culminating in the alteration of known environmental order and its debilitating spin effects on the key economic units in which the financial sector plays the intermediation role has raised new levels of consciousness in tackling the phenomenon. To sustain stability of the financial sector and greening of its broad spectrum of activities, there is the need for an enterprise-wide risk approach better delivered through the enterprise risk management (ERM) model. This chapter, therefore, assesses the level of preparation of Nigeria's regulatory bodies and the financial sector on how best to tackle the emerging physical, transitory and indirect risks involved; it also captured the feelers of various stakeholders via responses to the questionnaire. Among other things, the authors recommend the greening of macro-prudential regulations, dynamic monetary policies, and overall framework for the financial sector to reflect the realities of climate change.*

### INTRODUCTION

Managing existing and potential climate change-induced risks requires a detailed enterprise-wide approach to tackle the hydra headed phenomenon that threatens and affects every segment of human existence.

Enterprise risk management (ERM), among other things, comprises of various applications and procedures put together by entities to manage or mitigate the impact of risks facing them directly or by proxy. The point of enterprise risk does not mean creating more bureaucracy, but rather to facilitate

DOI: 10.4018/978-1-7998-7967-1.ch025

discussions (by the chief risk officer) and prioritize the real big risks (Stanton, 2017). Casualty Actuarial Society (CAS) (2003) defined ERM as the discipline by which an organization in any industry assesses, controls, exploits, finances, and monitors risks from all sources for the purpose of increasing organization's short and long-term value to its shareholders. The society conceptualized ERM as proceeding across risk types and risk management processes.

ERM, therefore, presents a holistic framework for risk management in the areas of identifying peculiar events relevant to corporate objectives (inherent opportunities and threats), forecasting their likelihood and its attendant impact, and creating effective response strategies and the follow-up processes. It is a high tone of effective internal control, taking cognizance of stakeholders' interests in understanding the various risk exposures and how it would be effectively managed. Most ERM frameworks are dovetailed into identifying, analysing responding to and monitoring risks and opportunities (cost-benefit) within the external and internal environments facing enterprises (Enterprise Risk Management Committee (ERM), 2003).

From the foregoing, it is evident that ERM's broad spectrum could provide the needed shield for financial risks and other annexed risks, but how prepared is the financial sector in Nigeria for the effects of climate change on its operations and the economy at large? This and other related challenges are captured in this chapter. According to a special report by United States Institute of Peace collated by Sayne (2011) on Nigeria, dire futures are predicted for some of the world's poorest, least prepared countries and their most vulnerable citizens. According to a report by the Bank of England (Prudential Regulatory Authority, 2016), only ten percent (10%) of banks in the UK are taking a strategic view of climate change with an average planning horizon of four years.. Meanwhile, the UK's Prudential Regulatory Authority is working towards new expectations on how banks and insurance companies could incorporate the financial risk from climate change into their governance, strategy and risk management framework while aiming at the resilience of its financial system by supporting orderly market transition to a low carbon economy.

Climate change, on the other hand, has been defined severally and differently by many authors. A large chunk of the thrust of the climate change concerns is on the issues of vulnerability, adaptation to the change, the capacity to adapt, resilience and readiness to curtail or manage it (Schneider and Sarukhan, 2000). The known aspects of climate change experienced over the years in respect of extreme weather conditions, temperature variations like heat waves in Europe, flooding in Japan and Africa, wildfires in the United States and Australia, among others are given. The increasing frequency and intensity of extreme weather conditions has brought the financial industries across the world to a regulatory spotlight. According to International Monetary Fund (2018), the global mean sea level has risen by 17-21 cm from the earliest part of the 20<sup>th</sup> century, it projected that if necessary actions are not taken to limit the effects of global warming, the sea level might rise by approximately 80 cm by the end of this century. However, we believe that what the next levels of climate change portend might remain in the imagination for now. The impact of climate change on the financial sector might not be obvious in the immediate, however, if nothing is done urgently it might not augur well with banks who might be faced with toxic assets arising from a collapse in the productive sector (prudential issues). While one might think the insurance companies could come to their rescue in terms of claims, it is not certain they have fully captured climate change-related risks in their bouquets. From a closer perspective, climate change is the alteration (natural change) or altercation (due to human activities) in climate over a period of time. It is a fact that human activities could trigger nature to act outside its original form. Therefore, activities should be geared towards checking both ends. The debilitating effects of climate change cut

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