Why climate risk is also a human rights risk: KPMG and RIAA launch new guide for institutional investors

KPMG Australia and Responsible Investment Association Australasia (RIAA) are today launching *Human rights and climate change: a guide for institutional investors*, highlighting the devastating human rights impacts of climate change and the importance of institutional investors considering these impacts when addressing climate change risk in their portfolios.

KPMG/RIAA research indicates that institutional investors are still prioritising environmental impacts over harm to people when addressing climate change risk in their portfolios. Despite increasing attention being paid to ESG, environmental and social risk assessments are often siloed, meaning that climate-related human rights impacts are inadequately addressed.

The guide points out that this gap is a risk to institutional investor trustees that must be addressed as an urgent matter of prudent risk management.

Richard Boele, Chief Purpose Officer, KPMG Australia, said: “COP26 reinforced that we are at a critical moment. Technological and regulatory shifts are urgently required to achieve decarbonisation and the transition towards a sustainable global economy. For the transition to be made in a way that minimises harm to people, human rights must be at the centre of the response”.

The human rights impacts of climate change are already occurring and are falling disproportionately on the most vulnerable sectors of society – children, the elderly, Indigenous communities across the world, Pacific Island populations and others in low-lying coastal areas, people with disabilities and those living in poverty.

RIAA CEO Simon O’Connor said: “Global trends in regulation, litigation and social expectation represent significant risk for investors who fail to engage with climate-related human rights impacts in their portfolios. For institutional investors, risk to people directly translates to risk to business.”

This guide will support investors to understand their responsibilities and embrace the opportunities, by focusing on the risk to people and applying a human rights lens to climate risk assessments. It incorporates material from in-depth research interviews with institutional investors and other key stakeholders to give readers insight into leading practice and case studies of practical approaches.
The guide analyses the key dimensions that investors should consider when making investment decisions and managing portfolios.

These include:

1) The responsibilities of institutional investors to recognise and act on climate-related human rights risks. Corporate responsibility to respect human rights is established under domestic and international frameworks and it is important for investors to manage climate-related human rights risk in order to adequately discharge fiduciary and directors’ duties.

2) Crucial areas of emerging risk for investors related to the human rights impacts of climate change. Global trends in regulation, litigation and social expectation represent significant risk for investors who fail to engage with climate-related human rights impacts in their portfolios.

3) Embedding consideration of climate-related human rights risk into strategy and processes offers institutional investors the chance to harness the opportunities that decarbonisation and the shift towards more sustainable systems present. Investors can look beyond downside risk to the principles of stewardship in order to actively influence investee companies on these issues. This action allows investors to position themselves to take maximum advantage of the transition and deliver in the best interests of beneficiaries.

Richard Boele added: “Institutional investors, controlling trillions of dollars, are uniquely placed to effect meaningful change by mitigating and addressing the risks and impacts associated with climate change. Investors can exercise their collective influence and significant leverage to pursue sustainable and socially responsible outcomes across the global economy.

“As the business community and governments move towards net zero there is an unmistakable intersection between planet and people. Investors need to be alive to the risks and embrace the opportunities to lead. Placing human rights impacts at the centre of your analysis of climate change will give depth to your responsiveness and help us transition justly”.

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