The age of ESG: The evolving role of the risk manager*

One Risk Manager's journey from Sustainability to Risk — and back to Sustainability again

Introduction: ESG goes mainstream

When people ask me what I do, I often say that I have spent my career at the intersection of Risk and Sustainability. My career started in Risk, before spending over a decade in Sustainability, working for the Sustainability and Climate Change group of a Big Four consulting firm. However, in 2018 I suddenly found myself as a Risk Manager at Goldcorp, a Vancouver-based gold mining company.

Transitioning from a Sustainability focus to a Risk focus is not exactly a typical career path, so how did this happen? Had I changed, or had the world changed?

What is ESG exactly?

Before I answer that question, some context would be helpful. For many years the priority of the Risk Manager has been clear: understand the most material financial risks facing the organization, and ensure it has the controls in place to manage its exposure. However, in recent years, and increasingly so as of late, there has been a shift of focus to also consider non-financial, and particularly, ESG risks.

ESG refers to the three key factors used to evaluate the sustainability and ethical impact of a company or an investment:

- **Environmental** factors assess a company's impact on the natural world, including its use of resources, energy efficiency, and waste management
- **Social** factors examine the company's impact on society, including issues such as human rights, diversity and inclusion, and community involvement
- **Governance** factors look at the company's internal structures and policies, including executive compensation and shareholder rights

Together, ESG factors are used to evaluate a company's overall sustainability and impact on society, with the goal of encouraging responsible business practices and investments.

Why have ESG factors become so important for Risk Managers?

Why has there been this shift in stakeholder focus on ESG issues? Primarily this reflects a growing stakeholder recognition of the prominence of ESG risks. This is reflected in the World Economic Forum's (WEF) 2023 Global Risk Report, which is dominated by ESG risks[1]. Half of their top ten short-term risks relate to the environment, and six of the top ten long-term risks — including the top four — are categorized as environmental. Almost all have direct or indirect ties to ESG.

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[1] https://www.weforum.org/reports/global-risks-report-2023

Figure 1: **WEF 2023 Global Risk Report top 10 short and long term risks**

Source: WEF Global Risks Report 2023 https://www.weforum.org/reports/global-risks-report-2023

These risks have particular relevance to the mining industry. Environmental risks such as climate change remains a top concern, with extreme weather events and water scarcity posing significant challenges to operations. The WEF report also highlights the risks associated with increased competition for resources, which could lead to geopolitical tensions and trade disputes. Social risks are also a significant concern for mining companies; the WEF report notes the potential for social unrest and labor disputes, particularly in regions where mining activities have led to displacement and environmental degradation. Human rights abuses, including child labor and forced labor, are also a major risk that must be addressed. Finally, governance risks, including corruption and bribery, are another key challenge for mining companies. The WEF report notes that inadequate regulatory frameworks and weak enforcement can create opportunities for unethical practices.

The particular relevance of ESG risks to the mining industry is again underlined in EY's annual report "Top 10 business risks and opportunities for mining and metals"[2]. Their 2023 report lists ESG, climate change, and license to operate as three of the top four risks, as evidenced in Figure 2 overleaf.

The report puts particular emphasis on water stewardship and biodiversity as topics that are emerging as urgent priorities that are tightly linked to climate change risk. EY also highlights stakeholder expectations that miners should better assess ESG risks and opportunities, and articulate these through transparent, outcome-based reporting.

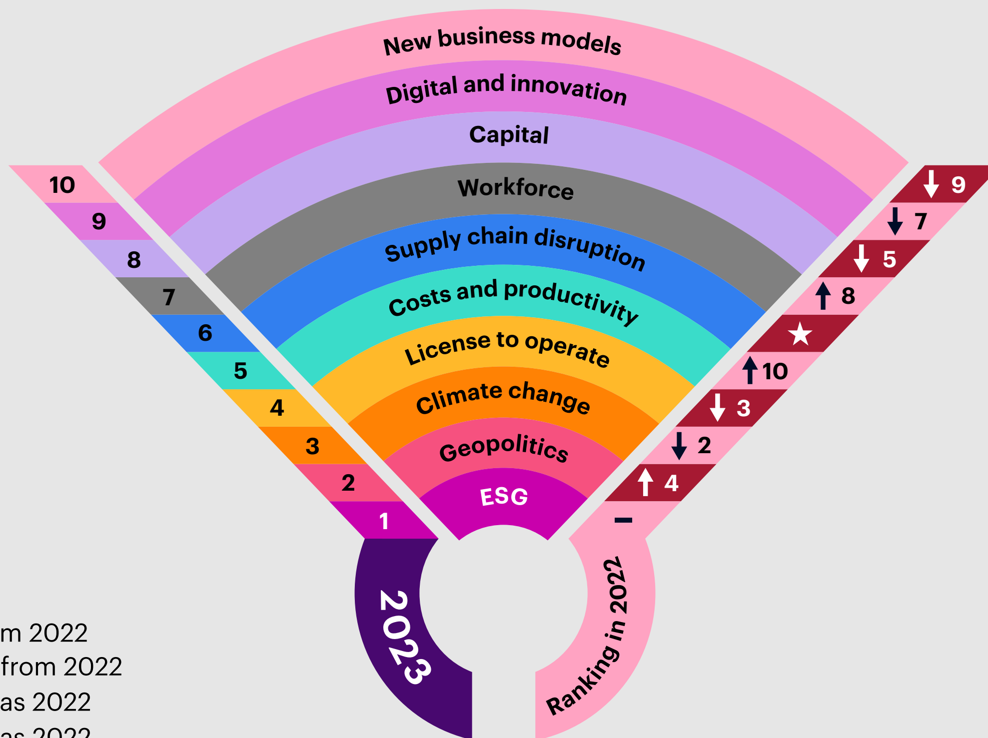
ESG is no longer just the concern of the Sustainability department

So back to my original question: has the world changed, or did I change?

Given that the day-to-day focus of my role at Goldcorp was not radically different from my time in sustainability consulting, I would say it was the world that has changed; during my time at Goldcorp, ESG risks were among the most material risks facing the organization.

[2] https://www.ey.com/en_gl/mining-metals/risks-opportunities

Figure 2: **EY Top 10 business risks and opportunities for mining and metals in 2023**



↑ Up from 2022
↓ Down from 2022
– Same as 2022
★ Same as 2022

Source: https://www.ey.com/en_gl/mining-metals/risks-opportunities

Our department spent the majority of our time on risk-based projects, including deep-dive investigations into some of the most pressing risks facing the organization. The inclusion of someone with my background on the Risk team, was an acknowledgement of the prominence of the ESG risks facing the organization. ESG risk now sat along more traditional risk focus areas such as finance, treasury, and IT. I spent my time at Goldcorp ensuring that the company had the processes and procedures in place to respond to stakeholder pressures relating to ESG.

I believe my experience reflects a larger societal focus on ESG issues, and a growing pervasiveness of this subject. The growing focus on ESG trends is radically changing the role of the Risk Manager, who will increasingly play a critical role in bringing about sustainable change in mining companies. In this article, we will explore some of the changes facing Risk Managers and the mining industry at large as ESG takes an increasingly prominent role, and provide some tangible next steps to consider as mining companies come to grips with the ESG challenge.

The energy transition and the opportunity it brings to the mining industry

The rise of ESG brings new stakeholder expectations

While the energy transition provides tremendous opportunities for the mining industry, the increased recognition of ESG risks has led to new and increasing stakeholder expectations. Mining operations can have significant impacts on local ecosystems, to the climate, water, and biodiversity of the regions in which they operate, while they also have the opportunity to provide many social benefits to their local communities and stakeholders. It is therefore essential for miners to adopt sustainable mining practices to minimize their environmental footprint and maximize their social benefit.

Stakeholders such as customers, communities, insurers, lenders, and shareholders each have unique concerns relating to ESG; increasingly, they are expressing these interests though the development of initiatives, alliances, and standards.

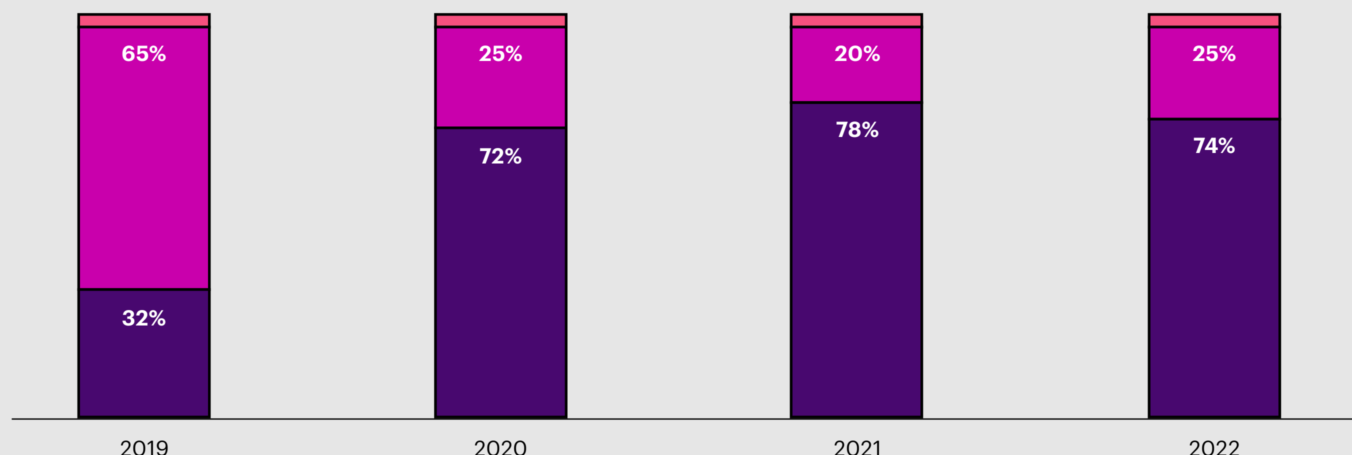
Lender and shareholder-lead initiatives are making ESG an access to capital issue

Investors and lenders are increasingly prioritizing ESG factors in their decision making. EY recently polled 320 institutional investors as part of their 2022 Global Corporate Reporting and Institutional Investor Survey[3]. In this survey, almost all respondents stated that they look at nonfinancial disclosures to at least some extent, and 74% replied that they took a "structured and methodical" approach to evaluating this information. For context, that number was only 32% as recently as 2019, showing how quickly investors have ramped up their scrutiny of ESG disclosure.

[3] https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/assurance/assurance-pdfs/ey-global-reporting-survey-report-2022.pdf

Figure 3: **EY survey of institutional investors' approach to evaluating non-financial disclosure**

Which one of the statements best describes how you and your investment team evaluate nonfinancial disclosures that relate to the environmental and social aspects of a company's performance?



Note: 2022 and 2020 data does not add to 100% because of rounding.

Source: https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/assurance/assurance-pdfs/ey-global-reporting-survey-report-2022.pdf

Investors are increasingly working together through initiatives to exert greater influence over the ESG performance of organizations in which they invest. A particularly relevant example of this is the Climate Action 100+. Climate Action 100+ is a global investor initiative launched in 2017 to ensure that the world's largest corporate greenhouse gas emitters take action on climate change. The initiative is comprised of over 500 investors representing over $47 trillion in assets under management. Climate Action 100+ has already achieved significant successes, including securing commitments from several focus companies to set emissions reduction targets and transition to clean energy. The initiative has also helped to put pressure on laggards and raise awareness of the financial risks associated with climate change[4].

This is just one of many examples of such initiatives. Other similar initiatives from lenders and investors include the Net Zero Banking Alliance, United Nations Principles for Responsible Investment, and Net Zero Asset Managers Initiative.

Individual asset managers, lenders, and pension funds are also adopting increasingly detailed programs for factoring ESG performance into investment decision making. For example:

- **BlackRock,** the world's largest asset manager, is well-known as a trailblazer in this space. Its core investing strategy is guided by a framework for measuring ESG performance, which involves tracking ESG risks and opportunities, as well as reporting on the impact of sustainable investments on the environment and society[5].
- **The Royal Bank of Canada** has similarly embedded climate risk factors into their credit decisions and are restricting financing in sensitive sectors and activities with significant environmental impacts, such as coal mining projects[6].
- **The Norwegian Government Pension Fund Global** (NGPF Global), one of the largest pension funds in the world, has set ambitious targets to reduce the carbon footprint of its portfolio and has divested from companies in certain high ESG risk sectors, such as coal and the oil sands. NGPF Global also engages with companies in its portfolio to promote ESG best practices[7].

[4] (n.d.). 2021 Year in Review A Progress Update. Climate Action 100+.
[5] (n.d.). ESG Integration. BlackRock.
[6] Weber, B. (2020, October 2). RBC announces new restrictions on financing coal, oil developments. National Post.
[7] Harrison, G. (2022, November 30). The GreenFin Interview: How Norway's $1 trillion sovereign wealth fund addresses climate risks. GreenBiz.

Climate is not the only ESG issue for stakeholders to prioritize

While many of the initiatives and investor practices above have a strong focus on climate, it is far from the only ESG concern held by stakeholders. The specific relevance of ESG topics to individual organizations will depend on such factors as the nature of their operations, the geographies in which they operate, and their stage in the mining lifecycle. However, certain key ESG topics are stakeholder concerns for almost all mining companies. In addition to climate, biodiversity, water management, indigenous/community relations, local procurement and diversity and inclusion have emerged as particularly hot topics as of late.

Tailings management also continues to be a critical issue in the mining sector and was brought into sharp focus by an initiative from the Church of England following a string of recent tailings dam failures. In January 2019, the catastrophic tailings dam failure at the Córrego do Feijão mining facility in Brumadinho, Brazil, led to environmental damage and 270 deaths. In response, the Church of England founded the Investor Mining and Tailings Initiative[8]. The goals of this initiative included establishing a Global Tailings Portal, increasing transparency around tailings management practices, and developing and adopting a Global Industry Standard on tailings management, to improve the standard of tailings management practices.

To date, 45 of the top 50 largest mining companies in the world, representing 87% of the industry by market capitalisation, have responded to the call for information for the Global Tailings Portal. The focus on this initiative is now shifting to the adoption of this standard. Based on the strong response to the call for information, the adoption of the tailings standard is expected to be equally robust.

While there may seem to be an almost endless list of ESG topics to focus on, standards and practices are also emerging to help companies better focus their attention. Later this article touches on the guidance of the IFRS' International Sustainability Standards Board (ISSB), which is particularly helpful as a starting point for identifying the ESG topics that are most material to your organization.

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Stakeholders with ESG concerns are plentiful

Together with a diverse set of ESG topics to consider comes an equally diverse set of stakeholders. Up to this point I have focused on investors and lenders, as they are often the most obvious group to consider, given their ability to control a mining organizations' access to capital. However, insurers, customers, and communities are also key stakeholders, with specific ESG interests:

- **Insurers:** insurers are increasingly playing a critical role in driving ESG performance by incorporating ESG considerations into their underwriting and investment decision-making processes. Many insurers are now assessing and pricing ESG risks, in order to encourage companies to adopt better ESG practices. By charging higher premiums for companies with poor ESG performance, insurers are creating financial incentives for companies to improve their ESG performance. Global reinsurer Swiss Re is one of many examples of (re)insurers that now evaluate the exposure of their underwriting portfolios to ESG risks[9].
- **Customers:** while mining companies are insulated to some extent from direct end-consumer pressures, new demands around traceability and ethical sourcing of materials have had a real impact on mining companies. Many retailers, such as jewelers and technology companies, are now adopting ethical supply chain policies to respond to such customer pressures; Apple, for example, has implemented a "conflict-free" sourcing policy[10]. This policy requires suppliers to identify the smelters and refiners that provide the minerals used in Apple products and to ensure that these smelters and refiners do not use minerals that finance armed groups or human rights abuses.
- **Communities:** as has long been the case for mining companies, community support is critical to obtaining a Social License to Operate. Key ESG concerns for communities include environmental issues such as land, water, and wildlife habitat damage due to pollution and contamination. Social concerns include health impacts on communities, displacement, loss of traditional livelihoods, and forced labor. Miners can help manage such concerns through open and active dialogue around these issues, and reframing license to operate concerns around long-term value creation opportunities, such as local procurement and employment.

To help manage growing stakeholder pressures and demands, the mining industry has developed a number of responsible mining standards. The World Gold Council's Responsible Gold Mining Principles, Copper Mark, and the Responsible Jewellery Council's Code of Practices Standard, are examples of the numerous standards available to guide the mining industry.

[8] (n.d.). The Investor Mining and Tailings Safety Initiative. The Church of England.
[9] Ernst, N., & Keller, J. (n.d.). Our ESG Risk Framework. Swiss Re.
[8] Avery, D. (2022, February 10). Apple breaks ties with 12 suppliers over concerns about 'conflict minerals' violations. CNET.

Looking ahead: practical first steps the Risk Manager can take to ensure their company is managing the new risk landscape correctly

As the ESG risks and opportunities that mining companies face continue to grow, there are a few simple steps that Risk Managers can take to better manage these issues:

1. **Understand your exposure on material ESG topics**
   A structured materiality assessment process is the first step in better understanding the most significant ESG risks and opportunities. This can involve analyzing the impact of ESG issues on the company's operations, supply chain, and reputation. By understanding their exposure to material ESG topics, mining companies can develop strategies to manage these risks effectively.

   Fortunately, there is a wealth of guidance available to companies for understanding and managing their ESG exposures. The Sustainability Accounting Standards Board (SASB) — now under the umbrella of the IFRS' International Sustainability Standards Board — has identified a subset of ESG issues most relevant to financial performance and enterprise value for 77 industries, including Mining & Metals[11]. Organizations often use SASB as the foundation of their materiality assessment process, often in combination with inputs from key internal and external stakeholders.

   In addition to SASB, there is also specific topic-based guidance available. The Taskforce on Climate-Related Financial Disclosures (TCFD) provides guidance for organizations to both better manage and disclose on the topic of climate. Similar guidance is forthcoming for biodiversity, with the release of the Taskforce on Nature-Related Financial Disclosures (TNFD) later in 2023. The TNFD, in addition to providing management and disclosure guidance, also includes a framework for assessing biodiversity risks and opportunities.
2. **Encourage better ESG governance**
   Once an organization has a good understanding of its most material ESG issues, it should begin building appropriate governance structures, strategies for managing these issues, and metrics and targets to measure progress. Risk Managers have a unique insight into the governance structures of their organization; through their direct access to senior management and the Board, they are well positioned to provide recommendations and influence the future direction of how ESG issues are managed in their organizations. Risk Managers can also encourage better ESG governance by promoting the adoption of strong policies and procedures for managing ESG risks.
3. **Help integrate ESG into corporate strategy and planning**
   Risk Managers can help mining companies integrate ESG considerations into their corporate strategy and planning processes. As discussed in the previous section, this can involve identifying ESG risks and opportunities and developing strategies to manage these risks and capitalize on these opportunities. By integrating ESG into corporate strategy and planning, mining companies can enhance their ESG performance, build resilience, and create long-term value for stakeholders.

   Guidance is available to Risk Managers for incorporating ESG into corporate strategy and planning. Most Risk Managers will be familiar with COSO (or the Committee of Sponsoring Organizations of the Treadway Commission). The latest version of COSO's Enterprise Risk Management framework provides specific guidance on how organizations can integrate ESG considerations into their overall governance, strategy, and culture. The guidance is specifically written for risk management and sustainability practitioners, and provides a practical, step-by-step framework for integration.

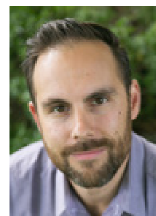
[11] (n.d.). SASB standards overview. IFRS Foundation.
[12] COSO and WBCSD (2018, October 18). Enterprise Risk Management; Applying enterprise risk management to ESG-related risks.

Figure 4: **COSO framework for applying enterprise risk management to ESG**

Source: https://www.coso.org/Shared%20Documents/COSO-WBCSD-ESGERM-Executive-Summary.pdf

Conclusion: Risk Mangers are critical to their organization's ability to meet the ESG challenge

Clearly ESG issues are of critical and growing importance to mining companies, and Risk Managers can play an important role in helping mining companies manage the risks and opportunities that come with this topic. By applying their core skills around identifying and assessing risk, developing risk management strategies, and applying their broad organization knowledge, Risk Managers are in a unique position to help their organization navigate the increasingly complex ESG landscape and ensure mining companies can continue to operate in a sustainable and responsible manner.



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