



Insurance  
Reinsurance

# Water Risk Insights



Water risks		
Physical risks	Reputational risks	Regulatory risks

Industries							
Food, beverage and agriculture	Apparel and textiles	Utilities	Manufacturing	Technology and electronics	Healthcare and pharmaceuticals	Transport and logistics	

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# Background

At AXA XL, we aim to shine a spotlight on how to manage water-related risks, a fundamental component of adapting to climate change.

The cost to businesses of inaction on water risks is five times higher than the cost of action, according to a report by the international nonprofit CDP. Companies will benefit from understanding and assessing the financial and operational implications of water risks.

Creating a water-secure world requires water resources to be protected and properly managed.

All stakeholders relying on water should understand how changes in global climate will impact their financial security. As part of AXA XL's **Valuing Water** initiatives, the AXA XL Sustainability team has developed a set of insights to improve understanding of water challenges that pose a risk to the continuity of business operations across the world.

These insights are designed to be used both by the public, and by businesses across a range of sectors, who may not be aware of the impact of changes in water security on their operations. Sectors have been selected based on AXA XL's client-base and those with high exposure to water risks.

We aim to be a resource that government, regulators, and clients turn to for guidance on mitigating climate risk.

# Objectives

It's more essential than ever that water is at the forefront of corporate climate strategies, but it's currently under-represented in the public debate on climate change.

AXA XL aims to:

- Improve our clients' understanding of water-related risks and how these can impact their operations.
- Encourage action to combat water risks and improve water security.
- Highlight tools that are available for businesses to improve their water security status.



CDP (2020)

<https://www.cdp.net/en/research/global-reports/global-water-report-2020>



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# Water risks

Water risks are separated into three categories; physical water risks; reputational water risks and regulatory water risks.

While some businesses may already be planning for physical water risks, reputational and regulatory water risks are less widely considered but can have just as significant an impact on business operations.

In this report, we will provide more information on physical, reputational and regulatory water risks, and how they may impact business continuity.

Recommendations are made to support businesses in building resilience and finding solutions to manage these water risks. Key recommendations include carrying out value chain water footprinting and accounting, valuing the full cost of water, setting water targets and disclosing data, and engaging in scenario planning activities.

We also make suggestions on which publicly available tools can help with reducing water risk and improving future water security.



- Water scarcity**
- Climate change and threats to ecosystems**
- Poor water quality and pollution of water resources**
- Flooding**
- Poor management of water resources**

- Negative media coverage and public scrutiny**
- Changes in consumer loyalty**
- Loss of market share due to litigation**
- Damage to brand**

- Higher water prices**
- Regulation of effluent quantity and quality**
- Statutory water withdrawal limits**
- Regulatory uncertainty**





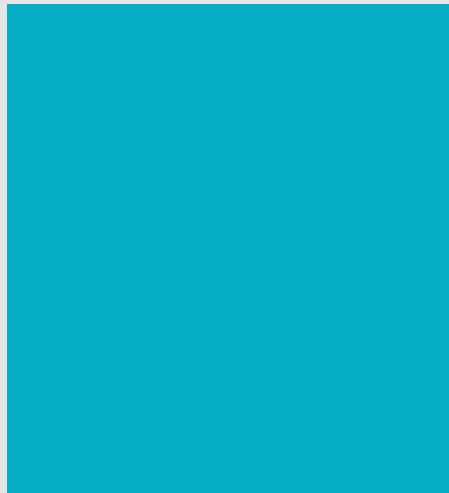
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# Physical risks

Businesses face varying physical water risks based on what they do and on the location of their supply chains. Water scarcity, climate change and threats to ecosystems, pollution of water resources, flooding and poor management of water resources pose the greatest threats.

Broadly speaking, these are: having too much water, having too little water or having water that is inaccessible or unfit for use. The challenges these risks cause for businesses are based on the exposure of business operations to these physical risks.



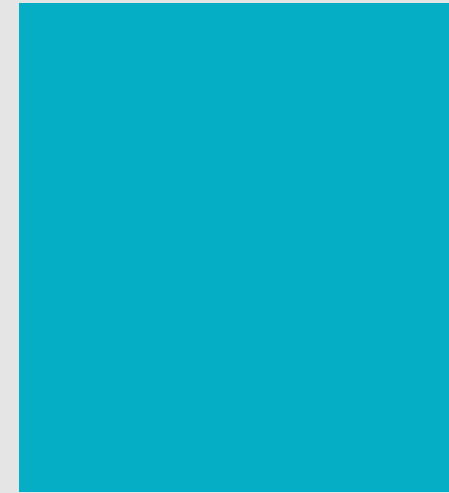
Water scarcity impacts the sectors with the highest water usage. High risk sectors include food, beverage and agriculture, apparel and textiles, utilities, and manufacturing. Clothing has a high imported water risk, as China, India and Bangladesh all suffer from water scarcity challenges and account for significant clothing exports globally.



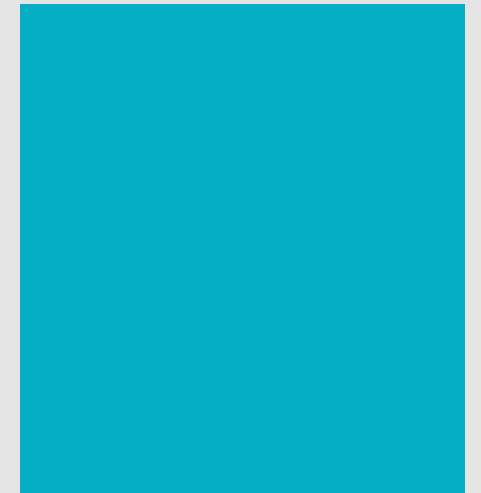
Not only does climate change create uncertainty over future climate conditions, but damage to ecosystems also has a significant impact on the availability of raw materials. Sectors particularly affected include food, beverage and agriculture, apparel and textiles, and transport and logistics.



Several sectors are at risk of polluting public water resources. Agricultural and land management and food and drink production directly impact ecological standards. Runoff from cotton production can pollute waterways and water companies have previously been fined for illegal effluent discharge. The pharmaceuticals and technology sectors are particularly vulnerable to poor water quality.



Within the food, beverage and agriculture sector, crops are at risk of flooding. Crops used for apparel and clothing often come from regions of high flood risk. The transport and logistics sector can be significantly disrupted by both pluvial and fluvial flooding.



Water companies are at a high risk of poor management of water resources. Poor management has a direct impact on water availability over space and time.



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# Water scarcity

## Water scarcity

Globally, groundwater is being withdrawn at far greater rates than the rates at which it is being replenished. This means that over half of the world's aquifers are past tipping points, putting global water security at increasing risk <sup>(2)</sup>.

Global water demand is projected to outstrip global water supply by 2030.

Like other users, businesses suffer when they run out of water.

Those that are highly reliant on water are already taking action to ensure water security over the long term.

Those that do not adopt water security practices will face uncertainty as the impacts of water scarcity become more extensive on the back of climate change and overuse.

Water scarcity can disrupt supply chains, increase the cost of raw materials, impact staff health and safety and, in the worst cases, halt business operations.

Tackling water scarcity can help to reduce long-term risks and can help businesses to maintain competitive advantage as well ensuring stability of supply chains over the long term <sup>(3)</sup>.



2

**Famiglietti, 2019**

<https://www.pewtrusts.org/en/trend/archive/spring-2019/a-map-of-the-future-of-water>

3

**Anthesis Group, 2022**

<https://www.anthesisgroup.com/water-scarcity-and-business-risk/>



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# Climate change and threats to ecosystems

## Climate change and threats to ecosystems

Healthy hydrological systems mitigate risks associated with poor water quality.

Water from aquifers and rivers that have been protected from contamination usually provide a source of good quality water. It is in water users' interests to protect ecosystems, while investing in ecosystem protection can ensure the sustainable flow of clean water <sup>(4)</sup>.

Protecting ecosystems can reduce the likelihood of floods, pollution, erosion, drought, water-related disease and saline intrusion <sup>(5)</sup>, all of which are risk factors associated with climate change.

The physical water risks associated with climate change include flooding, poor water availability, drought, rising sea levels and poor water quality <sup>(6)</sup>.

The Intergovernmental Panel on Climate Change (IPCC) said that it is also likely that climate change has increased the frequency and intensity of tropical cyclones <sup>(7)</sup>.

Today, water-related hazards account for 90% of all natural hazards <sup>(8)</sup>. These physical risks can cause damage to property, assets and can significantly disrupt business operations and supply chains.

The long-term consequences of rising sea levels will significantly impact businesses. Companies with low-lying assets or coastal properties may find it more difficult to insure their assets as sea levels rise.

In the IPCC's worst-case scenarios with global temperatures reaching above 3.3°C, the relocation of low-lying properties would be essential. Investing in nature-based defences and carrying out scenario planning activities will allow businesses to adapt to rising sea levels, whilst minimising disruption to operations.

Businesses are also subject to transitional and liability risks associated with climate change. Transitional risks arise from new laws, policies and regulation designed to address climate change.

**4** WWF, 2009  
[https://awsassets.panda.org/downloads/understanding\\_water\\_risk\\_iv.pdf](https://awsassets.panda.org/downloads/understanding_water_risk_iv.pdf)

**5** UN, 2012  
<https://www.unwatercoursesconvention.org/documents/UNWC-Fact-Sheet-7-Protection-and-Preservation-of-Ecosystems.pdf>

**6** UN-Water, 2021  
<https://www.unwater.org/water-facts/climate-change/>

**7** IPCC, 2021  
<https://www.ipcc.ch/>

**8** IWA, 2021  
<https://iwa-network.org/climate-change>





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# Poor water and pollution of water resources

## Poor water and pollution of water resources

Poor ambient water quality increases the level of treatment required to make it fit for business use. Businesses can therefore be forced to pay more for water treatment services and product quality can sometimes be affected.

But disruption to business from poor water quality is relatively low compared to other water-related risks. Cost of treatment is generally low compared to other business costs and is typically shared, as water is supplied through the public water supply system.

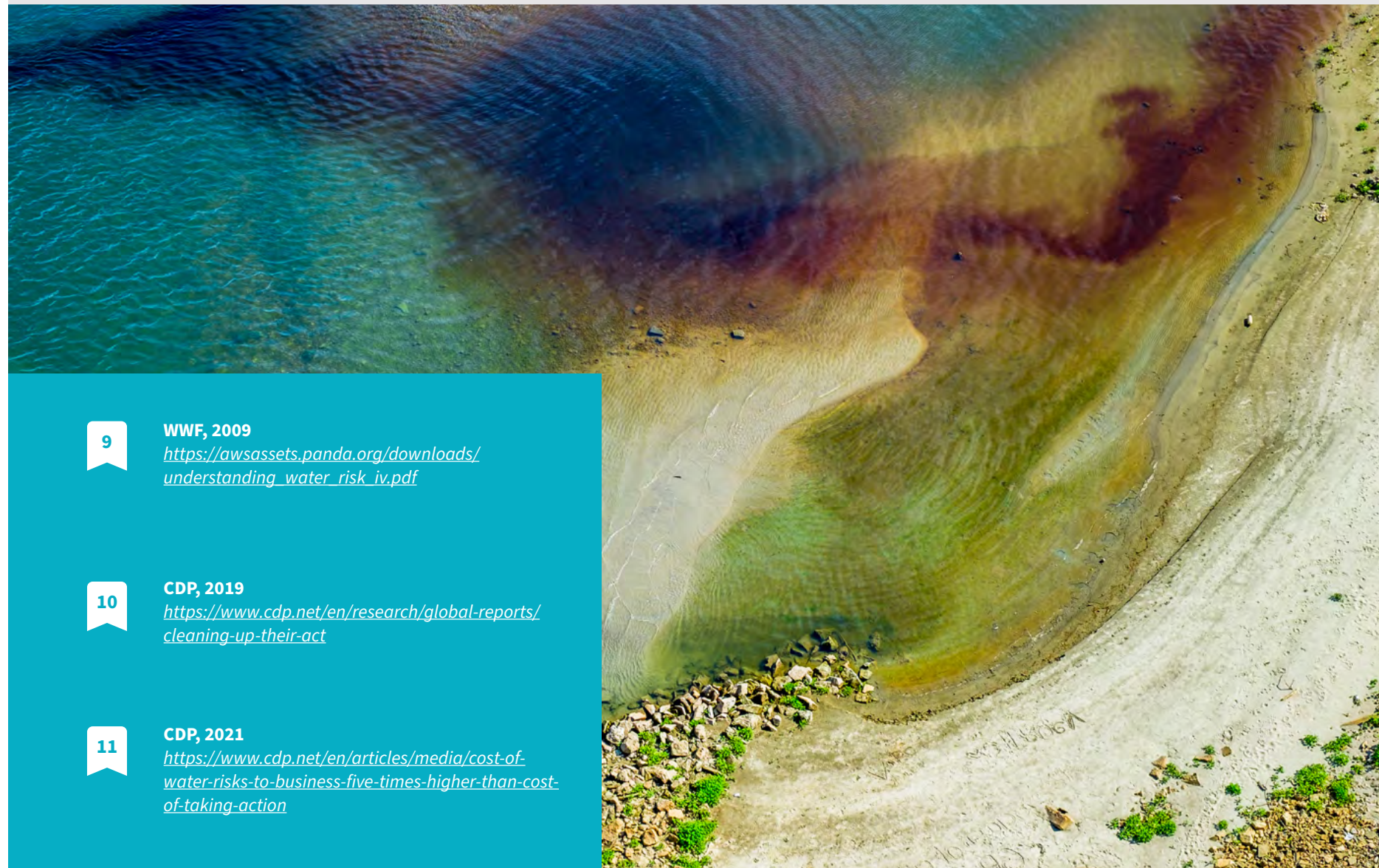
Pollution of water resources can have a significant impact on the reputation of businesses, particularly when operations pollute water resources from effluent discharges and poor practices <sup>(9)</sup>.

Nutrients from pesticides and soils in agriculture frequently pollute water resources and impact ecosystems. Emerging pollutants from personal care products, pharmaceuticals and industrial chemicals pose new water quality challenges affecting both human health and ecosystems.

More needs to be done by businesses to tackle water pollution.

CDP's 2019 Water Report highlighted that only 12% of disclosing companies have set pollution reduction targets <sup>(10)</sup>.

Companies that take the initiative to monitor pollution from their facilities before regulators enforce it upon them will be rewarded. CDP has estimated that the cost of the impacts of water risks is five times the cost of addressing them early <sup>(11)</sup>.



**WWF, 2009**

[https://awsassets.panda.org/downloads/understanding\\_water\\_risk\\_iv.pdf](https://awsassets.panda.org/downloads/understanding_water_risk_iv.pdf)



**CDP, 2019**

<https://www.cdp.net/en/research/global-reports/cleaning-up-their-act>



**CDP, 2021**

<https://www.cdp.net/en/articles/media/cost-of-water-risks-to-business-five-times-higher-than-cost-of-taking-action>



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# Flooding

## Flooding

Flooding is one of the water-related risks that most significantly affects businesses <sup>(12)</sup>, according to CDP's 2020 Water Security questionnaire.

Of particular note, the continuity of businesses across the world is threatened by surface water flooding following heavy downpours.

Financial impacts of flooding are caused by direct damage to property or stock; by interruption to operations caused by a lack of basic services such as water supply and treatment, electricity, roads, and telecommunications; or by disruption to supply chains.

A return to normal trading after a flooding event could be hampered by lack of customer demand, loss of productivity or poor access to critical infrastructure services <sup>(13)</sup>.

Despite the prevalence of flood threat (particularly in Europe and Asia), businesses have been slow to implement flood resilience plans.

With the IPCC stating there is high confidence that climate change is increasing the frequency and intensity of floods, businesses should be looking to bolster flood resilience strategies by investing in flood protection for properties and assets, developing flood risk contingency plans and accessing parametric insurance solutions <sup>(14)</sup>.



- 12** **CDP, 2021**  
<https://www.cdp.net/en/articles/media/cost-of-water-risks-to-business-five-times-higher-than-cost-of-taking-action>
- 13** **WWF, 2015**  
[http://assets.wwf.org.uk/downloads/wwf020\\_from\\_risk\\_to\\_resilience.pdf?\\_ga=1.49012454.1991529649.1444910634](http://assets.wwf.org.uk/downloads/wwf020_from_risk_to_resilience.pdf?_ga=1.49012454.1991529649.1444910634)
- 14** **Marsh McLennan, 2021**  
[https://www.marshmclennan.com/content/dam/mmc-web/insights/publications/2021/december/Preparing\\_for\\_a\\_wetter\\_world.pdf](https://www.marshmclennan.com/content/dam/mmc-web/insights/publications/2021/december/Preparing_for_a_wetter_world.pdf)



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# Poor management of water resources

## Poor management of water resources

Businesses of all types from around the world are already feeling the effects of poor water resource management. Over-abstraction of groundwater means global water demand is projected to outstrip supply by 2030 <sup>(15)</sup>.

Not only does this impact water availability, but it has knock-on consequences such as saltwater intrusion, subsidence, loss of soil moisture and exposure to heavy metals <sup>(16)</sup>. Across the world, 148 countries share 276 transboundary basins, indicating that the management of water resources requires cooperation between multiple nationalities and stakeholders <sup>(17)</sup>.

Better management of water resources requires investment into infrastructures such as desalination technology and improved dams, as well as new legal and regulatory frameworks to control rates of groundwater abstraction. It also requires water pricing and incentives to conserve water resources in certain regions.

Businesses are a key stakeholder in water management because of their high demand for water and the impact that their operations have on water resources.

If water scarcity crises materialise, businesses risk reputational damage if they are seen to be intensive water users.

Of course, some sectors are naturally more water intensive than others, and so to mitigate reputational risks, businesses should not only continually assess their water practices but should also support better water management practices from local to international levels <sup>(18)</sup>.



**15** Anthesis Group, 2022  
<https://www.anthesisgroup.com/water-scarcity-and-business-risk/>

**16** WWF, 2009  
[https://awsassets.panda.org/downloads/understanding\\_water\\_risk\\_iv.pdf](https://awsassets.panda.org/downloads/understanding_water_risk_iv.pdf)

**17** World Bank, 2017  
<https://www.worldbank.org/en/topic/waterresourcesmanagement#1>

**18** WWF, 2009  
[https://awsassets.panda.org/downloads/understanding\\_water\\_risk\\_iv.pdf](https://awsassets.panda.org/downloads/understanding_water_risk_iv.pdf)



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# Reputational risks

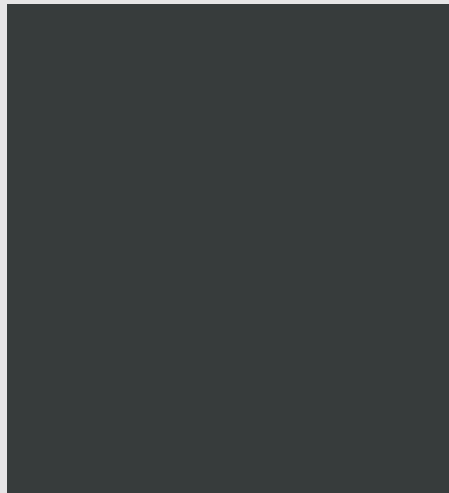
Reputational risks arise from the way in which customers and other external stakeholders such as investors, employees and community organisations, perceive a company's negative impact on water resources, ecosystems and the communities that depend on them <sup>(19)</sup>.

Reputation is a critical corporate asset that can be difficult to manage and quantify. Protecting businesses from reputational risks is essential for business continuity and growth.

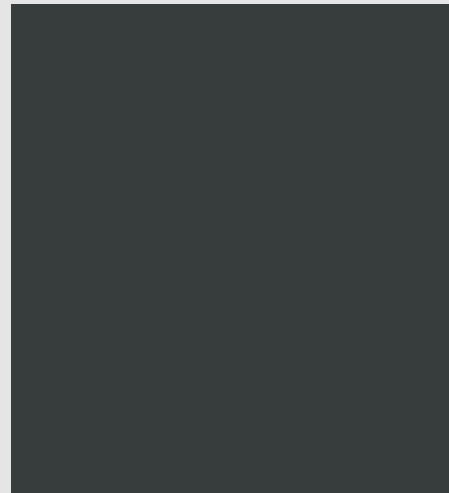
19

**GRESB, 2022**

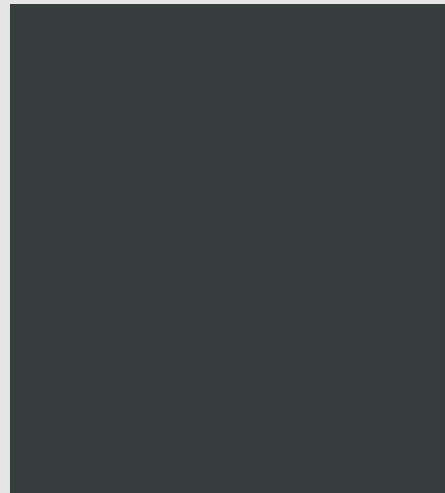
<https://gresb.com/nl-en/2018/08/20/advancing-water-risk-assessment-moving-beyond-the-standard-tools/>



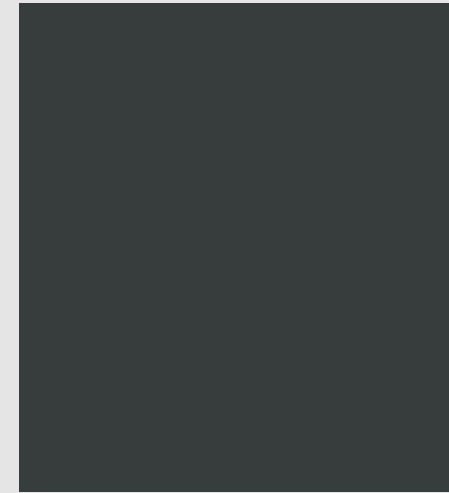
All industries face the risk of negative media coverage and public scrutiny influencing their customers, clients or investors to varying degrees. Public scrutiny can also catalyse a change in regulation leading to financial penalty for businesses with poor water stewardship practices. For water companies in the UK, negative media coverage has led to litigation over raw sewage discharge into public waterways.



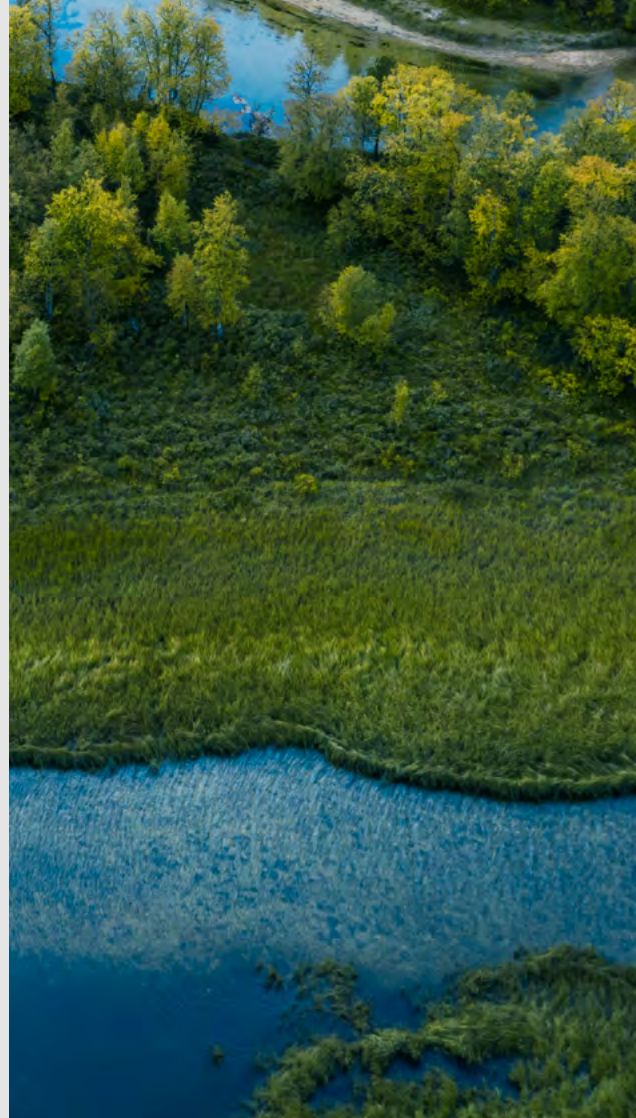
Consumer-facing sectors are most at risk of changing consumer loyalty in the wake of reputational damage. In recent years, notable clothing companies have been boycotted due to bad environmental and social practices. Several beverage companies have also come under scrutiny for poor management of plastic packaging waste.



Most sectors are not at significant risk of loss of market share due to litigation. However, as the number of cases of litigation associated with climate change increases, there is future risk for businesses that cannot demonstrate good environmental practices.



A company's reputation on environmental, social and governance (ESG) issues is increasingly important to investors, employees, NGOs and customers. Poor environmental practices can cause significant brand damage. Conversely, good water stewardship practices can bolster brand value.





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# Negative media coverage and public scrutiny

## Negative media coverage and public scrutiny

Now, more than ever, the public is prioritising responsible corporate water stewardship when choosing which brands to interact with and champion.

But increasing competition among water users is resulting in conflict between the public and corporations.

This can come from public disapproval of perceived or actual abuse of water extraction and pollution<sup>(20)</sup>. This conflict can be particularly severe in regions where the perception is that water is being prioritised for corporate activity rather than for public use.

Companies are increasingly being held to account for poor water stewardship practices by the public and the media. As the public becomes more aware of global water security challenges, this awareness is likely to turn into demonstrable action ranging from prolonged protests to lawsuits.



20

Richards, A, 2016

[http://mars.gmu.edu/bitstream/handle/1920/10598/Richards\\_gmu\\_0883E\\_11291.pdf?sequence=1&isAllowed=y](http://mars.gmu.edu/bitstream/handle/1920/10598/Richards_gmu_0883E_11291.pdf?sequence=1&isAllowed=y)



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# Changes in consumer loyalty

## Changes in consumer loyalty

As the public places more emphasis on environmental practices when choosing brands, reputational issues will affect consumer loyalty.

Recent research shows that consumers now avoid buying products from brands that perform poorly on environmental practices <sup>(21)</sup>.

This can damage future business and revenue. As the public becomes increasingly sceptical about 'greenwashing' practices, corporations should make sure their water stewardship practices create meaningful environmental impacts, supported by evidence.

Companies that have been called out for greenwashing can suffer significant brand damage.



21

ING, 2020  
<https://www.ing.com/Newsroom/News/People-willing-to-drop-brands-that-hurt-the-planet-or-society.htm>



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# Loss of market share due to litigation

## Loss of market share due to litigation

Climate-change related litigation in the UK almost doubled between 2017 and 2020 <sup>(22)</sup>. Cases where corporations have been forced to pay substantial sums in damages for poor water practices are increasing.

Certain brands have also faced lawsuits for making false sustainability claims around water.

Investors are also placing increasing importance on companies that are managing short and long-term water risks and those that are considering stakeholder expectations, and not just those of shareholders.

Water utility companies are particularly at risk of litigation over the release of raw sewage into waterways (UK) or the presence of contaminants in drinking water (US).

22

LSE, 2021

[https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2021/07/Global-trends-in-climate-change-litigation\\_2021-snapshot.pdf](https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2021/07/Global-trends-in-climate-change-litigation_2021-snapshot.pdf)



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# Damage to brand

## Damage to brand

Companies seen as having poor water-related policies and practices are likely to suffer a hit to their reputation. Consumers increasingly want transparency on how companies use water and how their operations impact watersheds across the entire value chain.

Brand value is part of intangible value for companies. The value of intangible assets is estimated to be worth about five times that of tangible assets for most major businesses <sup>(23)</sup>.

Damage to brand can significantly damage a business's bottom line.

On the other hand, companies perceived to have positive sustainability policies and practices can see improved brand value and an increase in sales.



23

IP CloseUp, 2019

<https://ipcloseup.com/2019/06/04/21-trillion-in-u-s-intangible-asset-value-is-84-of-sp-500-value-ip-rights-and-reputation-included/>



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# Regulatory risks

Regulatory water risks stem from changes in regulatory initiatives, which can lead to an increase in the costs of business operations.

They include higher water prices, costs of compliance and statutory water withdrawal limits, all of which have the potential to impact business profitability.

For heavy water users, there is a real risk that competitive advantage could be undermined by cost inflation driven by water scarcity <sup>(24)</sup>.



## Higher water prices

Significant water users such as the food, beverage and agriculture, apparel and textiles, utilities, and manufacturing sectors will feel the impact of higher water prices most.

## Regulation of effluent quantity and quality

Changes in regulation of discharge quantities and qualities will affect those sectors that discharge effluent into water ways. Chemical releases from the pharmaceutical sector may be more highly regulated in the future. <sup>(25)</sup>

## Statutory water withdrawal limits

Water withdrawal limits will affect businesses with global operations and supply chains based in water scarce regions. The food, beverage and agriculture, and apparel and textiles industries will be significantly impacted.

## Regulatory uncertainty

Regulatory uncertainty will impact utilities, apparel and textiles and manufacturing industries. The uncertainty typically exists over water footprints affecting water withdrawal and contamination practices.

**24** WWF, 2009  
[https://awsassets.panda.org/downloads/understanding\\_water\\_risk\\_iv.pdf](https://awsassets.panda.org/downloads/understanding_water_risk_iv.pdf)

**25** Miettinen, Khan, 2021  
<https://onlinelibrary.wiley.com/doi/10.1111/reel.12422>



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# Higher water prices

## Higher water price

As global water availability reduces, it's likely that greater competition for scarce water resources and the increased cost of treatment for contaminated water will increase the price of water.

As the cost of energy is set to increase, this will also have a knock-on effect on the cost of water.

Water experts believe that water is currently under-priced and higher tariffs will encourage businesses to pollute less, waste less and invest more in water infrastructure <sup>(26)</sup>.

If companies can gain greater clarity on the exact allocation and use of water along the supply chain, investments can be made in technology that can assist in water conservation practices that can generate significant expense savings.

When Microsoft built a data centre in San Antonio, Texas, there was concern over localised water scarcity. Microsoft initiated a site-specific water efficiency and quality plan that led to the adoption of smart water management technologies, saving them over \$140,000 a year and conserving 58.3 million gallons of water annually <sup>(27)</sup>.

Internally pricing water appropriately and preparing for increases in tariffs will allow businesses to manage water risks and operate more sustainably as the impacts of water scarcity become more prevalent.

26

**OECD, 2021**

<https://www.oecd.org/env/resources/water-therightpricecanencourageefficiencyandinvestment.htm>

27

**CEO Water Mandate, 2017**

[https://ceowatermandate.org/wp-content/uploads/2018/01/Water\\_Risk\\_Monetizer\\_Microsoft\\_Case\\_Study.pdf](https://ceowatermandate.org/wp-content/uploads/2018/01/Water_Risk_Monetizer_Microsoft_Case_Study.pdf)





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# Regulation of effluent quantity and quality

## Regulation of effluent quantity and quality

Environmental regulation provides an opportunity to ensure that businesses are operating on a level playing field, and that those businesses that are following good water stewardship practices are not undercut by others that are not operating within the regulatory requirements.

Companies that mismanage water resources, whose activities contravene legal requirements, will be doing significant reputational damage to their businesses.

Water quality issues are less visible than issues of drought or scarcity but are still as significant for ecological protection.

The agricultural sector is particularly prone to the pollution of freshwater resources, damaging rivers, lakes, wetlands, estuaries, and groundwater.

While good regulation of effluent discharge volumes requires businesses to carry out sound environmental practice, which can come at a financial cost, a lack of regulation leads to the degradation of freshwater resources.

There is real economic advantage from reducing the volume of wastewater that needs to be treated <sup>(28)</sup>.



28

CERES, 2017

[https://www.ceres.org/sites/default/files/reports/2017-03/Ceres\\_AquaGauge\\_All\\_101113.pdf](https://www.ceres.org/sites/default/files/reports/2017-03/Ceres_AquaGauge_All_101113.pdf)



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# Statutory water withdrawal limits

## Statutory water withdrawal limits

Water experts believe that there is an urgent need for government regulation to introduce monthly water footprint caps for all river basins in the world.

These set a maximum water volume allocated for different competitive purposes.

Specific users are given a certain volume of water by the introduction of water footprint permits <sup>(29)</sup>.

Achieving a zero-water footprint is unlikely to be possible, but water consumption for each sector can be substantially reduced.

Water footprint benchmarks for products that require significant water withdrawals such as beverages, apparel and construction should be developed so that the recommended water consumption in each step of a product's supply chain is widely understood.

Rather than having one fixed price for water, it may be that in the future, businesses will pay for their water use and water pollution based on water vulnerability and scarcity at that moment in time and within the specific region where they operate <sup>(30)</sup>.



**29** **Hoekstra, 2014**  
[nature.com/collections/thwkqwkns1](https://www.nature.com/collections/thwkqwkns1)

**30** **CDP, 2021**  
<https://www.cdp.net/en/articles/water/internal-water-pricing-is-changing-how-companies-do-business>



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# Regulatory uncertainty

## Regulatory uncertainty

Regulatory risk occurs when policy and regulatory initiatives are inconsistent or poorly implemented <sup>(31)</sup>.

Governments are responsible for implementing water policies that allow for the effective management of water resources and infrastructure.

However, in many places, policies and regulation are often poorly adhered to and implemented.

Corporations can protect their reputations by ensuring regulations governing water practices are consistently followed.

Where uncertainty creates challenges is when future scenarios are unpredictable.

If water scarcity is particularly severe in certain years, it may be the case that new, short-term regulation is introduced to limit the amount of water that can be withdrawn by corporations.

In this case, the limits on water would require rapid changes in operations, but additionally, the speed with which these regulations are introduced may jeopardise operations.

As governments consider reforming abstraction licenses to account for climate change, corporations face uncertainty over future allocations of water, making forward planning difficult <sup>(32)</sup>.

31

**Richards, A, 2016**

[http://mars.gmu.edu/bitstream/handle/1920/10598/Richards\\_gmu\\_0883E\\_11291.pdf?sequence=1&isAllowed=y](http://mars.gmu.edu/bitstream/handle/1920/10598/Richards_gmu_0883E_11291.pdf?sequence=1&isAllowed=y)

32

**WWF, 2015**

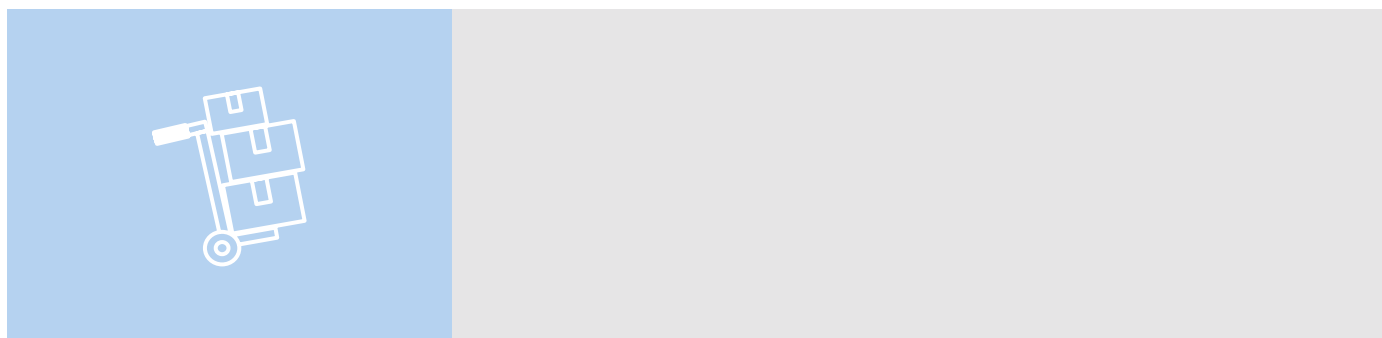
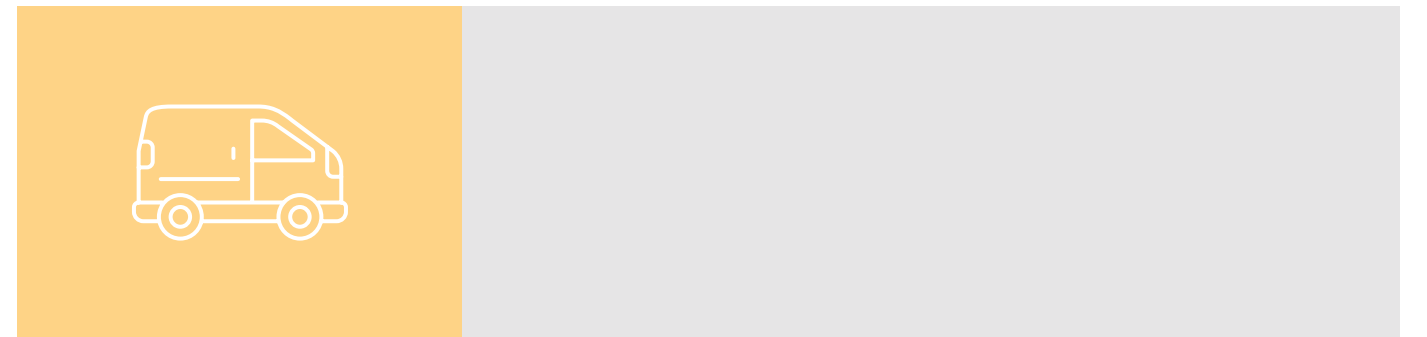
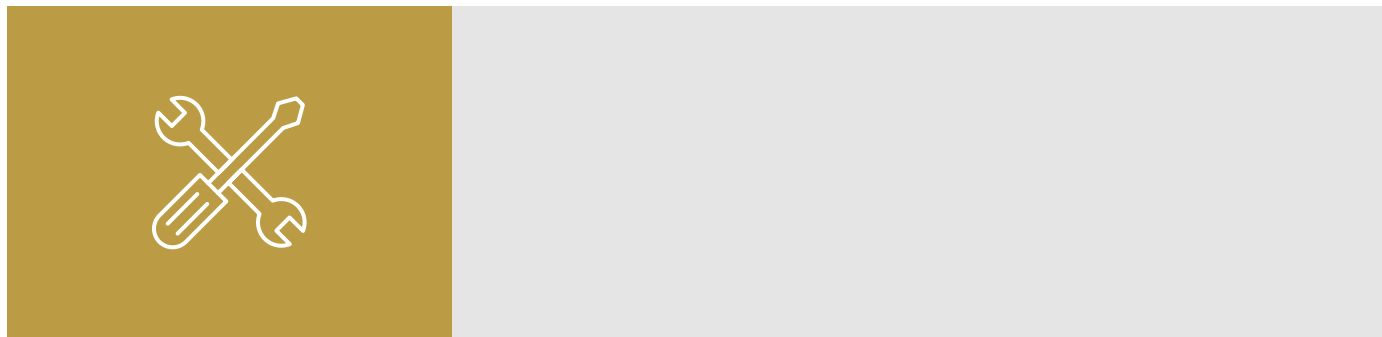
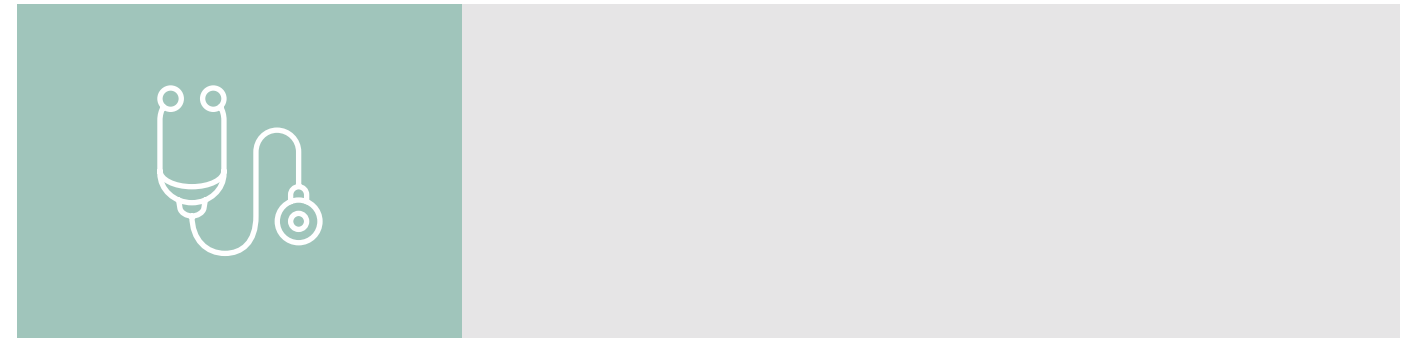
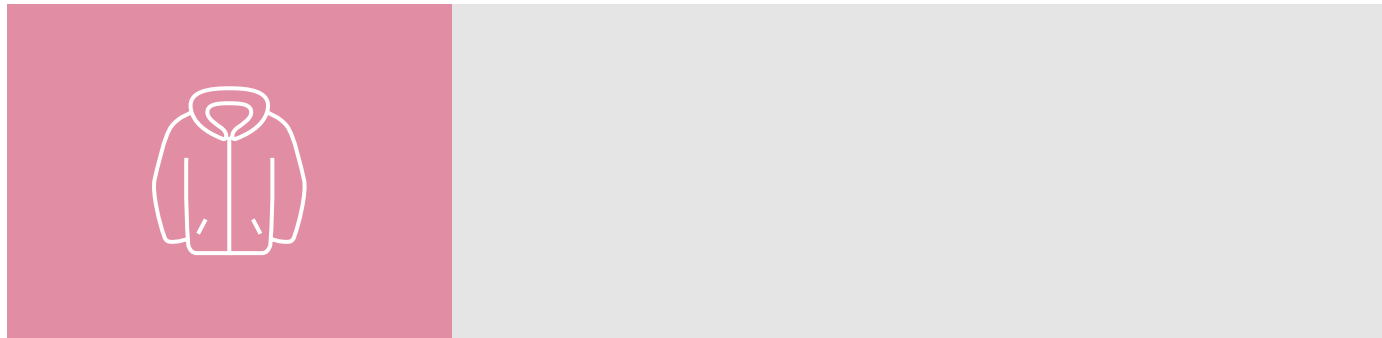
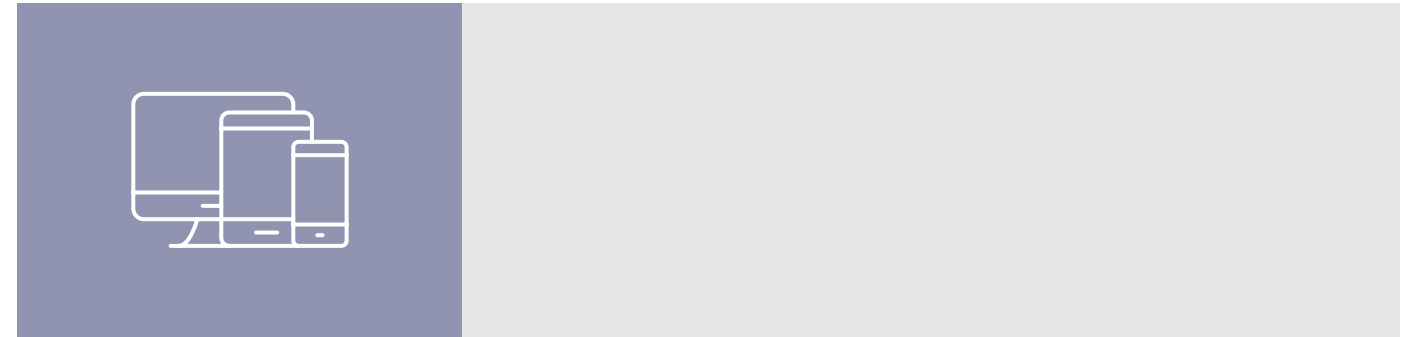
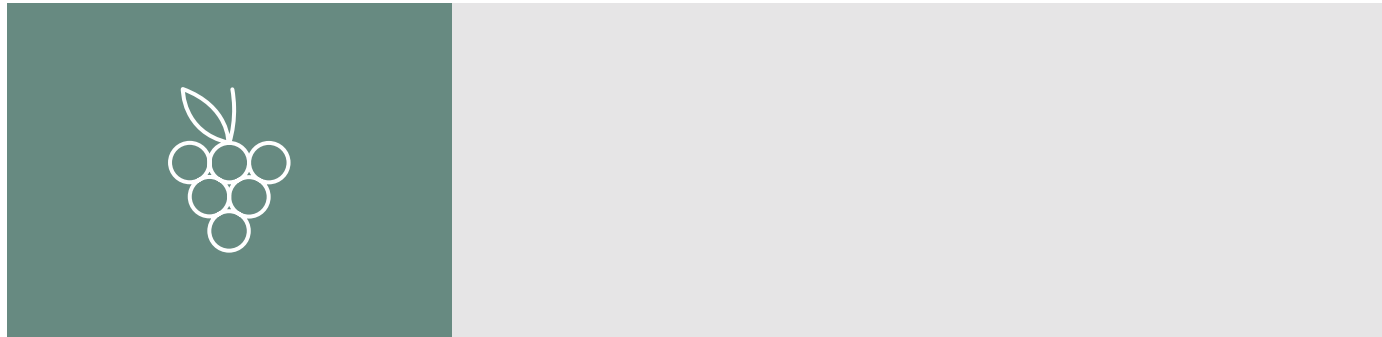
[http://assets.wwf.org.uk/downloads/wwf020\\_from\\_risk\\_to\\_resilience.pdf?\\_ga=1.49012454.1991529649.1444910634](http://assets.wwf.org.uk/downloads/wwf020_from_risk_to_resilience.pdf?_ga=1.49012454.1991529649.1444910634)



Water risks		
Physical risks	Reputational risks	Regulatory risks

Industries							
Food, beverage and agriculture	Apparel and textiles	Utilities	Manufacturing	Technology and electronics	Healthcare and pharmaceuticals	Transport and logistics	

# Industries





Water risks		
Physical risks	Reputational risks	Regulatory risks

Industries						
Food, beverage and agriculture	Apparel and textiles	Utilities	Manufacturing	Technology and electronics	Healthcare and pharmaceuticals	Transport and logistics



# Food, beverage and agriculture

The food, beverage and agriculture sector is one of the most sensitive to water stress. Clean freshwater is a critical asset to food and beverage companies and to the farmers who grow the raw ingredients that supply the sector.

As they consume 70% of the world's freshwater<sup>(33)</sup>, food industry companies will be among the first to feel the impacts of global water supply challenges.

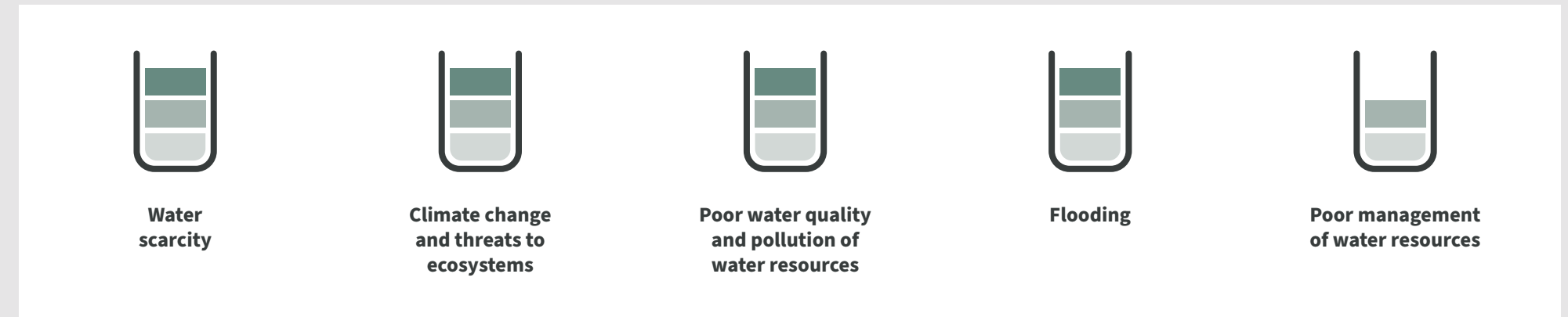
While the sector leads in water stewardship practices, with some companies aiming for 100% water reuse<sup>(34)</sup>, not enough businesses are aware of vulnerabilities to water risks across agricultural supply chains<sup>(35)</sup>.

Water scarcity, pollution, and other water management challenges will significantly impact operations in the sector, which itself also contributes to impacts on freshwater and local ecosystems.

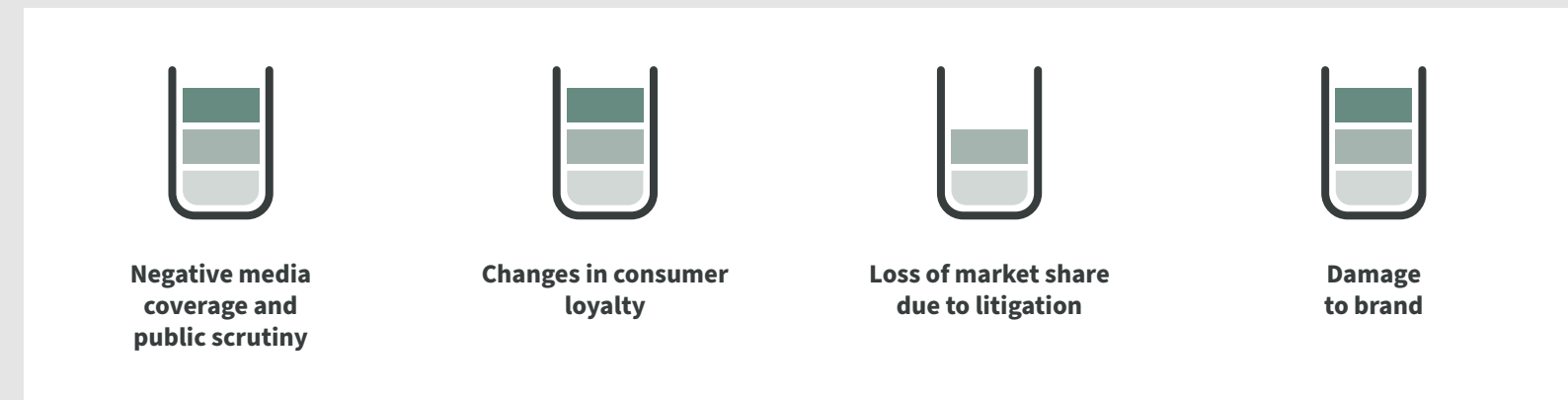
## Water risks matrix

High risk Medium risk Low risk

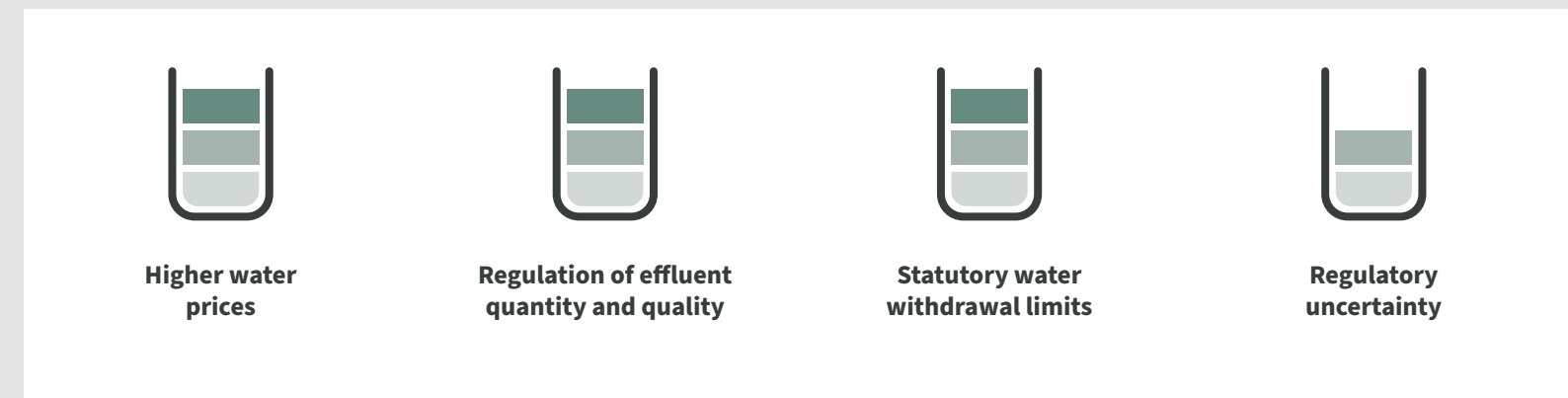
### Physical risks



### Reputational risks



### Regulatory risks



33 CERES, 2021  
<https://feedingourselfthirsty.ceres.org/water-risks-and-food-sector>

34 PepsiCo 2020  
<https://www.pepsico.com/sustainability-report/water>

35 GreenBiz, 2021  
<https://www.greenbiz.com/article/why-water-stewardship-food-sector-failing-and-how-change-it>



Water risks		
Physical risks	Reputational risks	Regulatory risks

Industries						
Food, beverage and agriculture	Apparel and textiles	Utilities	Manufacturing	Technology and electronics	Healthcare and pharmaceuticals	Transport and logistics



# Apparel and textiles

The apparel and textiles sector uses billions of cubic metres of water every year <sup>(36)</sup>.

The industry is a major water polluter, from agricultural runoff from growing raw materials to the release of chemicals from the dyeing process <sup>(37)</sup>.

The production, use and disposal of textiles is also a significant source of microfibre and microplastic pollution <sup>(38)</sup>.

Despite these significant risks, CDP estimates that the apparel and textiles sector is largely unaware of the risks of water scarcity and water pollution faced by the sector <sup>(39)</sup>.

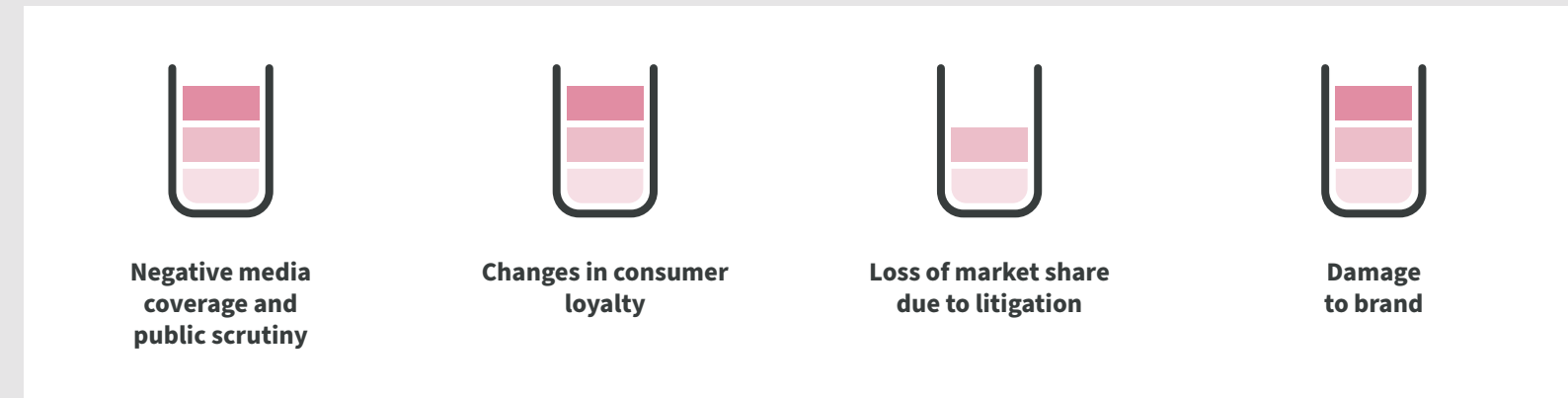
## Water risks matrix

High risk  Medium risk  Low risk

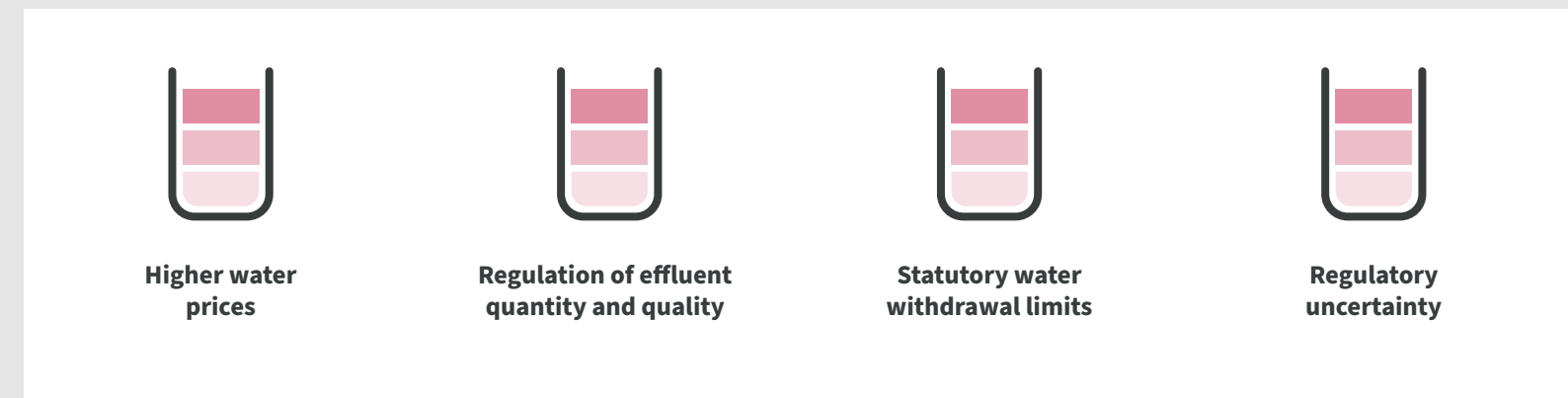
### Physical risks



### Reputational risks



### Regulatory risks



**36** World Bank, 2019  
<https://www.worldbank.org/en/news/feature/2019/09/23/costo-moda-medio-ambiente>

**37** CDP, 2020  
<https://www.cdp.net/en/articles/media/just-1-in-10-fashion-companies-show-awareness-of-water-pollution-across-whole-value-chain>

**38** EEA, 2022  
<https://www.eea.europa.eu/publications/microplastics-from-textiles-towards-a>

**39** CDP, 2020  
<https://www.cdp.net/en/articles/media/just-1-in-10-fashion-companies-show-awareness-of-water-pollution-across-whole-value-chain>



Water risks		
Physical risks	Reputational risks	Regulatory risks

Industries						
Food, beverage and agriculture	Apparel and textiles	Utilities	Manufacturing	Technology and electronics	Healthcare and pharmaceuticals	Transport and logistics



# Utilities

Water, electricity, gas, and wastewater management services are all being put under pressure by increasing population growth and urbanisation trends.

Rising water demand, ageing infrastructure and increasingly severe weather events, triggered by climate change, all pose a threat. People, communities, and key infrastructure are at risk. There is strong incentive for the energy sector to prioritise good water management practices<sup>(40)</sup>.

Water scarcity and water pollution pose significant challenges to water utilities as costs of treatment and maintenance of infrastructure increase, while demand to keep the price of water down remains<sup>(41)</sup>.

New solutions such as desalination, smart metering and leak detection can help the water sector to adapt to threats posed by climate change and increasing urbanisation.

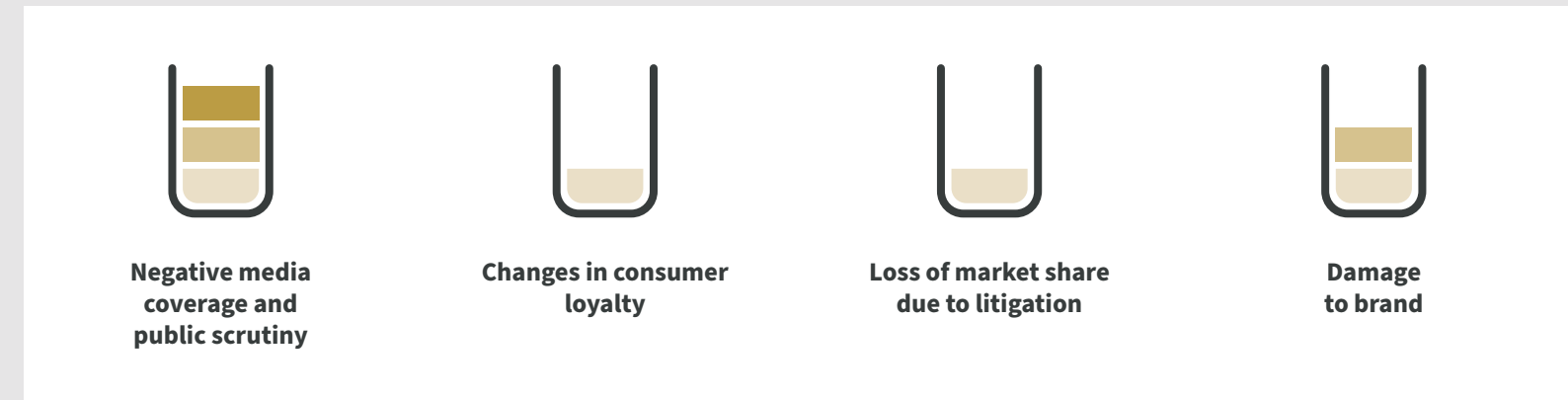
## Water risks matrix

High risk Medium risk Low risk

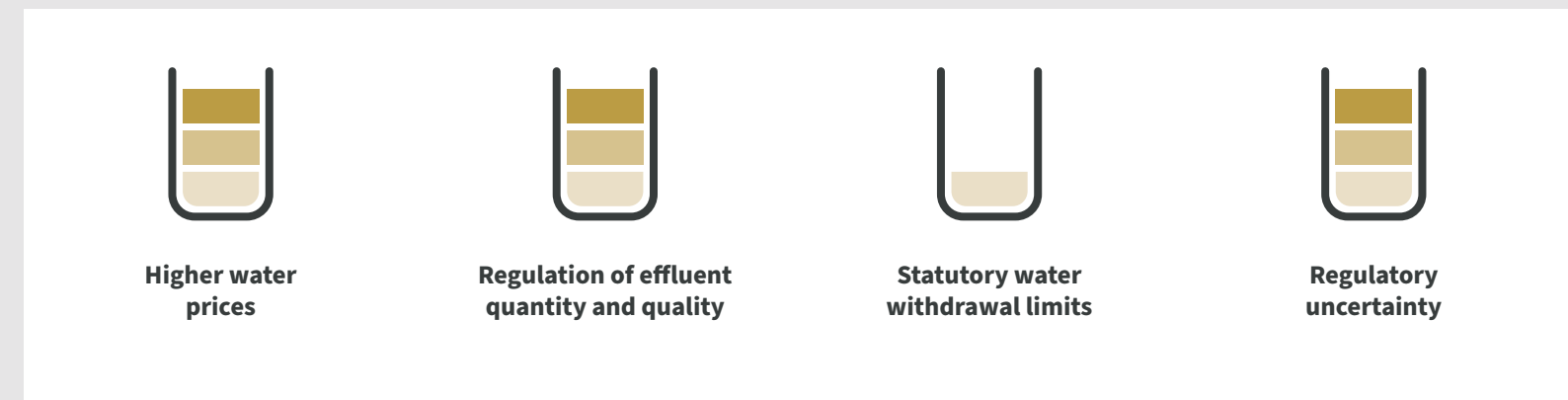
### Physical risks



### Reputational risks



### Regulatory risks



40 BOSAQ, 2021 <https://bosaq.com/water-management-in-the-power-sector/>

41 Barclays, 2017 [https://www.cib.barclays/water-report/water\\_scarcity.html](https://www.cib.barclays/water-report/water_scarcity.html)



Water risks		
Physical risks	Reputational risks	Regulatory risks

Industries						
Food, beverage and agriculture	Apparel and textiles	Utilities	Manufacturing	Technology and electronics	Healthcare and pharmaceuticals	Transport and logistics



# Manufacturing

Manufacturing relies on secure, consistent water supplies and effective, compliant effluent management to function.

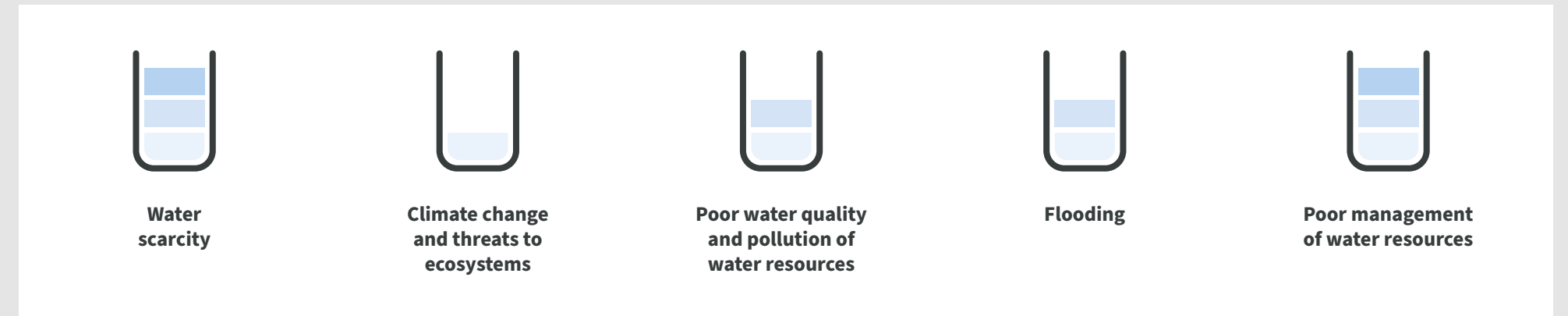
The manufacturing industry accounts for around 16% of global water demand <sup>(42)</sup> - water is a key input into the sector, even though manufacturing facilities are often located in water stressed regions.

Climate hazards such as flooding can increase the likelihood that production at manufacturing facilities is disrupted, leading to delays and higher costs for consumers <sup>(43)</sup>.

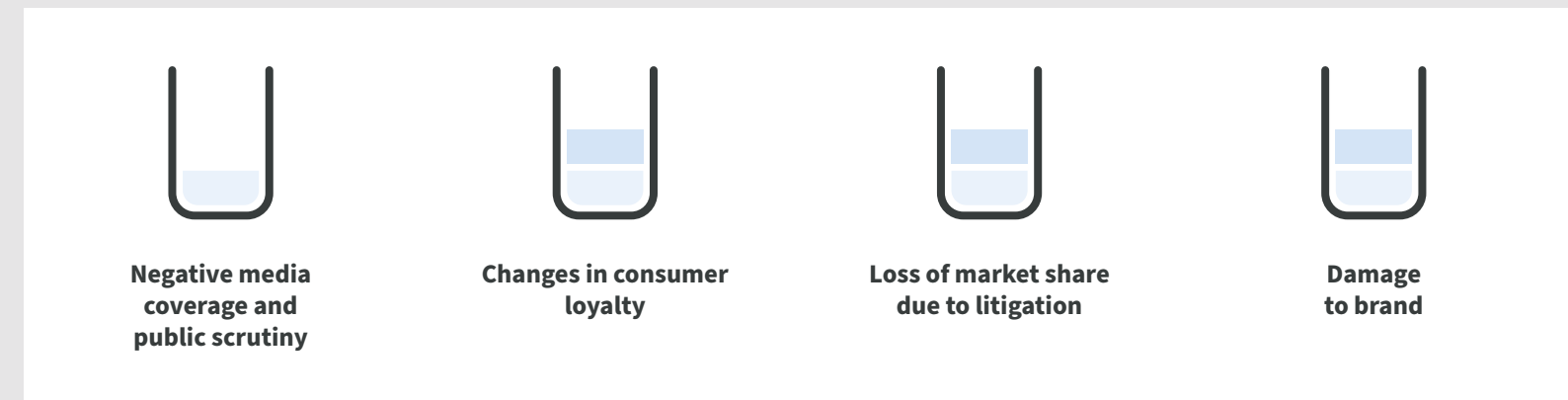
## Water risks matrix

High risk  Medium risk  Low risk

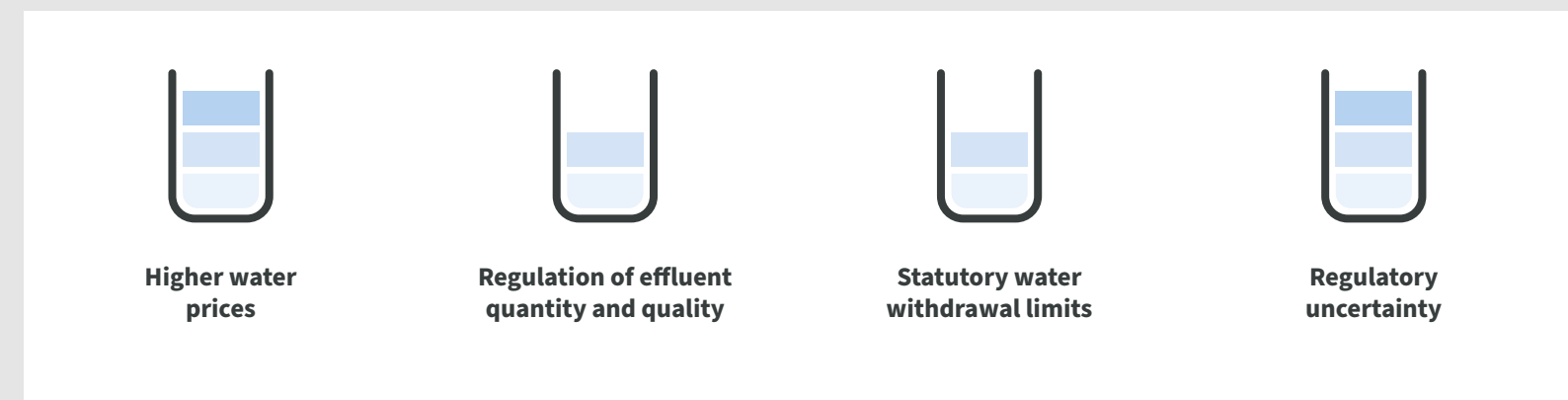
### Physical risks



### Reputational risks



### Regulatory risks



**42** McKinsey, 2009 [https://www.mckinsey.com/~media/mckinsey/dotcom/client\\_service/sustainability/pdfs/charting%20our%20water%20future/charting\\_our\\_water\\_future\\_full\\_report\\_ashx](https://www.mckinsey.com/~media/mckinsey/dotcom/client_service/sustainability/pdfs/charting%20our%20water%20future/charting_our_water_future_full_report_ashx)

**43** McKinsey, 2020 <https://www.mckinsey.com/capabilities/sustainability/our-insights/could-climate-become-the-weak-link-in-your-supply-chain>



Water risks		
Physical risks	Reputational risks	Regulatory risks

Industries						
Food, beverage and agriculture	Apparel and textiles	Utilities	Manufacturing	Technology and electronics	Healthcare and pharmaceuticals	Transport and logistics



# Technology and electronic equipment

Manufacturing semiconductor chips in all our phones, computers, and gaming devices requires billions of litres of ultra-pure water to avoid contaminating products <sup>(44)</sup>.

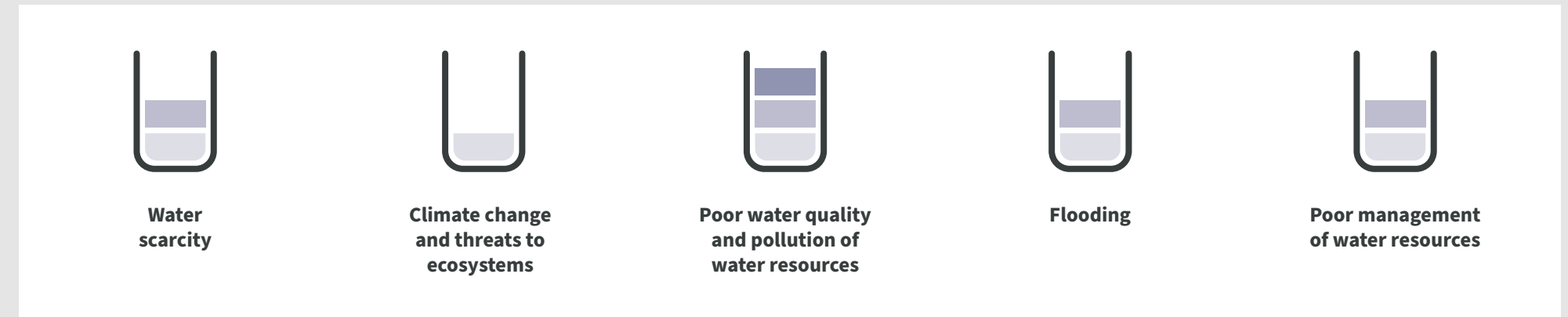
Extreme drought is a reality for chip producers in Taiwan, where regulatory restrictions on water usage are in force <sup>(45)</sup>.

The production of semiconductors also generates wastewater contaminated with heavy metals and toxic solvents <sup>(46)</sup>.

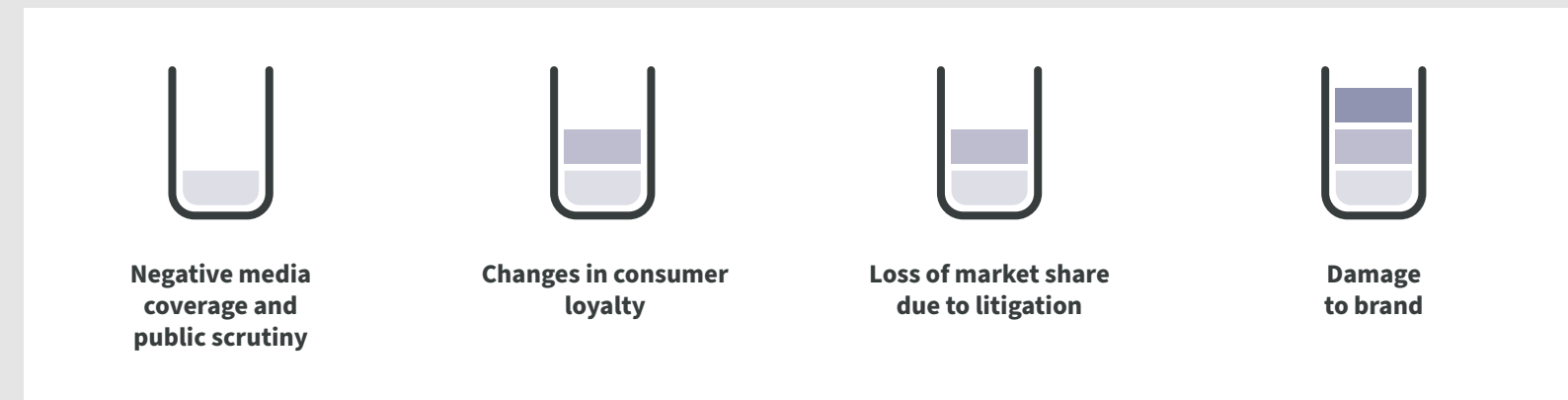
## Water risks matrix

High risk Medium risk Low risk

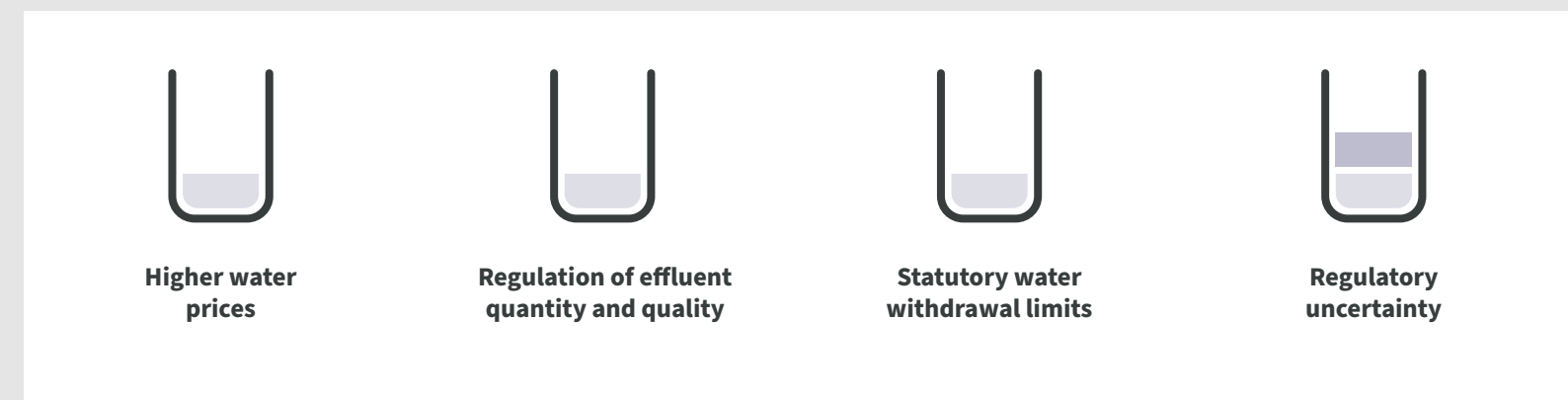
### Physical risks



### Reputational risks



### Regulatory risks



44

CDSB, 2021

<https://www.cdsb.net/natural-capital/1223/3-water-related-impacts-business-you-hadn%E2%80%99t-thought>

45

Earth.org, 2022

<https://earth.org/the-taiwan-water-shortage-dilemma/>

46

Teow et al., 2022

<https://www.sciencedirect.com/science/article/abs/pii/S0959652622002104?via%3Dihub>



Water risks		
Physical risks	Reputational risks	Regulatory risks

Industries						
Food, beverage and agriculture	Apparel and textiles	Utilities	Manufacturing	Technology and electronics	Healthcare and pharmaceuticals	Transport and logistics



# Healthcare and pharmaceuticals

Water is critical for the manufacture of pharmaceuticals. It's used for cooling and maintaining temperatures at critical production phases <sup>(47)</sup>.

Water scarcity, poor water quality and flooding are all risks to the sector, which is broadly very aware of how critical clean water is to its operations.

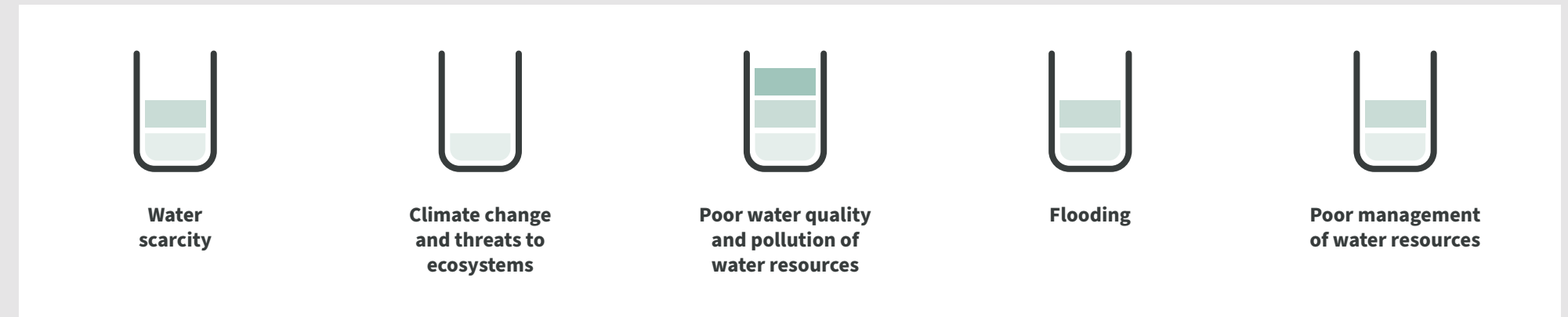
Some 83% of pharmaceutical companies who responded to CDP in 2020 said that they regularly undertake water risk assessments <sup>(48)</sup>.

The everyday operations of healthcare facilities around the world are threatened by the impact of climate change and extreme flooding – halting operations as critical services such as water and electricity are interrupted.

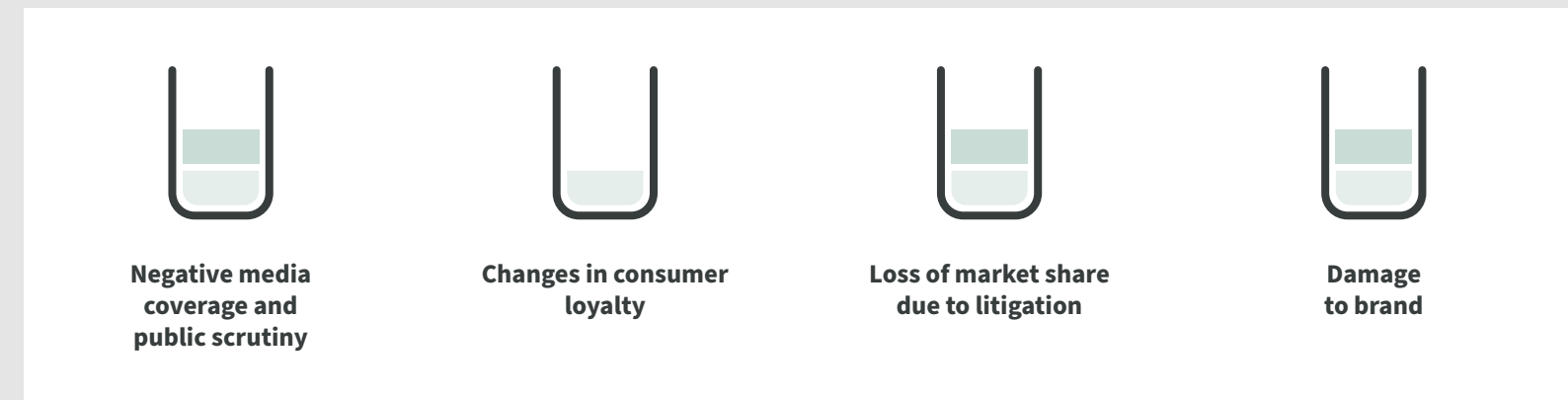
## Water risks matrix

High risk  Medium risk  Low risk

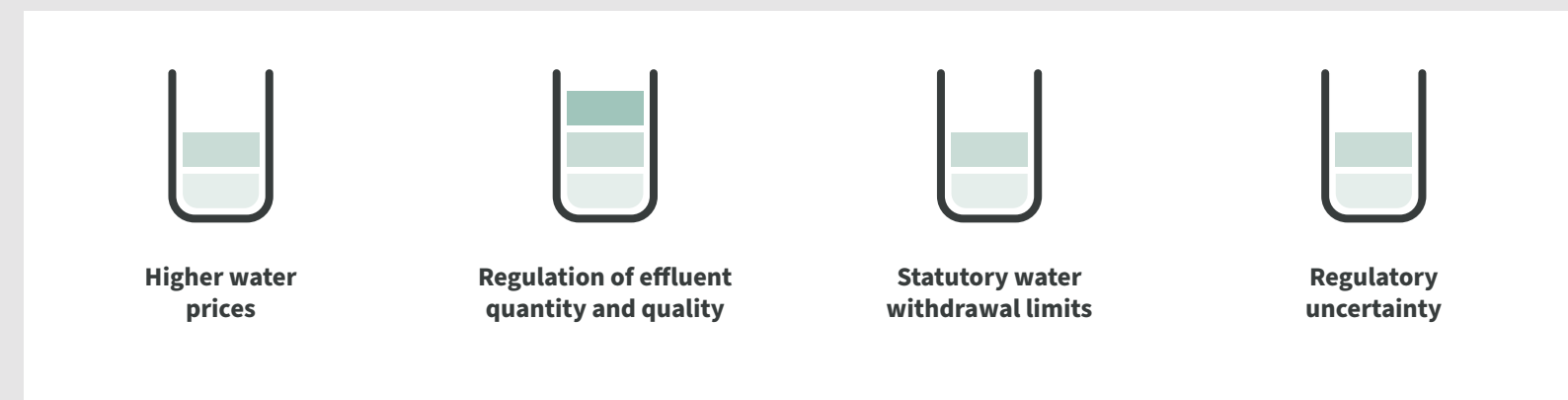
### Physical risks



### Reputational risks



### Regulatory risks



**47** WWF, 2021  
[https://wwfint.awsassets.panda.org/downloads/case-study\\_diagnosing\\_water\\_risks\\_for\\_the\\_pharmaceutical\\_sector\\_1.pdf](https://wwfint.awsassets.panda.org/downloads/case-study_diagnosing_water_risks_for_the_pharmaceutical_sector_1.pdf)

**48** CDP, 2021  
<https://www.cdp.net/en/research/global-reports/global-water-report-2020>



Water risks		
Physical risks	Reputational risks	Regulatory risks

Industries						
Food, beverage and agriculture	Apparel and textiles	Utilities	Manufacturing	Technology and electronics	Healthcare and pharmaceuticals	Transport and logistics



# Transport and logistics

Transport and logistics infrastructure and operations are particularly at risk of extreme weather events such as storm surges, floods and droughts. The safe and efficient movement of products and services across countries and borders is threatened by more frequent and extreme rainfall and floods.

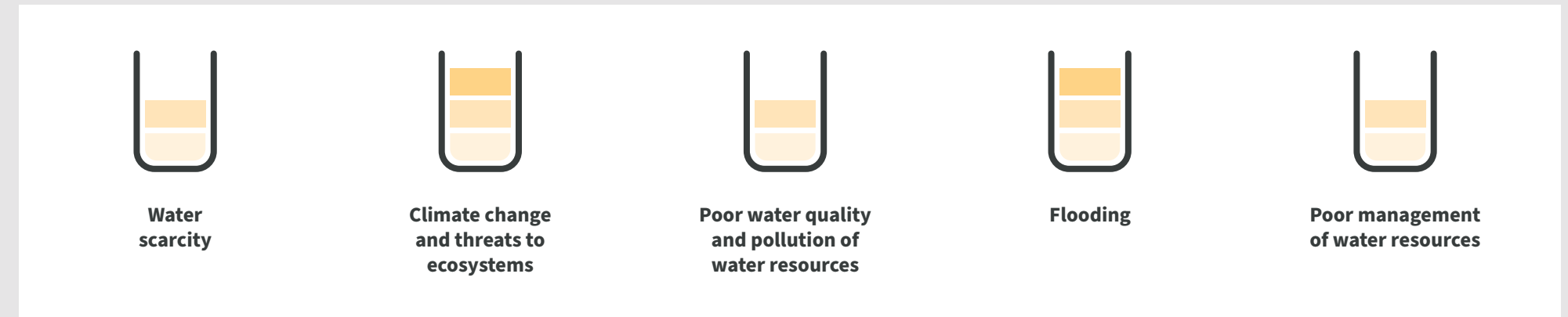
This leads to higher costs to maintain infrastructure, reduced asset lifetime, and damage to cargo and equipment <sup>(49)</sup>.

The sector itself is not a notably heavy water user, and so the greatest risks to the sector lie in water-related weather events interrupting operations and causing knock-on delays for supply chains and third-party operations

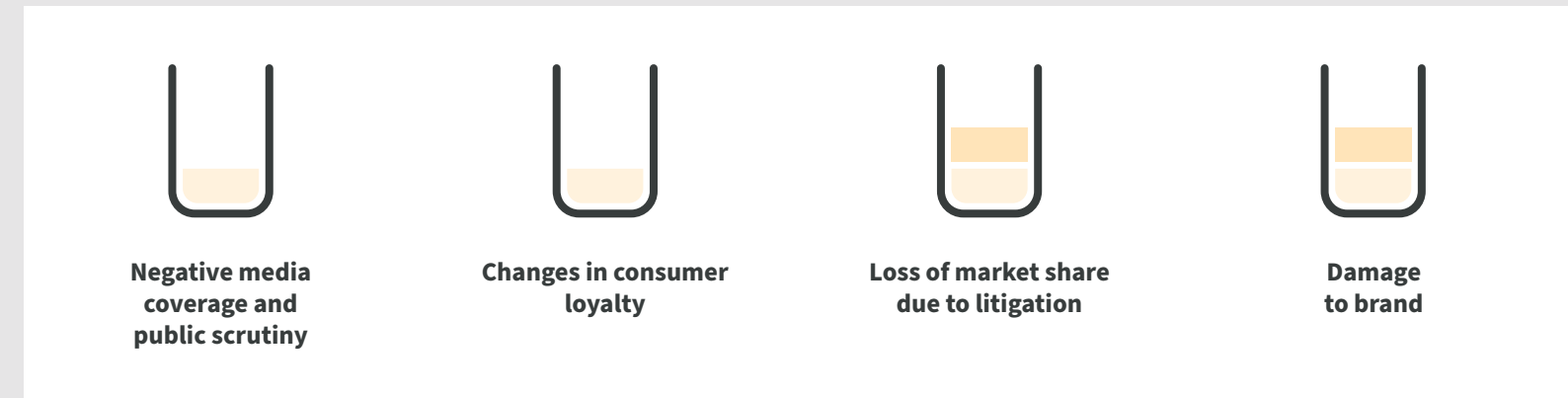
## Water risks matrix

High risk Medium risk Low risk

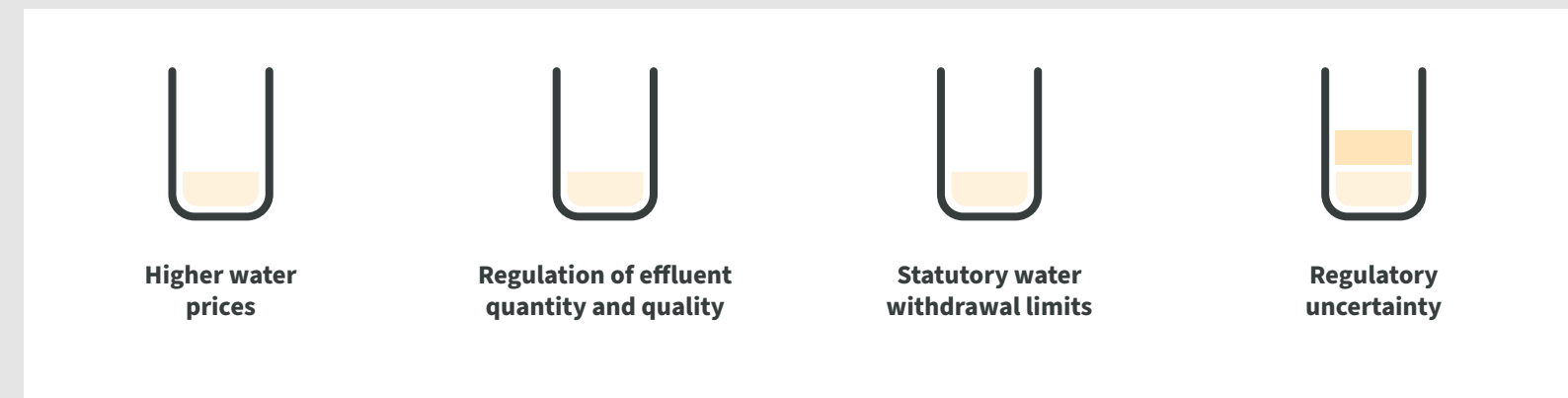
### Physical risks



### Reputational risks



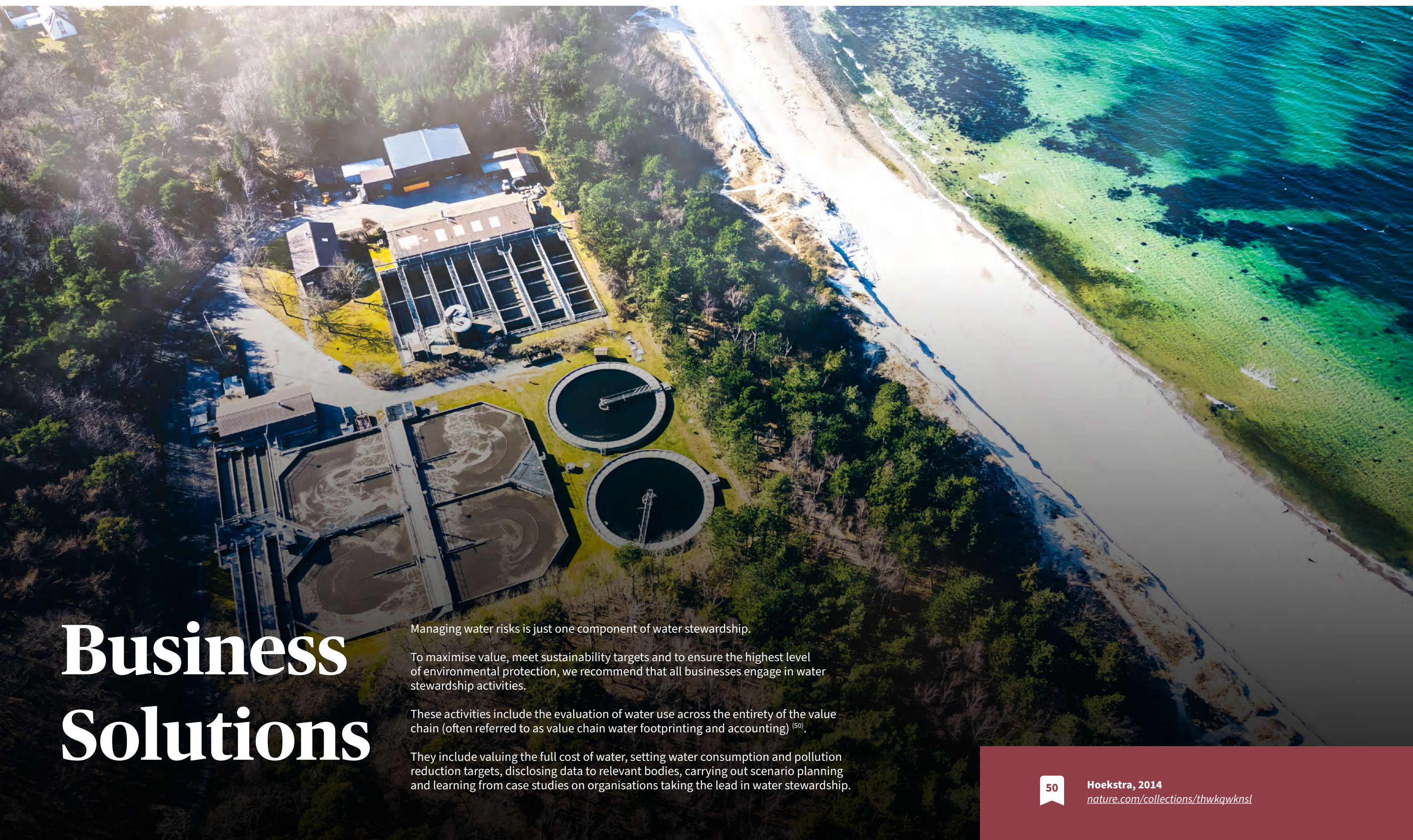
### Regulatory risks





Water risks		
Physical risks	Reputational risks	Regulatory risks

Industries							
Food, beverage and agriculture	Apparel and textiles	Utilities	Manufacturing	Technology and electronics	Healthcare and pharmaceuticals	Transport and logistics	



# Business Solutions

Managing water risks is just one component of water stewardship.

To maximise value, meet sustainability targets and to ensure the highest level of environmental protection, we recommend that all businesses engage in water stewardship activities.

These activities include the evaluation of water use across the entirety of the value chain (often referred to as value chain water footprinting and accounting)<sup>(50)</sup>.

They include valuing the full cost of water, setting water consumption and pollution reduction targets, disclosing data to relevant bodies, carrying out scenario planning and learning from case studies on organisations taking the lead in water stewardship.

50

Hoekstra, 2014  
[nature.com/collections/thwkqwkns1](https://www.nature.com/collections/thwkqwkns1)



Water risks		
Physical risks	Reputational risks	Regulatory risks

Industries							
Food, beverage and agriculture	Apparel and textiles	Utilities	Manufacturing	Technology and electronics	Healthcare and pharmaceuticals	Transport and logistics	



Using water footprinting and accounting can help organisations see hidden water consumption and assist in managing impact on water resources.



To build a strong case for investing in water saving technologies and strategies, companies need to accurately evaluate the full costs of water. This includes reflecting the true costs of consumption, treatment, abstraction, and supply.



There is already significant reporting of water-related risks; however, more can be done. It is vital that companies consistently monitor progress and communicate risks.



Companies can manage business risks by developing a future scenario analysis to consider the impact water risks could have on environmental and socioeconomic changes.



Businesses can learn from water stewardship procedures by utilising available data and developing best practices.



Water risks		
Physical risks	Reputational risks	Regulatory risks

Industries							
Food, beverage and agriculture	Apparel and textiles	Utilities	Manufacturing	Technology and electronics	Healthcare and pharmaceuticals	Transport and logistics	

# Value chain water footprinting and accounting

## Value chain water footprinting and accounting

Water footprinting helps organisations to visualise the hidden water use behind the manufacture of products and can help quantify the effects of consumption and trade on water resources <sup>(51)</sup>.

It looks at both the direct and indirect water use of a product across the whole value chain including blue, grey, and green water use. Blue water refers to water that has been sourced from surface or groundwater resources, grey water refers to water that has been diluted with industrial or domestic waste and green water comes from rainfall and is stored in soil <sup>(52)</sup>.

Water footprinting can also be used to help companies identify where they contribute to regional hotspots of water over-exploitation or pollution, to formulate a corporate water stewardship strategy, or to set specific quantitative water footprint reduction targets.

The leading water footprinting tool is the [WWF Risk Filter](#).

Water accounting differs from water footprinting in that it also includes the assessment of volume of water polluted, allowing organisations to further manage their impact on water resources.



51

**Hoekstra, 2012**

[https://waterfootprint.org/media/downloads/Hoekstra-2012-WaterFootprintAccounting\\_1.pdf](https://waterfootprint.org/media/downloads/Hoekstra-2012-WaterFootprintAccounting_1.pdf)

52

**Water Footprint Network, 2022**

<https://waterfootprint.org/en/water-footprint/what-is-water-footprint/>



Water risks		
Physical risks	Reputational risks	Regulatory risks

Industries							
Food, beverage and agriculture	Apparel and textiles	Utilities	Manufacturing	Technology and electronics	Healthcare and pharmaceuticals	Transport and logistics	

# Value the full cost of water

## Value the full cost of water

Water professionals generally agree that the low price of water reduces motivation for investment in water-saving opportunities.

Companies can future-proof investments by calculating their own price of water that more accurately reflects the risks and opportunities surrounding water <sup>(53)</sup>.

Value-pricing water means better reflecting the actual consumption and treatment costs, including water abstraction and supply as well as treatment of wastewater <sup>(54)</sup>.

Leveraging water risk monetiser tools, companies can model the full value of water to their businesses and can use risk adjusted prices to reinforce the business case for water stewardship.

This can provide robust evidence to make the business case for investing in water saving technologies and strategies.

The Ecolab Water Risk Monetizer tool enables companies to factor current and future water risks into their strategies, helping them to value the full cost of water to their organisation.



**53** **Corporate Citizenship, 2012**  
<https://corporate-citizenship.com/our-insights/corporate-perspectives-on-water-2/>

**54** **OECD, 2022**  
<https://www.oecd.org/env/resources/water-the-right-price-can-encourage-efficiency-and-investment.htm>



Water risks		
Physical risks	Reputational risks	Regulatory risks

Industries							
Food, beverage and agriculture	Apparel and textiles	Utilities	Manufacturing	Technology and electronics	Healthcare and pharmaceuticals	Transport and logistics	

# Set water targets and disclose data

## Set water targets and disclose data

Leading companies are already reporting on water-related risks in more detail than any other environmental impact except carbon <sup>(55)</sup>.

Simply reporting water consumption is no longer enough, however.

Companies will be required to understand and clearly communicate both direct and indirect risks across the entire value chain.

Disclosing information shows leadership and drives a culture of consistent reporting within organisations.

This can help to mitigate reputational water risks that can affect shareholders and market share <sup>(56)</sup>.

Adopting water reduction targets that are based on scientific data and the local context will help ensure future business profitability and growth <sup>(57)</sup>.

Our recommended disclosure partner is CDP Water Disclosure initiative. CDP has the largest corporate water dataset in the world. Reporting allows companies to track and benchmark progress and uncover risks and opportunities.



**55** **Corporate Citizenship, 2012**  
<https://corporate-citizenship.com/our-insights/corporate-perspectives-on-water-2/>

**56** **WWF, 2015**  
[http://assets.wwf.org.uk/downloads/wwf020\\_from\\_risk\\_to\\_resilience.pdf?\\_ga=1.49012454.1991529649.1444910634](http://assets.wwf.org.uk/downloads/wwf020_from_risk_to_resilience.pdf?_ga=1.49012454.1991529649.1444910634)

**57** **S&P Dow Jones Indices, 2018**  
<https://www.spglobal.com/spdji/en/education/article/how-to-manage-water-risk-in-your-growing-business>



Water risks		
Physical risks	Reputational risks	Regulatory risks

Industries							
Food, beverage and agriculture	Apparel and textiles	Utilities	Manufacturing	Technology and electronics	Healthcare and pharmaceuticals	Transport and logistics	

# Carry out future scenario analysis

## Carry out future scenario analysis

Insights into future water availability, water treatment costs, water quality and regulation over water resources are essential to managing business risks.

By developing possible future scenarios of water risk considering various social, economic and environmental factors such as likelihood of water stress in certain regions and customer water demand, companies can build resilience to an uncertain future <sup>(58)</sup>.

These scenarios can be based on different timelines, predictions for temperature changes associated with global warming or different socio-economic pathways.

Typically, three scenarios are developed for each situation: pessimistic scenario, current trend scenario and optimistic scenario.

Scenario planning allows companies to plan responses and to explore where to assign resources to prepare for a range of possible future scenarios.

Our recommended water risk mapping tools are the WRI Aqueduct Tool and the WWF Water Risk Filter, which in 2022 expanded to provide forward-looking scenarios of water risks based on climate and socio-economic changes.



58

S&P Dow Jones Indices, 2018  
<https://www.spglobal.com/spdji/en/education/article/how-to-manage-water-risk-in-your-growing-business/>



Water risks		
Physical risks	Reputational risks	Regulatory risks

Industries							
Food, beverage and agriculture	Apparel and textiles	Utilities	Manufacturing	Technology and electronics	Healthcare and pharmaceuticals	Transport and logistics	

### Learn from case studies

Water stewardship practices have been adopted by leading businesses across a range of sectors.

To learn from others, check out the [UN Global Compact Water Action Hub](#). The Hub is a global online collaboration and knowledge-sharing platform for water stewardship. It allows users to tap into best practices, data, and other resources from existing water.

Both the Alliance for Water Stewardship (AWS) and The Rivers Trust in partnership with WWF have multiple examples of businesses taking the lead in water stewardship practices.

# Learn from case studies





Water risks		
Physical risks	Reputational risks	Regulatory risks

Industries							
Food, beverage and agriculture	Apparel and textiles	Utilities	Manufacturing	Technology and electronics	Healthcare and pharmaceuticals	Transport and logistics	



# Conclusion

Understanding and managing water risks is essential for almost all businesses, regardless of sector. The importance of water is underestimated and undervalued. Global water challenges can only be overcome with wider engagement and understanding of what these challenges are and how they pose a threat to business continuity. These insights aim to provide a simple resource for businesses to better understand their water risks and how to build resilience to these challenges.

AXA XL began our initiative to shine a spotlight on global water challenges and the relationship between these challenges and climate change in 2019. We understand that our position as an insurance provider means that we have networks in a broad range of sectors, and we can facilitate collaboration and learnings between organisations. We began our water programme by convening a team of water experts through our Water Advisory Group, meeting quarterly with water leaders from academia, international water institutions, and the private sector. From these meetings, it became clear that there was a need for both businesses and the wider public to better understand global water risks.

In 2021, we published our [Future Water Risks Report](#), where we collaborated with researchers from the University of Cambridge to identify the most significant water risks that will face society in the coming twenty years.

We then began to develop these Water Risk Insights, assessing which physical, reputational, and regulatory water risks are most likely to impact businesses in the food, beverage and agriculture, apparel and textiles, utilities, manufacturing, electronics, pharmaceuticals, and transport sectors. Combining findings from publicly available data from CERES and WWF with research carried out by AXA XL's Sustainability and Casualty Underwriting teams, we identify the thirteen notable risks for each of the seven sectors presented in this report.

Alongside providing an educational piece, we hope to catalyse tangible action on water stewardship from businesses, encouraging them to carry out water footprinting activities, value the full cost of water, set water targets, disclose data annually and run scenario analysis to understand how water risks may impact operations along the value chain. Our hope is that businesses at the beginning of their water stewardship journey now feel better informed on how to make progress with the support of the organisations and publicly available tools that are recommended in this report.

AXA XL would like to thank all Water Advisory Group Members for their guidance on the themes presented in these insights, CERES, CDP and WWF for insightful conversations and academics at the University of Cambridge for their contribution to this research. For more information on AXA XL's Sustainability Strategy contact [sustainability@axaxl.com](mailto:sustainability@axaxl.com).



