

OPTIMISTIC OUTLOOK PODCAST | EPISODE TRANSCRIPT

“From Risk to Readiness: How Climate Resilience Is Reshaping Business Decisions”

Host:

Erika Gupta, Global Head of Sustainability at Siemens Financial Services

Featuring:

Harry Morrison, Sustainability and Responsibility at Bain & Company

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Description: Climate resilience is no longer a distant or abstract concern for businesses. From rising heat and water stress to supply chain disruption and higher operating costs, quieter climate impacts are already shaping how companies plan, invest, and compete.

In this episode of the *Optimistic Outlook*, **Erika Gupta**, Global Head of Sustainability at Siemens Financial Services, is joined by **Harry Morrison**, Partner at Bain & Company, to explore what resilience really means for business today. Together, they discuss how severe weather dynamics show up in day-to-day operations, why action often lags even when risks are well understood, and how better data, analytics, and AI are helping leaders see and respond to risk more clearly.

The conversation looks beyond risk avoidance to examine how resilience can strengthen performance, support long-term growth, and help organizations make better decisions.

Conversation:

Harry Morrison

We're seeing the losses globally from physical effects of climate change increasing about 5% to 7% a year in real terms. And so, this is becoming more and more of an issue, whether you're a property owner, asset owner, or indeed whether you're a business with a complex supply chain.

Lauren Espin

Hi, I'm Lauren Espin, and welcome to *The Optimistic Outlook* podcast. What if climate risk is no longer just an environmental issue, but a core business risk shaping how companies invest, operate, and compete?

In this episode, Erika Gupta, Global Head of Sustainability at Siemens Financial Services, sits down with Harry Morrison, Partner, Sustainability and Responsibility at Bain & Company, to explore how physical climate impacts are quietly reshaping balance sheets, supply chains, and long-term profitability.

Why are global losses from climate-related events continuing to rise? If resilience is now a top executive priority, why is investment in adaptation still so low? And who inside an organization is actually responsible for preparing for what's coming?

You'll hear how extreme heat, drought, and water stress can erode margins in ways that don't always make headlines; how rising insurance costs are changing the economics of real assets; and how new advances in data and AI — from geospatial risk mapping to medium-term weather forecasting — are giving companies tools they've never had before.

But this isn't just about risk. It's about opportunity. Let's dive in.

Erika Gupta

Harry, thank you again so much for joining me today. It's wonderful to have your expertise on this show, and really glad to hear your perspective on resilience. And that's really the hot topic for today. We're seeing so many changes in terms of supply chain disruptions, physical changes. How do you really see that shaping business decisions today?

Harry Morrison

Yeah. Hi, Erika. Thanks for having me. It's great to be here. And you're absolutely right — this topic of risk, resilience, and adaptation has really rocketed up the agenda for business leaders over the last couple of years.

I think it's a few different reasons for that. One is that the physical effects of climate change are becoming very apparent to people. Whether that's seeing the effects of fires in California or floods in Asia or heat stress on agriculture, there are many different instances of this around the world. So, the physical reality of climate change is starting to hit. And I think at the same time, what we've seen is that there's a recognition among business leaders that our mitigation efforts are behind track.

If we look at the global negotiations, we obviously were all aiming for a 1.5degree world. But the reality of the policy environment is maybe two and a half degrees is more plausible. So many people are starting to say, well, actually we're going a bit slower than we hoped on reducing emissions, and that means the urgency and the speed with which these physical issues, again, approach is only going up.

And so, I think that's really focusing the mind. At the same time, just to give you another stat: we're seeing the losses globally from physical effects of climate change increasing about 5% to 7% a year in real terms. And so, this is becoming more and more of an issue, whether you're a property owner, asset owner, or indeed whether you're a business with a complex supply chain that might be affected by these different topics.

Erika Gupta

I saw a stat recently that only maybe one-third of businesses are really prepared to adapt to the changes that we're seeing in climate risk. Why do you think that is? Why is there a difficulty in really prioritizing action around adaptation and resilience?

Harry Morrison

Yeah. Look, I think we see that a lot. We did a survey with operations leaders last year, and they told us that actually their number two priority after cost reduction was resilience — about 41% of people rating it as extremely important.

So, there's an intellectual knowledge of the importance of resilience and a desire to do something about it. But at the same time there is quite a slow level of action; the percentage of financing going into adaptation as a share of total climate finance is in single digits. And I think for many people it's because it feels like it's always tomorrow's problem. It's maybe something they feel that their insurance has in place to cover, and so they don't feel the need to take that direct action. And I guess it's only when the issue arises you suddenly realize how important it is.

And I think that for many organizations, it's that question of who's responsible that is actually really important. It's one of those topics where the buck can get passed between different leaders.

The other thing I'll say is that the pace of change is not consistent across industries. If you talk to the insurance industry, of course they have modeled physical risk for many, many years. And indeed, banks who've got a long-term lending portfolio are very on top of this issue. So that's quite mature in that sector.

If you think about real estate investing and infrastructure, the maturity is a bit behind but it's going up really fast because you've got such a massive exposure. And then if you think about the corporate world — manufacturing businesses, big supply chains, etc. — well, they are perhaps at the start of the journey right now. So actually, we see a real range in maturity across different industry sectors depending on their level of historic exposure to the issue.

Erika Gupta

That's certainly something that, being part of the financial services organization, we look carefully at in terms of individual disasters. But we're also seeing this emergence of these slower effects of climate change eroding profitability for companies as well. When we look at things like extreme heat or drought, to have water stress driving up water

costs — can you talk a little bit more about what you're seeing with those slower acting changes?

Harry Morrison

Yeah, for sure, it's true. If you're a property owner and real estate investor, for example, it's the acute issues — it's the physical damage to your property — that you often notice first. But if you're thinking a bit more broadly about companies with long manufacturing supply chains, dependence on raw materials, for example, then often it's the more chronic effects that impact them and can create a shift in the economics of the industry.

So, it's the fact that crop yield is going down, and then you get a massive price spike, and then you see that come through the value chain as inflation in effect — just like you've seen, for example, with cocoa very prominently in 2023–2024.

Supply chain bottlenecks are another one, where you find that you've got a dependency on a particular piece of infrastructure or a port. Or in Germany you have the issues with the level of water on the Rhine being low and therefore transport being disrupted. And these effects often are maybe less about the damage — they're about the indirect impacts in terms of either business continuity or that inflationary pressure.

That's often how it shows up. And it's a bit more complex a question to then understand and work out the right mitigations. But that is what businesses are grappling with right now.

Erika Gupta

To really drive businesses to take action to address these risks, how would you pitch to a CEO that it's time to make an investment here?

Harry Morrison

Look, I think we see there are really three big things that our clients need to worry about. The first is visibility — so really getting a sense of the scale of the risk. The second is clarity about the levers that are available, the solutions. And third, it's about the people and governance. So, let's cover all of those.

On visibility, there's an enormous array of data and analytics that are now becoming available. And so, getting a proper handle on: where are the hotspots of exposure? What's at stake? — is the key first step.

We just did a bit of work with a big real estate investor. And what was fascinating there was to map all of their portfolio property around the world and to understand not just the level of exposure and the level of inbuilt resilience — because, of course, some property has been designed to very high standards already — but to compare that as well to the local insurance market response. Is the insurance pricing in climate risk?

Or maybe it hasn't reacted yet? And then you can start to see, well, which property has got a problem? It's high exposure and the market's going to move.

And where therefore do we want to build more resilience in the property portfolio? Where do we potentially want to divest — and actually, while we've still got great value before people wake up to the level of risk inherent? And so, getting that sort of visibility and then using it to map the opportunity spaces is really key.

Second thing is the clarity on the levers: what are you going to do either to reduce the exposure or potentially to give you more ability to bounce back so that when it happens it has a smaller effect?

It's really about looking upstream in your operations, and potentially downstream as well. So, lots of different levers you can pull.

And then on the final one — people and governance — what we see is that there's often uncertainty. Is this something that the chief risk officer should worry about? Or is it something for supply chain? Or is it something for the investment manager, or for sustainability, or for the CFO?

Getting the right forums in place, the right responsibilities set up, and being clear therefore about how to address the organization — I think is really key as well. Visibility, clarity of solution space, and governance is what I'd say to prioritize.

Erika Gupta

So a topic that we hear all the time now — and that's data and AI. How is that really being used to help address this challenge? Are you seeing tools and more data available in order to assess the risks and make clarity around this?

Harry Morrison

Very much so. And it's a super exciting area where I think AI and analytics tools are really bringing new potential to address the issue. I'll just pick a few areas.

The first is in matching the climate models with databases around property and geospatial analysis — for example, how much elevation is there? Therefore, is there a flood risk? There are lots of tools that are doing this now really effectively on a global basis.

So, we, for example at Bain, partner with Climate X, who are one of a number of different data providers bringing all of that information together to give you a really quick risk rating on a property. And then on top of that, layering on information about the damage costs — so what's an expected loss from a different type of physical risk — and ultimately even what are the adaptation opportunities.

To bring you all that data together can give, for example, a property investor real insight into their exposure, but also what they can do about it. So that's one exciting area of analytics.

Second one I think is the innovation in weather forecasting and the ability to think medium term. So in the past there were lots of short run weather forecasts — next ten days — or there were long-term climate models — what's my exposure in 10, 20, 30, 40 years' time? Both of those are super important.

But with AI and advances in machine learning and things like this, the medium-term forecasts for the next couple of months — three months — are getting much, much better. And that allows you to start asking questions like: well, based on the growing pattern for a crop, based on the seasonality, based on what's happening with weather patterns over the last couple of months but then looking forward to the next few months, what's it going to do to the crop price in, say, 12 months' time?

And that sort of medium-term thinking I think is really exciting because it allows businesses to take choices on a week-to-week basis as to what to do.

So, lots happening in this area, and a whole plethora of interesting startups and AI companies that are focusing on different parts of this puzzle. There's lots of opportunity coming up.

Erika Gupta

That's really interesting to see that medium-term forecast become available so that you can really make some decisions for the next quarter. And that's something we really haven't had available to us before.

Do you think we're going to start seeing tools or techniques that allow us to get more transparency into risks that are perhaps harder for us to see, like our supply chain or logistics risks? And what do you see developing there?

Harry Morrison

Yeah, for sure. Just one other example actually on the weather forecasting one first, just to bring it to life: predicting power is another really interesting one. So, I had a client who, for example, is very well known on hydroelectric power. Well, if the river flow is low, then what's that going to do to the power price? And again, can you predict that type of thing ahead of time is another great example of that medium-term forecasting.

On the traceability side, it's true that many of the risks are upstream. So, they might be at your tier2 or tier3 supplier; they might be in the production of raw materials — going back to the fields, growing crops, etc.

And so, understanding those risks does rely on your knowledge of: who are you buying from? Which regions of the world — maybe if it's growing areas — are you sourcing material from? Or potentially which mines are you getting your critical minerals from?

This would be another example. So, if you can map that, you can then overlay the risk on top of it.

Now this is quite difficult. There are lots of companies going after this space. But because your supply chain is constantly evolving as you switch suppliers, it's not always so easy to stay on top of it.

I think the good news is this question is one that we face in many areas of sustainability. So, colleagues looking at political risk or looking at labor standards and human rights actually have a similar challenge.

So many people are converging on this problem — to build these supply chain mapping capabilities and then allow us to lay the risk on top.

I think the second thing about this is then, if you understand that well in a supply chain context, what do you start to do about it? Can you diversify the supply base, for example, across different geographies? Can you put in place buffer stocks, for example? So, can you use that traceability and analytics insight to actually plan a response that's going to deal with those issues as they arise upstream?

Harry Morrison

So Erika, from the Siemens Financial Services perspective, you look across real assets, your customers — where do you see these weather risks and physical risks showing up in ways that your customers didn't expect? And how does that impact their balance sheets?

Erika Gupta

Yeah, we're seeing a few different things. One, with those extreme weather events, we're seeing the cost of insurance going up — certainly that's one impact that our customers are experiencing.

But we're also seeing more of these slower, profit eroding, climate related risks impacting the businesses. So that extreme heat can really drive up cost around, say, plant efficiency — if you have a lot more parasitic power load, things are operating less efficiently at these higher temperatures.

And then it can affect productivity, depending on the industry that you're looking at. If you have your workers outdoors, it even increases healthcare costs — so there's a link between extreme heat and the number of hospitalizations that you see. So, there's a health impact to your workforce.

And we're also seeing things like drought driving up the cost of water, or even accessibility to water, for whatever process you might be undertaking at your facility. So, there's a lot of different things that we're seeing impact the way businesses are operating and particularly how well they're achieving their profitability targets.

Harry Morrison

And are you finding that your customers are able to really quantify those different risks and then take some meaningful steps to deal with it?

Erika Gupta

No — no, it's very difficult. Depending on the size of the business, some of the larger ones, yes, absolutely. Utility companies certainly have a very good handle on some of these impacts compared to some of the smaller businesses that perhaps haven't even had the opportunity to get access to the types of data that they need to really understand what their key risks are, or what mitigation or adaptation measures they can take.

It's one of the reasons that we added a site resilience analysis to our DBO tool — that's short for Digital Business Optimizer — which we provide free for anybody that would like to use it. It was initially developed for our customers, but we've expanded it so that anyone can log in and use it for the U.S.-based locations.

It will identify what your top climate hazards are, and then it also provides you a list of adaptation measures that can be taken to help protect that site. So, it's very site-specific.

We don't have something, say, for the supply chain yet or to look at those more extended risks. But it's one of the ways that we're really trying to help our customers in particular understand what their risks are and what to do.

Erika Gupta

And on your side, what do you see as the key solutions for businesses to adapt to physical risk?

Harry Morrison

We come back to this three-part structure of: what are you going to do upstream, what are you going to do for your own operations and property, and what are you going to do potentially downstream on your route to market as well? And across all three areas of the value chain, it's then essential to think about: how are you going to mitigate the risks — so reduce your exposure — and then how are you going to build resilience to actually bounce back from the risk when it happens?

So you've got six areas to play with, if you like, that we would tend to think about.

Across those six buckets, there are a number of themes that are quite common. Firstly, it's just the physical hardening of the assets. Can you protect the asset from flooding? Can you make it more resilient to high wind, for example? So those types of changes can be quite tangible for the property, with your own operations and upstream — and with a fairly ready to quantify payback for many of those technologies as well.

The second theme that then tends to come out is about creating optionality. So, can you build optionality in your product specifications, for example, if you're a manufacturing company — so you've got different routes to achieve the same thing? If you have a problem upstream with one supplier or one material, one component, can you switch it out?

Can you build optionality in the supply base — might be diversifying to different sourcing regions, different crop growing regions, for example, having multiple suppliers that can fulfill your needs and step in if there's a problem.

Can you create optionality around logistics routes and infrastructure — so again, if you get a pinch point somewhere, can you route through a different port? That sense of optionality is really important.

And then the final theme that tends to come out is about partnership and working with your customers or your suppliers — so if there's a problem, you mutually know how to deal with it, and potentially you're coinvesting ahead of time in the resilience.

So, I've been doing some work in agriculture. One of the fascinating things, for example, is: can you coinvest with your farming partners to have better crop varieties that are more drought- or heat-resistant, for example? Can you even invest potentially in the GMO around that? Or can you invest in the growing practices that will build that resilience? It might be a little bit more expensive upfront but will then provide that resilience over time.

So many different opportunities in this area.

What tends to become the discussion — and actually the hard part — is to say, well, all of these things have a cost. And quite often that cost is in tension with the desire for efficiency in operations and supply chain. And so, you have to decide not: is resilience a good thing? Because clearly, we all want resilience. But actually: how much resilience can we afford?

What's the right level of buffer or redundancy in our value chain? What's the right level of asset hardening that gives a reasonable level of protection, for example?

And that's really the key tradeoff — that investment today to build a certain level of resilience that's appropriate and gives you a risk level that you can tolerate, if you like. That's the hard work that needs to be done.

Erika Gupta

And one last thing I'd like to draw on is: we've been talking about resilience a lot in terms of risk mitigation, but we also see this really as a competitive advantage. Can you talk a little bit about that opportunity that resilience creates?

Harry Morrison

Yeah, I think there's two main opportunity areas.

The first is just building on what we've been discussing. If you have done that thinking — if you've got the upstream visibility, you can sense when you might have a problem — if you've put resilience in place in the supply chain, it means that when the problem strikes, you should perform much better than your competitors; you should bounce back quicker.

And actually, that's an enormous benefit — if your competitors have disruption, and it's really the cost of disruption as much as physical damage that will penalize them. So, I think that's one area of competitive advantage.

The second we're seeing is that this is also an investment opportunity. So, if the companies that provide the technologies that actually enable buildings to be more resilient or supply chains to be more resilient — well, they're going to sell an awful lot more volume over the coming months.

And we're even starting to see some companies tailor their portfolio to serve this new market in resiliency. We've been working with some large investors as well who see this as a significant thematic investment opportunity for the next decade. They want to put money into the companies that are going to specialize in retrofitting buildings, or to flood control, or into cooling, or into new crop varieties.

And so that, I think, is also another interesting area where businesses that are going to thrive will see that opportunity. They'll develop solutions that make sense in this new world where physical risk is a reality, and they'll either capture the market like that, or indeed they'll be more resilient — as we covered before.

Erika Gupta

Always good to hear all the solutions and opportunities that are out there and not just thinking about the risks. So, Harry, really great to hear all the opportunities that can be unlocked through resilience, and it's been great to have you on today. Thank you so much for joining me, and I really appreciate that you were able to give us your perspective today.

Harry Morrison

It's a pleasure, Erika. Thanks so much for having me. It was a great discussion.

Lauren Espin

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