

The EARTHCHECK REPORT:



EARTHCHECK

Navigating the Circular Economy, Disruption and Design Thinking

SUSTAINABLE FINANCE, INSURANCE PREMIUMS
AND THE REALLOCATION OF CAPITAL

MOVING FROM RISK TO RESILIENCE AND
ADAPTATION

WALK
THE
TALK

THE CORONAVIRUS: MOVING BEYOND
MONITORING

NAVIGATING THE CIRCULAR ECONOMY...
DISRUPTION AND DESIGN THINKING

2020

EARTHCHECK INSIGHTS

What are some of the big issues you need to be mindful of in the next 18 months?

When I wrote to our clients and partners in January I noted that in many ways 2020 cannot be treated as business as usual. It heralds a new period of time where societal, economic and environmental uncertainty and disruption will become the norm. Unfortunately in the Asia Pacific we have now started to better understand what the new norm looks and feels like.

It is now abundantly clear that not only is regional and global climate change a reality but there are other hazards and vulnerabilities that need to be factored into our forward business plans. Managing risk, building resilience and factoring in adaptation and recovery responses have now become standard operating procedures. **Do you have these in place?**

EarthCheck has partnered with four of the world's leading thought leaders to help identify some of the key consumer and industry insights that will help define business over the next 18 months. As you read the report three key observations can be made:

- All the themes are inextricably linked and connected in some way and form, which should not come as a surprise given the rise of circularity, design thinking and integrated risk management.
- The trends rightly question the way we currently operate and raise awareness of the need not just for change but for radical adjustment and in some cases business adaptation.
- Not all is lost...where there are challenges there are abundant opportunities for new ways of doing business and identifying innovative business responses.

Each insight provides practical examples of how EarthCheck can work with you to respond to changing market conditions in a timely and strategic fashion. The trends are:

1. **The Coronavirus: Moving beyond monitoring** [Twenty31](#);
2. **Sustainable Finance, Insurance Premiums and the Reallocation of Capital** [HSBC](#);
3. **Moving from Risk to Resilience and Adaptation** [EarthCheck](#);
4. **The Shift to Circularity and Design Thinking** [BMI](#); and
5. **Tourism4Impact...the future of climate action** [South Pole](#).

It would be fair to say that there is an element of déjà vu in this report. Many of the topics, including responding to epidemics, were discussed at our first Inner Circle research forum with members some ten years ago. Yes they have become more complex and there is a heightened level of urgency but the same messages still resonate. **Perhaps it is now time to take action?**

Regards,



Stewart Moore
CEO and founder
EarthCheck



EARTHCHECK



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Acknowledgments:

**BUSINESS
MODELS INC**

HSBC 

 **south pole**

Twenty31 tourism defined.

THE CORONAVIRUS: MOVING BEYOND MONITORING

In February we saw further developments in the Chinese Coronavirus outbreak, with the first deaths recorded outside of mainland China and the announcement that the outbreak had already cost an estimated 1 trillion Yuan (US\$143 billion) to China's economy in the first week of the Chinese New Year.

There are now no flights into or out of China apart from those by a select few regional operators. Furthermore, there seems little prospect that these flights will be reinstated in the next 30-60 days. With thousands of flights cancelled, this means that international travel for most Chinese is now almost impossible in the short term.

However, we can expect Chinese international outbound travel to be in decline even after flights resume. The global, but more specifically, the Chinese economy is taking a substantial hit from the current outbreak, which is compounding an already below-trend level of growth. We know that there is a direct correlation between consumer sentiment and travel – broadly, if the economy does well then Chinese consumers will look to travel; in more uncertain times they may well defer their travel plans. Adding in the safety and security concerns caused by the outbreak suggests that if they travel at all, they will look domestically and regionally (e.g., Southeast Asia) instead of contemplating long-haul trips (e.g., to Canada, Australia or the Middle East).

In addition, destinations should anticipate a strong response from regional competitors in Asia Pacific. Once flights resume, it is likely that Thailand and Japan, in particular, will seek to boost Chinese demand through incentive pricing and targeted marketing campaigns.

This will put pressure on long-haul destinations outside the region like Canada and Australia. Already, a number of DMOs are taking real steps to postpone marketing in China and pivot to other markets.



CASE STUDY: CANADA

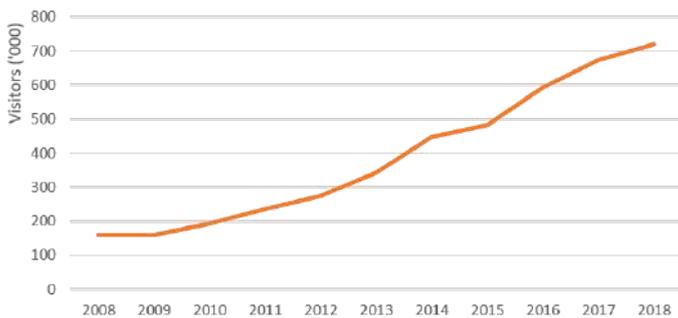
Since the SARS outbreak in 2003, Chinese travel to Canada has grown seven-fold from fewer than 100,000 visitors to a peak of 737,000 visitors in 2018. Already, November 2019 year-to-date saw a significant drop in visitors from China. The outlook for 2020 will be even bleaker.

China remains a very important overseas source market for many destinations in terms of arrivals and spend. With anticipated growth in flights and overall growth of outbound Chinese travellers, China will remain an important market in the long term.

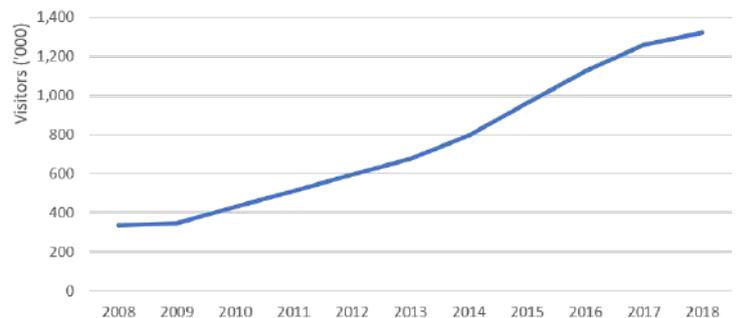
LESSONS FROM SARS

In 2003, during the SARS epidemic, tourism in Canada suffered. It lost an enormous percentage of its visitors and took a long time to recover. It lost 2.5 million visitors, or about 13% of the total market. Canada would not recover from its peak in 2002 for almost a decade. In 2004, one-year post SARS, though Canada recovered 1.6 million of the 2.5 million visitors lost during SARS, it took another hit: the US imposed stricter measures to “thicken” the border requiring passports for American travellers to Canada. This was compounded by the global recession in 2008 and 2009.

Chinese visitors to Canada (2008-2018)



Chinese visitors to Australia (2008-2018)



Globally, tourism during SARS dropped by less than 2% and recovered to its highest year ever in 2004, and climbed every year (until the recession in 2009) from there. For the US, it took only two years to recover.

THE EXISTENTIAL CHALLENGE

Destination Management Organisations (DMOs) in Canada are experiencing some cancellations from Chinese travellers but with no decisions yet on summer travel (in some areas such as the Middle East and Asia, DMOs are already citing substantial declines from China).

With travel from China already in significant decline in 2019 relative to the peak travel year of 2018, destinations like Canada are at risk of losing up to 100,000 travellers who have traditionally visited Canada between February and April.

The greater risk for destinations, hotels and attractions, however, may be the travellers who visit in the peak summer months between May and September (375,000 in Canada alone). Now is the traditional time when Chinese travellers start planning their trips.

RELIANCE ON THE CHINESE TRAVELLER

Most destinations have become heavily reliant on the high spending Chinese traveller. Destinations have built hotels, attractions and itineraries that reflect their specific needs. For a decade, this has been a smart investment.

A few facts about Chinese outbound travel:

- China accounts for one fifth of the world's total tourism spending. For many countries more than 50% of their revenue is reliant on visitors from China.
- China spends more on outbound travel than the next two countries combined (the US and Germany).
- China's global outbound spend is \$277 billion compared to \$144 billion for the US and \$94 billion for Germany.
- In 2017, 10% of China's 1.4 billion people travelled internationally. The UNWTO suggests the number of passport holders will double by 2027 to 300 million or 20% of the total population.

With a destination portfolio so reliant on a single source market, the risk is significant.

Can Chinese outbound travel be counted on as the glue that holds the key to destination profitability? For many international destinations, particularly those currently in their peak seasons, the answer is mixed.

WHAT CAN WE LEARN FROM GLOBAL DESTINATIONS CURRENTLY FACING THIS CRISIS?

Destinations from the Middle East to South Asia, currently in their high seasons are experiencing cancellations en masse. Hotels normally at capacity are running at under 50%. The outcome on these destinations will be devastating.



What are our global NTO and DMO partners doing to respond to the capacity gap left by the Chinese traveller?

Research

- Re-evaluating their destination exposure to a single Chinese market and a risk-averse Asian market to consider a reprofiling of their marketing investments
- Determining source markets and target market segments who have a high propensity to respond to a tourism message

Leadership

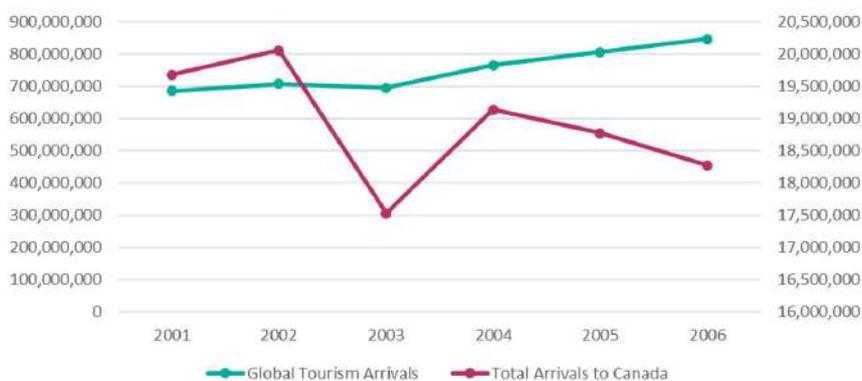
Working closely with hotel, airlines, attractions, and receptive and international tour operators to develop attractive packages to stimulate travel from these source markets and target customers – including at conferences like ITB and ATM

Marketing Campaigns

Making incremental investments in marketing these packages now, starting with short-haul and regional markets and then onto tried and true longer-haul and international markets

It is highly likely that competitor destinations, facing many of the same issues, will be already formulating plans to switch their focus to short-haul. **First-mover advantage is critical here – the destinations that can move fast to switch focus stand the best chance of riding out the crisis.**

Global Tourism Arrivals (L) vs. Total Arrivals to Canada (R)





SUSTAINABLE FINANCE, INSURANCE PREMIUMS AND THE REALLOCATION OF CAPITAL

Larry Fink, Chairman and CEO of BlackRock the world's largest asset manager (with \$7.4 trillion in assets under management), noted in his letter to CEO's this year, "the investment risks presented by Climate Change are set to accelerate a significant reallocation of capital, which in turn will have a profound impact on the pricing of risk and assets around the world."¹

One positive consequence of the reallocation of capital is the arrival of Green loans. Green or sustainability loans provide a legitimate pathway to achieve lower borrowing costs. HSBC define sustainable finance as any form of financial service which integrates environmental, social and governance (ESG) criteria into business or investment decisions.²

A key objective for HSBC is in providing sustainable financing options is to enable the transition to a low-carbon economy and to help clients manage transition risk. **Sustainable financing includes providing credit and lending facilities, as well as advisory services or access to capital markets.**

GreenBiz Group³ note that unlike Green Bonds sustainability linked loans can be used for corporate general purpose, not just for specific projects or technology driven options. **What makes the loans unique is that the borrower must quantify and report its environmental or sustainability benefits each year to the lender.**⁴



"The investment risks presented by climate change are set to accelerate a significant reallocation of capital."

Larry Fink – Chairman and CEO of BlackRock



Companies are increasingly using the Sustainable Development Goals (SDGs) to help them map and set performance-based targets. As more companies embrace the SDGs sustainability performance reporting will need to evolve and become more advanced.

This includes the use of more robust evidence-based research to quantify operational performance and communicate business value to stakeholders.

Langham Hospitality Investments recently announced that it had closed a sustainability-linked term loan and revolving credit facility amounting to HK\$7.5 billion with 11 banks. The syndicated loan consists of a 4-year HK\$6.8 billion term loan and a HK\$700 million revolving credit facility.

Demands from banks for Langham Hospitality Investments' new sustainability-linked loan were overwhelming. The syndicated sustainability-linked loan, which is the first raised by a listed company in the Asian hospitality sector, attracted participation by 11 banks in Britain, China, Hong Kong, Japan and Singapore.

Langham Hospitality Group's current sustainability performance is assessed by EarthCheck and EarthCheck's assessments will be used as the benchmark against which performance improvements will be scrutinised.

Under the terms of the sustainability-linked loan, Langham Hospitality Investments will be eligible for reductions on interest rates when certain sustainability objectives have been met.

The new sustainability-linked loan facility reflects Langham's commitment to create a positive change for the environment, but furthermore, to hold themselves financially accountable for their impact on the environment and society.

Ashish Sharma, Head of Loan Syndications for Asia-Pacific, HSBC said: **"This is a large, landmark transaction, which demonstrates the growing importance of green and sustainability-linked loans in the financing of Hong Kong's economy.** As the first sustainability-linked loan in the hospitality sector in Asia, it is also further evidence that Hong Kong is a leader for sustainable financing in the region".

With greater scrutiny in reporting comes the need for greater transparency and disclosure

One of the consequences of increased scrutiny on operational and social performance is the need for greater transparency in reporting and scientific validation of the environmental health of a company and its supply chain. This includes the call for more robust performance and operational metrics that sit within the business plan rather than as stand-alone sustainability guidelines. **In other words sustainability initiatives must become aligned to core business and embedded across all departments.**

INSURANCE PREMIUMS AND DIRECTOR'S LIABILITY ARE NEW RISK CONSIDERATIONS

Perhaps one of the greatest immediate concerns for business is the pressure that is starting to build on insurance premiums. Not just because of the size of current natural disaster insurance claims but because the mid to long term outlook on climate change carries some enormous risks that are now being recognised.

In Australia this has already led to examples where there has been a significant rise in insurance premiums (+300%) for island resorts and in some cases a withdrawal of insurance options in high risk tourism areas.

More recently liability risk for directors has also appeared through law- suits and class actions. KPMG⁵ note that It is not inconceivable that many companies will suffer from a triple hit which includes:

- **A significant increase in director and officer liability insurance policy claims arising from a failure to mitigate, adapt or disclose climate risks.**
- **A drop in asset value if companies invest in questionable environmental projects.**
- **Litigation from shareholders from the failure to deliver climate resilient asset portfolios.**

Companies should be prepared for climate related questions and resolutions at Annual General Meetings and duty of care questions concerning operational and investment management.

Moving forward...what role can EarthCheck and our partners take to support our members?

- Approach EarthCheck to enquire about **green loan** options.
- Learn how to undertake carbon and environmental **reporting with science** and **evidence-based data**.
- Seek support to **integrate sustainability** into your core **business plans**.
- Get EarthCheck to deliver **training and capacity building** to embed sustainability across all operational departments.



Asset portfolio includes: Langham Hong Kong, Cordis Hong Kong, Eaton HK

Langham Hospitality Investments (1270.HK)

HSBC Sustainability-Linked Loan



HK\$7.5 billion with 11 banks



4-year **HK\$6.8 billion** term loan



HK\$700 million revolving credit facility



Langham Hospitality Investments will be eligible for **reductions on interest rates** when certain sustainability objectives have been met.

MOVING FROM RISK TO RESILIENCE AND ADAPTATION

In this year's World Economic Forum Global Risks Report⁶ all five of the top risks by likelihood, and three by impact are climate-related. Never has one issue dominated the survey in this way.

EarthCheck has been involved with the development and delivery of risk and crisis management programs throughout the Asia Pacific for the past 16 years.

What is evident is that while the science behind crisis management and environmental risk has not changed dramatically the increased frequency, intensity, duration and spatial extent of extreme weather events has.

The McKinsey Global Institute in their 2020 report⁷ state that climate science indicates that further warming will continue to increase the severity of acute climate hazards across the world such as lethal heat waves and extreme precipitation. Hurricanes and cyclones will further intensify chronic hazards such as drought, heat stress and rising sea levels.

What is clear is that responding to these challenges will require integrating climate change risks into our destination management plans, the design and construction of our tourism buildings and service infrastructure and understanding what must happen if we are to adapt and adjust to these new operating environments.

Resilience tends to be widely talked about in tourism circles but little understood.



"Of all risks, it is in relation to the environment that the world is most clearly sleepwalking into catastrophe"

World Economic Forum (WEF) Global Risks
Report 2020

Resilience can be defined as the ability of a business or community to absorb and recover from a shock. A key step in recovery is understanding how longer-term adaptation and wider transformation can take place.

Adaptation is a difficult concept to achieve when short term and ad hoc responses are driven by political or corporate investment decisions to get back into business quickly.

EarthCheck has developed a ClimateCheck toolkit for destinations and has also created the CrisisReady app for business operators and destinations.

The ClimateCheck toolkit provides a timely practical resource to help destinations to both gain an understanding of their readiness to address climate change and what action can be undertaken to develop some level of longer-term resilience to respond to climate related risks.

The EarthCheck CrisisReady app provides a practical crisis response plan which can be uploaded onto a mobile phone and activated when a response is needed to a crisis event.

What the app and crisis ready program demonstrates is that action on the ground must be approached in an integrated way. It can't be done in silos. Sustainable and resilient systems require joint action on analysis, planning and implementation. In short, a single layer of society or industry cannot be selectively resilient. It is either part of a wider functioning and healthy ecosystem or its isn't.

Of critical importance is identifying new ways of designing, operating and constructing sustainable and resilient infrastructure. **EarthCheck has developed the Building & Precinct Planning and Design Standards (BPDS & PPDS) to not just improve operational efficiency but to help build resilient infrastructure.**

Both BPDS and PPDS are performance driven tools which assists architects, engineers and developers to manage the economically, socially and environmentally sustainable design and construction of buildings and infrastructure.

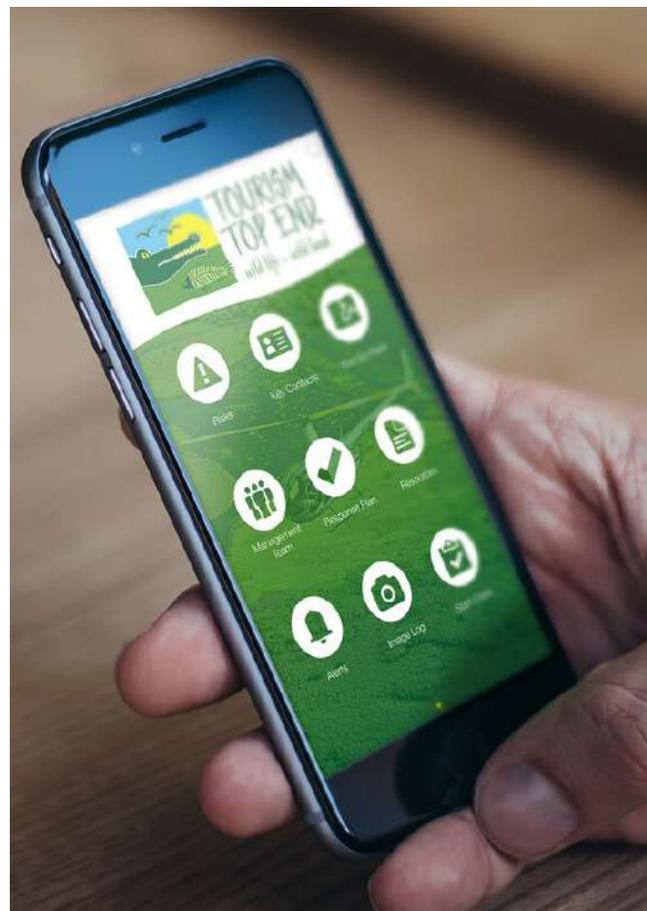
The Standards set out the requirements to undertake an integrated assessment of the expected environmental, social and economic performance of a project. The criteria include qualitative and quantitative indicators to provide an integrated approach to sustainable planning and design.

This results in:

- Efficient and responsible use of natural and social capital
- Placing sustainability at the heart of Building/Community Design
- Underpinning design with EarthCheck performance metrics- “You can’t manage what you don’t measure”

How can EarthCheck help you?

- Ask us about our **ClimateCheck** Toolkit for destinations
- Ask us about our **CrisisReady** app and **crisis management training and capacity building** program
- Ask us about our **Precinct and Building** Planning & Design Standard's
- Become an **EarthCheck Design Accredited Professional**





NAVIGATING THE CIRCULAR ECONOMY.. DISRUPTION & DESIGN THINKING

If there is one thing that you will begin to hear a lot about in the next 18 months is the enormous advances in the circular economy. **It has the potential to disrupt every element of the tourism supply chain from how we design and operate infrastructure and approach destination management through to advances in how we keep products and materials in use.**

Just take a moment to think about the tsunami of scientific and community effort that has been directed toward plastic waste management and reuse in the past year. Plastic waste reduction is just picking up speed and this represents just the tip of the new design thinking that is coming your way.

In short the circular economy involves a fundamental rethinking of products, materials and commerce. As Albert Einstein once said:

“We can't solve problems by using the same kind of thinking we used when we created them.”

Design Thinking is a systematic process which empowers even the most traditional thinker to develop new and innovative solutions to the problem at hand. While not a new concept by any means, we see many business opportunities and threats that are presented by the circular shift. By 2025, the circular economy is projected to be a \$26 billion industry, with growing pains expected as businesses will need to position themselves on the edge of innovation across their full value chain to participate in this space.⁸

As Nobel Laureate Herbert Simon famously observed: **“Everyone designs who devises courses of action aimed at changing existing situations into preferred ones”.**⁹



#WALKTHETALK

**"WE CAN'T
SOLVE PROBLEMS BY
USING THE SAME
KIND OF THINKING WE
USED WHEN WE
CREATED THEM."**

ALBERT EINSTEIN

"Tourism is not an industrial assembly line but a living dynamic system"

Anna Pollock



The challenges faced by the travel and tourism industry, it turns out, have a great deal in common with the work being done by today's leading designers across industries and communities the world over. It was acknowledged by leaders from the World Economic Forum being held in Davos this year that our traditional economy has limits to growth, because linear business models use up resources to make products that eventually go to waste. The circular economy and circular business models however, overcome these limits and build an economy where business growth and a positive socio-environmental impact reinforce each other.

Anna Pollock¹⁰ in her leading research on social entrepreneurship in tourism argues that tourism is not an industrial assembly line but a living dynamic system and systems thinking capacity is essential as well as the need to embrace the regenerative economy

You will also begin to hear more about regenerative tourism in the next 18 months. Unlike industrial and volume-based tourism regenerative tourism is focused on delivering a net benefit to host communities and environments. This could include energy positive resorts, zero waste initiatives, smart energy grids and ecosystem restoration.

EarthCheck's partner Business Models Inc recently designed and delivered Australia's first Circular Economy Lab¹² that brought together 26 organisations with a combined annual revenue of \$170 billion to deliver five circular economy projects, one being led by EarthCheck.

The Lab was designed to extract insights and ideas about what the future might look like through context mapping, ideation and storytelling exercises. Since there are no future facts, speculative design techniques were used to help build capability for innovation.

Michael Eales, Partner at Business Models Inc, said, "The circular shift is a key megatrend and business model strategy that closes the resource loop, where growth is decoupled from negative impact. We are excited to launch our partnership with EarthCheck, to accelerate the visitor and circular economy and help our clients capture the value from this important movement"

When undertaking a circular shift, the producing company takes full responsibility for its use of resources and works to ensure that no resource, material, energy or water is wasted. The ultimate goal of this strategy is to have a business model that creates healthy profit margins while also reducing its footprint and generating a positive socio-environmental impact by design.



Paradoxically, as circular businesses increase in revenue and size, they see increasing restorative effects on the context they operate in.

Understandably, many current businesses do not operate in this way, and would need to alter their practices to embrace the circular shift, which is not an easy feat especially for certain sectors.

That's why BMI and EarthCheck are launching a world-first - the Visitor Economy Lab. This living lab seeks to determine what actions the travel and tourism sector can take to create a better future that creates better economic, social, and environmental advantages for everyone.

While decarbonisation, digitisation, AI and the role of the new conscious consumer continue to ask questions of your business model...are you driving change or is change driving you?



Moving forward...what role can EarthCheck and our partners take to support our members?

- Approach EarthCheck and BMI to host a **Visitor Economy Lab** for your destination or business
- Seek support to **integrate design thinking** into your core **business plans and operational platforms**
- Seek information from EarthCheck and BMI on their **groundbreaking DELVE tool**



VENICE, ITALY

WE AS A
SPECIES HAVE
TO DEFINE THE
VALUES AND
PURPOSE OF WHY
WE TRAVEL

Image: www.cntraveler.com



TOURISM4IMPACT... A CLIMATE ACTION INITIATIVE

The growing awareness of climate change is starting to galvanize and focus public opinion. Investors, customers and employees are now expecting community and business action and leadership. **Where do you stand with your response to climate change? Has it been factored into your forward business and operational strategies?** For many companies and destinations this will mean taking climate considerations into account when looking at capital allocation, the development of products and services and supply chain management.

Beckon and Bobes¹³ in their comprehensive report on proving a case for carbon reporting in tourism note that **there is an opportunity to create a virtuous cycle for emissions reductions and carbon offsetting by first providing robust and transparent carbon estimates followed by easy and seamless links to low carbon options and carbon offsetting programs.**

Although the push for responsible tourism is gaining momentum globally, there are few avenues for local climate action at tourist destinations. To address global warming and foster sustainable development, industry and governments alike require investment opportunities and platforms that focus on these local solutions.

EarthCheck and South Pole have teamed up to fill this gap with Tourism4Impact. The pioneering program will forge partnerships between industry, travellers and local communities to minimise the impact of tourism on destinations. By establishing a range of targeted local climate action projects, **Tourism4Impact** will not just help reduce emissions – it will also take positive action to help protect the places we cherish.

“With the number of global travellers on the rise, the tourism industry must take responsibility for its growing impact and offer travellers an opportunity to give back to the places they visit.

Tourism4Impact goes one step further: travellers can now support climate action on the ground, right at their destinations. The program supports projects such as solar power for local schools, protecting precious mangroves or beach restoration.” – **Renat Heuberger, CEO & Co-Founder, South Pole**

EarthCheck provides the world’s leading global carbon measurement and reporting tool for tourism. We recognise that in the first instance our collective focus must be on taking action to avoid and then reduce our carbon footprint however when emissions cannot be reduced directly or cost effectively we need to establish a transparent and consistent approach to taking action via a broader mitigation portfolio.

EarthCheck is currently working with a number of Governments, destinations, tourism operators, residents and island businesses to help create low carbon pathways. We have significant experience in working with destinations to analyse region-wide carbon emissions and to help identify options for reducing emissions and building resilience to climate change. Many of EarthCheck's programmes not only offer a comprehensive diagnostic tool but also provide structured decarbonisation pathways and frameworks with support services.

Enclosed within this [link](#) is a recent report identifying best practice design and technology options for the island resorts of the Great Barrier Reef.

Moving forward...what role can EarthCheck and our partners take to support our members?

- Approach EarthCheck or South Pole to seek **carbon offset options**
- Seek advice from EarthCheck on **developing a broader mitigation strategy** for your business and destination
- Ask us about our **structured decarbonisation program** and support services

In addition EarthCheck can help you to:

1. **Identify your carbon footprint** and prioritise opportunities to **transition to a zero-carbon future**
2. Build a sustainable and resilient future by **mapping your climate change risks** and creating pathways to adapt to changes in climate
3. **Develop strategies** to manage your future risks around **energy and water supply, transport, communications** and **waste management**
4. Outline **operational and financial considerations** associated with new plant and equipment investment options

Case Study - Decarbonisation of Great Barrier Reef Islands

The decarbonising of resorts of the Great Barrier Reef islands program was funded by the Queensland Government as part of a \$1.73 million election commitment to help the businesses and communities of **the Great Barrier Reef transition to a low carbon future.**

EarthCheck worked with resort owners, managers and local councils to assess their performance across a range of sustainability indicators, identify project opportunities to **reduce emissions and provide the financial insights** needed to pursue their preferred project options as business cases. 25 resorts across 20 islands and four destination islands participated in the program. The program of work has found that if all 25 resorts implemented the decarbonisation options identified, they would collectively **achieve annual energy savings of \$3.5 million and carbon savings of approximately 18,500 tonnes per year.**

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EARTHCHECK



SUSTAINABLE FINANCE, INSURANCE PREMIUMS
AND THE REALLOCATION OF CAPITAL

MOVING FROM RISK TO RESILIENCE AND
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WALK THE TALK

THE NEW TOURISM ECONOMY

THE SHIFT TO CIRCULARITY AND DESIGN
THINKING