PENSIONS POLICY INSTITUTE

PPI

ESG: past, present and future – launch write up

The Pensions Policy Institute (PPI) held a policy seminar on 2nd October 2018 to launch ***ESG: past, present and future***, sponsored by Redington. The report explores environmental, social and corporate governance (ESG) factors and the benefits and barriers to investing in such a way.

66 people representing a broad range of interests within Government, the investment industry, the pensions industry and the third sector attended the seminar.

Jonathan Parker, Director, Redington, welcomed attendees and explained the importance of being an early adopter of responsible investment given the duty of ensuring clients are protected from financial risks as much as possible.

Catherine Howarth, CEO, Share Action, introduced the research and commented on the recent evolution and growing importance of ESG.

Chris Curry, Director, PPI, presented the findings of the research.

David Farrar, Senior Policy Manager, DWP, commended the report on its demystifying of the jargon around ESG. He spoke regarding the new regulation and its role in enabling trustees to better understand their duties by reducing confusion around ESG.

Honor Fell, Vice President, Redington, discussed the pace of change occurring around ESG, with the perception that it is reputationally driven rather than financially beginning to dissipate, backed up by the new regulation. She also outlined the ways in which ESG will grow in importance in coming years and the different ways this may be approached.

Panel discussion and Q&A

The following points were raised during the panel discussion and Q&A session chaired by Catherine Howarth, with panellists Lydia Fearn (Redington), Ruston Smith (Tesco Pension Trustees and Smart Pensions), Nico Aspinall (B&CE) and David Farrar (DWP):

Communication and engagement

- ESG may be instrumental in engaging younger savers who are more engaged with these issues. However, communications will need to find a way to simplify or remove the jargon around ESG to ensure that members can understand the impact their investment is having.

Implementation

- The financial considerations of ESG (the extent to which it can deliver better returns and/or reduce risk) are a vital part of the discussion as the

key objective is delivering positive pension outcomes. If ESG really can contribute to delivering better returns then it will be a key part of fulfilling this objective.
- How accessible is ESG for smaller schemes? One key barrier has been cost and availability, but as we move towards a more integrated approach there may be more accessibility for smaller schemes.

Regulation

- While it is now mandatory for schemes to consider ESG when designing their investment strategy, this does not mean that all schemes will incorporate it. However, as ESG considerations become an increasingly mainstream part of investment, trustees will have to be increasingly bold to dismiss them.
- How will regulation results be monitored to measure their success? This is complex as investment strategies would have evolved over time even without the new regulation. Monitoring will largely look at the quality of investment principle statements, as using a different measurement approach may be too prescriptive of trustee behaviour.

The role of consultants

- What is the role of consultants in improving and increasing ESG? These can be difficult conversations to have with investors but with the new regulation this needs to be part of the discussion to help establish a longer term perspective on what is in member interests.
- Consultants can help to drive forward ESG focus and remove barriers by reducing confusion, sharing best practice and innovation, and building on regulation to create practical solutions.