Response from the Pensions Policy Institute
June 2021

PENSIONS POLICY INSTITUTE
PPI

Pension stewardship and COP26

1. Response

1.1 This is the **Pensions Policy Institute's (PPI)** submission to the Work and Pensions Committee call for evidence: *Pension stewardship and COP26*.

1.2 The Pensions Policy Institute (PPI) promotes the study of pensions and other provision for retirement and old age. The PPI is unique as it is independent (no political bias or vested interest), focused and expert in the field, and takes a long-term perspective across all elements of the pension system. The PPI exists to contribute facts, analysis and commentary to help all commentators and decision-makers to take informed policy decisions on pensions and retirement provision.

1.3 This submission does not address all of the specific questions in the consultation, neither does it seek to make policy recommendations. Rather, the response points to the research that the PPI has conducted on ESG investment, and climate change particularly, over the last year.

1.4 This submission is drawn from PPI's **Engaging with ESG** research series, which can be found on the PPI's website:

Engaging with ESG: The story so far
https://www.pensionspolicyinstitute.org.uk/sponsor-research/research-reports/2020/2020-12-02-briefing-note-number-124-engaging-with-esg-the-story-so-far/

Engaging with ESG: Climate Change
https://www.pensionspolicyinstitute.org.uk/sponsor-research/research-reports/2021/2021-02-18-engaging-with-esg-climate-change/

Engaging with ESG: Environmental, Social and Governance Factors
https://www.pensionspolicyinstitute.org.uk/sponsor-research/research-reports/2021/2021-04-22-engaging-with-esg-environmental-social-and-governance-factors/

2. Summary

2.1 Recent regulatory changes that require schemes to demonstrate how they have considered and accounted for Environmental, Social and Governance (ESG) factors when formulating their investment strategy have led to a growth in understanding and awareness, as well as an increased focus on the financial risk-mitigation component of ESG investment. Climate change in particular has received increasing focus from policy-makers and social movements around the globe and as such are increasingly difficult for pension schemes to ignore. However, there are concerns that some schemes are still not engaging with these considerations in a meaningful way, especially in relation to engagement and stewardship activities beyond asset allocation. While climate change has been the main area of focus of many ESG strategies and some schemes (as well as pension providers and asset managers acting on their behalf) are doing a lot to mitigate these risks, there is still work to be done as physical and transition risks associated with climate change become more pressing. Schemes will need to take direct action and a more joined-up approach across the industry, from government, regulators, industry bodies and third parties such as consultants and asset managers, will be needed to drive forward progress.

2.2 Policy and regulatory changes relating to climate change are occurring rapidly, which can be challenging for schemes that do not already have the necessary knowledge and expertise to catch up at pace. The rapid change observed in the ESG investment landscape in recent years does not look set to slow down, meaning that many schemes will have to make equally rapid adjustments in order to comply with regulation. However, schemes also need to a take a long-term view on the process of designing and implementing a strategy that appropriately protects their members against climate risks as much as possible. While schemes that are not already in compliance with incoming regulatory changes will need to take the necessary steps to comply immediately, their overarching climate strategy will likely take longer to establish and will involve periods of review and revision along the way. For some schemes this will require improvements to knowledge and understanding among decision-makers. Climate change is a rapidly evolving area and one which many trustee boards and their advisers don't necessarily have sufficient knowledge and experience to address without additional guidance and training. Although knowledge and understanding has grown across the industry, there is still a gap in some areas which may require more cohesive efforts from Government and industry to address.

2.3 Schemes that are heavily dependent on external asset managers will need to increase engagement with and monitoring of these managers in order to improve the effectiveness of their investment strategies and mitigation of climate risks. In some cases, schemes may need to directly demand more climate-aware products and strategies from their pension providers and external managers. In order for schemes to be able to fulfil their reporting duties relating to climate change, they will need to ensure that they themselves are receiving appropriate reporting from their external service providers and from the underlying companies in which they invest. One scheme that responded to PPI's Engaging with ESG survey (2020) expressed concern that trustees would be required to comply with TCFD requirements before Government and some corporate issuers are required to do so, which will make trustees' task more difficult to carry out to a reasonable standard. Although schemes predominantly outsource their day-to-day investment decisions, they retain oversight of the engagement and stewardship activities being undertaken on their behalf. Now that implementation statements are part of the regulatory requirements, there is a need for all trustees and providers, regardless of scheme size or type and the level of direct day-to-day involvement with ESG approaches to have a sufficient level of knowledge and understanding in order to best fulfil their role to effectively scrutinise external managers used by their scheme. There will need to be a greater focus on engagement and stewardship activities to ensure that companies across the board are making progress towards climate change goals.

For further information or if you have any additional questions please contact:

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About the Pensions Policy Institute.

We have been at the forefront of shaping evidence-based pensions policy for 20 years.

The PPI, established in 2001, is a not-for-profit educational research organisation, with no shareholders to satisfy– so our efforts are focussed on quality output rather than profit margins. We are devoted to improving retirement outcomes. We do this by being part of the policy debate and driving industry conversations through facts and evidence.

The retirement, pensions and later life landscapes are undergoing fast-paced changes brought about by legislation, technology, and the economy. Robust, independent analysis has never been more important to shape future policy decisions. The PPI gives you the power to influence the cutting-edge of policy making. Each research report combines experience with independence to deliver a robust and informative output, ultimately improving the retirement outcome for millions of savers.

Our Independence sets us apart – we do not lobby for any particular policy, cause or political party. We focus on the facts and evidence. Our work facilitates informed decision making by showing the likely outcomes of current policy and illuminating the trade-offs implicit in any new policy initiative.

Our Vision:

Better informed policies and decisions that improve later life outcomes

We believe that better information and understanding will help lead to a better policy framework and a better provision of retirement income for all.

Our Mission:

To promote informed, evidence-based policies and decisions for financial provision in later life through independent research and analysis

We aim to be the authoritative voice on policy on pensions and the financial and economic provision in later life.