

Introduction

The UK Sustainable Investment and Finance Association (UKSIF) is the membership organisation for those in financial services committed to the growth of sustainable and responsible finance in the UK. We look to promote a more sustainable and inclusive financial system that works for the benefit of the environment and wider society.

UKSIF represents a very diverse range of financial services firms committed to these aims, and our 240+ members include investment managers, pension funds, banks, financial advisers, research providers, NGOs, among others. UKSIF welcomes the opportunity to contribute to TPR's discussion document on your future corporate strategy, and **our response stresses the importance of ensuring that climate change and broader environmental, social and governance (ESG) issues are at the heart of your new strategy and ongoing work to ensure better outcomes for pension savers.**

UKSIF's recent work

Historically, **UKSIF has been hugely supportive of efforts to ensure all pension schemes' investment decisions, and indeed all financial decisions, properly take into account climate and sustainability risks and opportunities and disclose in line with TCFD.** Most recently, earlier this year we engaged with policymakers on the Pension Schemes Bill and successfully lobbied government for pension schemes to report against the Task Force on Climate-related Financial Disclosures ('TCFD') framework.

We published a [report](#) in January this year, with support from DWP and TPR, on how pension schemes have implemented their new ESG duties, and we continue to stress the importance of improving trustees' knowledge and understanding of how to manage climate-related financial risks.¹ We are also now looking to ensure that pension schemes, and indeed all signatories to TCFD, are making good-quality and relevant disclosures so that investors, savers, and all of us can have better information on companies' climate related risks and opportunities.

We agree with the main points raised in your discussion paper on your future corporate strategy, including your five new strategic priorities, and would like to make the following broad observations in response.

UKSIF's views on TPR's new corporate strategy

1) The strategy's commitment on savers' exposures to ESG and recent policy changes

We strongly welcome your commitment in the strategy to increase your focus on managing savers' exposures to ESG risks, which has been brought into sharper relief by the Covid-19 pandemic. Over recent years, we recognise there has been a step change in your supervisory approach on ESG risks with an increased emphasis on climate change, which we see as a significantly positive development. We support government's efforts in increasingly giving pension schemes greater clarity on, and responsibility for, managing financially-material ESG factors, including climate-related financial risks and opportunities, in their investment portfolios.

The new requirements in the Pension Schemes Bill for pension trustees to ensure there is improved governance of schemes in relation to the impact of climate change, will lead to a hugely positive change in your supervisory focus. The regulator will now have powers to ensure pension schemes align governance processes and disclosures with the TCFD recommendations, and the regulator will need to encourage schemes and managers to work closely together to ensure there is the right data and information available for schemes to report in line with the Bill's new obligations.

¹ UKSIF, *Changing course? How pensions are approaching climate change and ESG issues following recent UK reforms*, January 2020.

2) The increasing awareness of climate-related financial risks and the need for a policy response

We know there is **increasing awareness now among UKSIF's members, and society more widely, of the significant risks that climate change poses to companies' long-term value.** With respect to pension schemes, as major long-term investors, they have a particularly critical part to play as universal owners of capital, exposed to every geography, every asset class and therefore a range of financial risks arising from ESG factors. These risks include everything from mismanaged companies going insolvent to the physical effects of – and governments' and regulators' responses to – climate change. Few industries touch as many lives as the UK pensions sector.

Climate change in particular presents big risks to UK pension schemes. A young person entering the workforce for today, auto-enrolled in a pension scheme, will retire well after 2050, which is when the world needs to have reached net-zero emissions to prevent global average temperatures rising further than 1.5 degrees above preindustrial levels. They will retire into a world radically transformed by climate change and by society's response to this threat, and their pension scheme needs to put policies in place now to deal with these risks today. Savers could benefit significantly from the realisation of potentially higher returns if companies and the economy transitions to a more sustainable future over time.

We also know savers themselves are increasingly alert to ESG risks to their investments, and looking to ensure their money is invested in a way that takes account of these risks and aligns with their values.

3) The need to prioritise climate risks and opportunities in the new strategy

Regulators have a central role in helping schemes further manage and respond to climate-related risks, particularly following recent successful policy reforms. **We believe it is vital that pension schemes alongside the regulator continue to prioritise the consideration of climate-related financial risks and opportunities, and we would strongly support this explicit inclusion in your new corporate strategy.**

UKSIF and our members would stress the importance of climate change and ESG considerations to the challenges you have correctly identified in the paper for each cohort of savers and to your five new strategic priorities, particularly for those relying on DC pensions in the years to come. We welcome your recognition of climate change and ESG issues in the paper, and we hope these areas are given priority in your future strategy and work programme. We would be pleased to share with you in more detail our members' views on how TPR might best achieve this.

One way of prioritising these considerations would be to **more explicitly state in your strategy the link between climate change and those challenges you identify, such as driving up participation in workplace pensions for 'Generation X' and millennial savers and protecting all groups of savers.** For example, if we (the industry and regulators) want to encourage pension saving among those cohorts, it is important to ensure pension savers can make informed investment choices in line with their objectives (for example, to be able to invest in environmentally sustainable infrastructure projects), and create an environment in which people know that their savings can help tackle climate change and other issues they may care about. We note your research cited in the paper showing that the vast majority of people have given little or no thought to how they will manage financially during their retirement, and the growth of sustainable investment in the UK could drive a step change by encouraging higher levels of engagement and saving.

One barrier to this continues to be the lack of common standards and definitions for sustainable investment, including in relation to the definition of a net-zero pension or portfolio. **Helping and educating pension schemes on those initiatives which are seeking to define net-zero investment frameworks could be a useful exercise for the regulator to undertake** (examples of initiatives in this area include the UN Global Compact Business Ambition for 1.5°C, the Paris Aligned Investing Initiative of the Institutional Investors Group on Climate Change, Climate Action 100+ and the Transition Pathway Initiative). We would be happy to have a discussion with TPR on expectations on net-zero strategies. We expect pension schemes will lack an understanding on effective sources of

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guidance, and promotion of the 'best in-class' initiatives by policymakers and regulators could help in this respect.

We welcome your commitment to putting pension savers at the heart of TPR's new strategy and your forward-looking view to help different groups of savers achieve their financial objectives over the long term, and **we believe climate change and broader sustainability issues should form a core part of your new strategy in the future.**

Further information

For more information on this response, please contact Oscar Warwick Thompson, Senior Policy Manager, on: o.warwickthompson@uksif.org.