

Investing in action to combat climate change

Thank you very much to Sustineri, Accounting for Sustainability and Karen Shackleton of Pensions for Purpose for organising this event and for inviting me. It is great to see the Mayor of London's team here.

I have been in the role of Minister for Pensions and Financial Inclusion for 2 years now, and we are on a journey. Over the last 19 years, we have been fighting to make the case that climate change should be taken seriously, and we have not yet been completely successful. Perhaps everyone in this room accepts that climate change is something we need to tackle, and acknowledges that their funds have a large role to play in doing this. However, the vast majority of the population are not there yet. Education is vital, and those of us in the room have a key role in delivering that message and helping us to change the debate and change the dynamic.

Successive governments have taken climate change seriously. Between 1990 and 2017, the UK reduced its emissions by over 40% while growing the economy by more than two thirds – on latest available data across countries to 2016, the best performance in the G7 on a per person basis. Constituents say that we are doing well, and I celebrate our successes, but at the same time we need to look at what more we can do.

We all know that automatic enrolment has been a huge success, with more than 10 million people newly saving or saving more. Pension investments, with their long time-horizons and wide take-up across the working age population, are ideally placed to win widespread support for investment in action which mitigates and adapts to climate change.

Mercer have reported that in a scenario of a 2-degree increase in global temperatures, a modest estimate suggests that oil and gas will have lost 94% of its value by 2050. It has to be the case that if you are investing via an All Share tracker and 15% of those assets are in oil and gas and you are doing nothing about it then you need to have a long hard look at yourself.

Pensions lawyers say that trustees must abide by the prudent person principle – using the 'care, skill and diligence' a prudent person would exercise when investing for someone for whom they feel 'morally bound to provide'. Let's consider what prudence means in the scenario of those oil and gas holdings and climate change.

Perhaps some of those trustees think they are being prudent by timing the market perfectly and realigning their portfolios just before valuations tumble. But I don't see how every trustee is able to do that.

Perhaps they suspect that governments aren't serious, that we won't meet our targets and that we'll carry on with large net carbon emissions to 2100 and beyond. But the consequences of that are dismal. Parliament is taking action.

Last Monday, the House of Commons unanimously passed legislation committed the UK to net-zero carbon emissions by 2050. There absolutely is the political will to address this climate emergency from both the government and all the opposition parties. If those of you in the room ever doubted your individual or collective power, I encourage you to realise it now. This legislation commits the UK to a path that pension funds must play a massive role in.

We also passed legislation last year to require pension schemes to state clearly their policy on how they take account of climate change, and to require defined contribution schemes to publish their policies and report on them annually. These actions closely follow those taken by the Ministers of Ministry of Housing, Communities & Local Government (MHCLG) and the Local Government Pension Scheme (LGPS). Learning from the LGPS, I intend to use transparency to improve the statement of investment principles which for too long have been formulaic, generic and detached.

I don't want to hear any more that "climate change is important, but we leave it to our investment managers"; if you leave the room saying that then we have all failed. I want to hear what trustees are doing having reached that recognition.

And last month I introduced new legislation which will require defined benefit schemes to publish their policies on climate change too, in the department's transposition of the Shareholder Rights Directive. Many defined benefit schemes are de-risked, but the £1.5 trillion of assets means even small percentage allocations have a significant impact in where investment is directed.

There is a role for defined contribution schemes too. In February I published a consultation on proposals to require larger defined contribution (DC) schemes to have a clear published policy on infrastructure investment and other illiquid investments, and to report on that. I am considering next steps, and would personally like to go much further. I believe that it is the case that investment in infrastructure and housing will increase engagement with members, who are currently often unaware of what their pension is invested in.

Finally, earlier this year I brought into force Governance Regulations, which require trustees both to have an effective system of governance, including consideration of Environmental Social Governance (ESG); and to document how they assess risks from climate change and risks from the low carbon transition.

The Pensions Regulator will produce a Code on these matters which will have legal standing in the courts. And I'm delighted to announce that we have established, in partnership with The Pension Regulator, a new industry working group to bring together practitioners and policy makers in this space, to produce guidance for pension schemes on carrying out and reporting climate risk assessment, in line with the Task Force on Climate-Related Financial Disclosure's recommendations.

This is still the start. Government will be publishing its Green Finance Strategy tomorrow – which will outline further measures we will be taking to accelerate the growth of green finance, and effectively manage climate-related risks across the financial system.

I take this very seriously, and I am very aware of the consequences on not addressing the long-term climate emergency. I hope you look in the mirror and look at what role you can play.