Pensions, People, Planet: Saving for the future to save the future

Thank you Nigel [Peaple, PLSA's Director of Policy and Advocacy].

It is great to be part of this second ESG [Environmental, Social and Governance] conference.

I am sure it will continue as a firm fixture in the PLSA and pensions calendar, given the growing demand from the sector for ESG advice, guidance and other tools.

Because, pension schemes are weighing up the risks from environmental, social and governance factors like never before, as they look at how sustainable – and in tune with their values and outlooks –their assets and investments are.

And Russia's invasion of Ukraine has been a reminder to investors about the importance of thinking carefully and holistically about risk, and about the influence that investment can have.

As a result of what we agreed four months ago, when 197 countries convened by the Clyde for COP26, we kept the aim of a 1.5 degree rise in temperatures within reach – mobilising global climate finance to help power our greener future and committing to make the UK the world's first Net Zero financial centre.

As a government, we are investing billions into our green industrial revolution.

But the simple fact is, the change we need is not going to happen – here or globally – without a lot of private finance.

That was – and is – our mantra, in our COP26 Presidency, and in picking up the COP baton,

Egypt has relayed that message – and the importance of using innovative finance to ensure last November's commitments are converted into action.

With the halfway point between Glasgow and Sharm el-Sheikh already on the horizon, this conference is a good opportunity to take stock – to look at what we are doing – and what more we can do – to ensure pensions play their full part in leveraging private capital… so that, as we save for the future, we can help save the future.

As the largest single group of institutional investors in the UK – with around £2 trillion of investments – occupational pension schemes are in a prime position to take the long view and invest in green assets that can help us reach Net Zero and keep 1.5 alive.

With all that investing power and influence over financial flows, I have called pensions a potential superpower in the fight against climate change.

And we are helping provide plenty of green investment opportunities – for example, by issuing new green gilts to fund projects like zero-emissions buses and offshore wind or through our new infrastructure bank, which is increasing green infrastructure investment across the UK.

We are also giving schemes greater flexibility to invest in productive finance – in real assets like infrastructure and innovative businesses of tomorrow.

We will bring forward legislation shortly to remove barriers that currently prevent schemes from being able to invest in more assets like these, if they feel that would benefit their members.

As with any superpower, it is important to know your kryptonite – climate change presents a real risk to scheme investments, to employers' funding plans and ultimately the retirements of savers.

Which is why it is great that UK pension schemes are at the forefront of tackling climate risk, with leadership and progress being made across the sector – for example, we are seeing increasing numbers of schemes choosing to move to a Net Zero target as part of their investment strategy.

It is also why, in government, as well as looking to remove barriers to support investment we have been focused on carefully putting in place a world-leading regulatory system of accountability and transparency to help pension schemes manage this risk.

Last year, we were the first country in the world to give new legal duties to trustees to assess – and publish – the financial risks of climate change within their portfolios.

And in the summer, we will bring regulations before Parliament requiring trustees to report on how their investments align with the goals of the Paris Agreement. We plan for this to come into effect from the 1st October.

Trustees will be able to select a portfolio alignment tool which reflects their circumstances, including their investment strategy and governance capacity.

We know that limits to data coverage for certain asset classes present challenges. However, they are not sufficient to delay action.

And given the data gaps that currently exist, trustees will only be required to calculate Paris Alignment 'as far as they are able'.

These new requirements are part of a bigger push right across the economy for new standards on environmental reporting to weed out greenwashing and support our transition to a net zero financial system – for example, through our new Sustainability Disclosure Requirements.

Disclosure, transparency and accountability are powerful tools.

And as we have been clear, our approach is about better information and empowerment, not about divestment or directly penalising today’s high carbon emitters.

High emitters – like fossil fuel companies – should be supported in their transition to Net Zero – and we need them to invest in green technologies.

So this is about enabling pension schemes to distinguish between the leaders and the laggards based on the ambition of those companies so that investment does not shift if they have a credible net zero plan.

But equally, it will not be enough for schemes to just passively report on and tick-box their way through climate change risks and to net zero.

Trustees can be strong investment influencers – as asset owners, as the appointors of investment managers, by sharing their views and wishes when it comes to votes on company and shareholder resolutions, and their engagement with firms.

I see strong and active stewardship as a really important component of what it means to put climate change right at the heart of a scheme’s governance and risk management.

Trustees may feel they have a solid stewardship strategy in place – but are asset managers and service providers on board, walking the walk and following through?

That is where effective stewardship comes to the fore, with trustees taking action and driving change in the behaviour of those making decisions on their behalf.

I invite all trustees watching today, to ask:

‘Am I maximising my influence?’

‘Can I engage even more with companies and issuers in our portfolio over their plans for Net Zero – in the short, as well as the medium and longer term?’

‘Are my scheme’s votes being used to support shareholder resolutions that require robust Net Zero plans and climate disclosures?’

‘As asset owners, are we encouraging managers to sign up to the UK Stewardship Code?’

‘Are we making sure our managers’ activities reflect our climate strategies?’

I do understand that trustees have a lot to consider – and that climate disclosures have added to the important agenda of wider reform to the pensions system to make it safer, simpler and more transparent.

But the regulations and stepping up on stewardship are vital for the protection of pension savers and the planet alike – and we want to help trustees to carry out their duties.

In the next few months, DWP will be publishing specific guidance on the new Paris Alignment metric, as well as on the stewardship role of trustees – and I want to thank all those who contributed to the consultation on this.

The Minister for Pensions and I think we can go further.

We are looking right now at how we can make 2023 the year of the trustee – to recognise some of the excellent work trustees are already doing, as well as provide more support through a programme of education and by promoting best practice during the course of next year.

We will work with pension industry partners, including the PLSA, on this – so watch this space!

We want to look at a range of support and opportunities because I recognise that we are asking a lot of trustees and occupational pensions schemes, and I want to thank you for the leadership and focus you are taking.

I also want to thank the PLSA for the work you have done – and continue to do – to bring the pensions sector together on the climate and ESG agenda, to develop and share best practice, and help guide trustees in their important role.

We are committed to continuing to work with pension schemes and their trustees to ensure the risks from climate change are properly managed, to protect people’s pension savings, to maximise investment opportunities to fuel our transition to our greener economy, to turn promises on climate change into action, and to fully harness the power of pensions to deliver for people and the planet.