

Taking action on climate risk: Improving governance and reporting by occupational pension schemes

Thank you all for joining me here in Glasgow, home of the UN Climate Change conference – COP 26 – which is taking place next year.

As the first major economy to legislate on becoming Net Zero by 2050, the UK Government has a strong track record in setting the global climate agenda.

Indeed, over the past 10 years we have reduced greenhouse gas emissions by 28%, increased renewable electricity generation five-fold and created hundreds of thousands of low carbon jobs.

Our work though has only just begun as we continue to prioritise sustainable policies – building a low carbon economy, to ensure security for future generations to come; and building back better can absolutely be building back greener as we emerge from the initial economic impacts of the coronavirus.

It is this principle of ‘providing climate security for generations to come’ which I intend to focus on today.

As Work and Pensions Secretary, my role is to support people throughout their lives, from helping with childcare costs to supporting low income workers, or those who have lost their jobs to get back into work, to providing for those in their retirement and also helping to educate people about the importance of saving for later life.

Many people who will retire in 2050 may not yet be thinking that far ahead, but should all be thinking on that timeline as actions we take now usually do have long-lasting consequences.

In the UK, pension institutions control some £1.8 trillion of investments. Pension scheme trustees are entrusted with our savings and finances for retirement – investments that bear fruit in 10, 20, 30, 40 years’ time. So it is only right that they take into account the long-term financial risks and they are also in the ideal position to benefit from that change to a sustainable, low-carbon economy.

I am delighted to therefore today set out our proposals for consultation on – ‘Taking action on climate risk: improving governance and reporting by occupational pension schemes’.

I think this consultation marks one of the most significant steps to date in the UK’s pioneering progress on tackling climate change.

These proposals would see the UK become the first major economy in the world to require climate risks to be specifically considered by pension schemes and will ensure trustees are legally required to assess and report on the

financial risks of climate change within their portfolio.

We are at a climate change cross roads – we must begin to look at green and sustainable assets as the investments for the future of the planet and of our pensions. And any scheme that has no plan for the transition, is risking its future and the future of its members. Schemes of all sizes need to be acting right now for the financial risks and opportunities climate change presents, providing sustainable returns that will keep many pensioners comfortable in their retirement.

Time is not on our side on these significant decisions and while the UK has already made significant reductions in carbon emissions while still seeing economic growth, we will act at speed to implement our proposals informed by responses from the consultation. We want to see the 100 largest occupational pension schemes – those with £5bn or more in assets, and all authorised master trusts – we want to see them publish and produce climate risk disclosures by the end of 2022.

We expect the largest schemes to utilise their governance expertise and capacity, to set an industry standard to those with at least £1bn in assets, who will have to meet the same requirements in 2023. This means that by the end of 2023 we will have captured more than 70% of assets under management, and over 80% of members.

Following this, we will consult more widely again, before extending to smaller schemes in the market – taking account of both the quality of climate risk governance and associated disclosures carried out to date.

Our regulatory regime will cover about £1.3 trillion of assets, which is about 75% of occupational pension schemes assets. It will be for other regulators and responsible authorities to decide if they act on this to cover other schemes like personal or public sector pensions but I think it is right that long-term investors, such as trustees, take action to address these risks and protect the retirement savings of hard-working people. Some will say we should go further and call for complete divestment. We see this overly simplistic approach actually making it harder to achieve net zero. Pension schemes need to act in their members' best interests, not take moral stances on their members' behalf. And while some high-carbon firms will fail to make the transition to a low carbon economy, this is an opportunity to make companies transform their business models to be sustainable. Our reforms will ensure trustees are held more accountable than ever before. The consultation will also signal the Government's intention for schemes to report on the extent to which their portfolios are aligned with the 2015 Paris agreement, which requires the limiting of global, average temperature rises to remain below 2°C.

Countries across the globe are still some way off meeting the Paris agreement and there is much work to do. But these new regulations will make UK pension schemes the standard bearers in addressing climate change. It will be part of our ongoing work towards COP26 to bring other regulatory schemes on board around the world so that trillions of assets can be appropriately invested.

The Government is supportive of leaders in the occupational pension sector who are already reporting against TCFD and exploring how they can take steps towards Paris alignment. I would like to take the opportunity to thank them for their innovation and leading this change – and to reassure that the proposals we are consulting on today seek to build on and complement this work, raising the standard across the sector and improving incentives in the financial system for better climate-related reporting.

As we look forward to hosting COP26 next year here in Glasgow, we can be proud that the UK is at the forefront of efforts to tackle the challenges posed by climate change.

The Government (particularly my fellow minister Guy Opperman who has been working flat out on this agenda) welcomes the views of trustees and all other stakeholders' views on our proposals and asks that schemes play their part in meeting the challenges of climate change. This is a journey we must embark on together and no pension scheme is too small to make a difference.