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Sinead Donnelly and Vicky Bird
Department for Work and Pensions
Strategy Policy and Analysis Group
Private Pensions and Arm's Length Bodies Directorate
Ground Floor North
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16th July 2018

Dear Ms. Donnelly and Ms. Bird,

Response to DWP Consultation on clarifying and strengthening trustees' investment duties

As part of Lloyds Banking Group, Scottish Widows has a longstanding commitment to upholding consumer interests, and providing value for money through our products and services. We understand the critical importance of trustees' investment duties in optimising retirement outcomes for members, and welcome the opportunity to contribute to this consultation.

We broadly agree with the proposals you have laid out, foresee no issues with the proposed timetable of the regulations coming into force, and agree that the schedule of implementation is consistent with the policy intent.

In respect of questions (2) and (3) of your consultation, we submit the comments below for your consideration.

Q2: We propose to require all trustees of all schemes which are obliged to produce a SIP to state their policy in relation to financially material considerations including, but not limited to, those resulting from environmental, social and governance considerations, including climate change.

- a) Do you agree with the policy proposal?**
- b) Do the draft Regulations meet the policy intent?**

Trustee Primacy

We agree with both the Law Commission and the DWP in respecting the primacy of trustees in setting investment strategy, and in determining which particular risks are financially material to their scheme's members.

The particular wording of this reporting requirement may be read to imply that trustees must always include ESG and climate change considerations as material financial risks within their SIP, whereas in fact trustees may legitimately conclude otherwise (the example within the consultation paper itself of the risks represented by climate change not crystallising within the lifetime of the scheme, given a scheme wind-up, being one such case).

We understand the intention of chapter 2, paragraph 17 of the consultation paper, but would suggest amending the wording to prevent the misperception that trustees are always required to regard climate change as a material financial risk.

For example, the proposal could be changed to require trustees to either:

- 1) Include considerations arising from ESG and climate change in the SIP in the normal way, when it's determined these issues are financially material
- 2) Include a statement explaining the trustees' reasoning as to why these issues are not financially material

Standardisation of reporting

Scheme members and other interested parties would be better able to compare trustee policies on material financial risks, including ESG and climate change, given some standardisation of the reporting methodology. This could, for example, take the form of a pro-forma reporting template.

Q3: When trustees prepare or revise a SIP, we propose that they should be required to prepare a statement, setting out how they will take account of scheme members' views.

a) Do you agree with the policy proposal?

b) Do the draft Regulations meet the policy intent?

We agree with the principle underlying this proposal, but propose a slightly different emphasis.

We recognise absolutely the importance of our members' concerns and opinions, and the Scottish Widows IGC is currently undertaking a large-scale exercise in surveying our entire membership base to determine attitudes toward a range of ESG and climate changes issues, the outcomes of which will feed into the tailoring of our investment proposition in future.

We propose it might be more useful for members to see an overall investment rationale, placing members' ethical and other concerns within the context of the wider investment strategy, rather than to isolate this variable in a separate statement.

We foresee two issues which may be resolved by integrating the statement on member views into a wider statement on the formulation of the SIP:

- 1) Members are less likely to form the expectation that the trustees' role is to prioritise member views in formulating investment strategy. The requirement for trustees to treat as paramount the optimisation of financial returns, and to subordinate other factors – including members' views – might be more intelligible to members in the wider context of the investment strategy as a whole.
- 2) In context, members will better understand how trustees have determined the meaning of 'significant financial detriment' in Chapter 2, paragraph 20, such as weighing member concerns against seemingly minor reductions in annual returns, which actually have much larger compounding effects over time.

Many thanks once again for the invitation to participate in this consultation. If you need any further information or clarification from me, please contact me at your convenience.

Yours sincerely,

Peter Glancy

Head of Policy – Pensions, Investments and Workplace Savings