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Consultation on clarifying and strengthening trustees' investment duties

July 2018

UK Pensions & Benefits
Zurich Insurance Group

INTERNAL USE ONLY

Details of response

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- We are responding as an employer who provides a hybrid occupational scheme to all current and former staff (5,300 active members, 23,500 deferred members and 11,700 pensioners)[1]
- The scheme has a closed defined benefit section and an open defined contribution section
- The contact for this response is Simon Freeman, UK Pensions Finance Manager, Zurich Financial Services, The Grange, Bishop's Cleeve, Cheltenham, Glos, GL52 8XX; tel 01242 665123; email simon.freeman@uk.zurich.com
- If direct quotations from our evidence are used by the DWP we request that they are anonymised
- We have only responded to those questions which are of particular relevance to Zurich

[1]Data as at 31 March 2018

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DWP Consultation

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- DWP issued a consultation document in June 2018 asking for views on the proposed regulatory amendments to the Statement of Investment Principles (SIP)
- Our response focuses on a specific area of the consultation whereby members views are to be considered
- We are otherwise supportive of the consultation and the proposals to improve the SIP

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Scheme members' views

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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 do not agree with the policy proposal set out in Q3 of the consultation.

Our rationale for this approach is as follows:

- There are c.40,000 scheme members. Beyond the operational challenge of obtaining members' views, we also believe that the likelihood of getting a consensus on ESG considerations is extremely low
- From previous discussions and training exercises, it is clear that even within relatively small groups of individuals, who have a good understanding of ESG, there can be a significant variation of opinion (inclusion of tobacco/gambling companies etc)
- Zurich is a diversified business, therefore members will cover an entire range of backgrounds and therefore opinions (the example of a cancer research company restricting investments in tobacco companies is extremely unlikely to prevail in this case)
- ESG is still not widely understood by members (and by the public more generally), therefore asking the views of members may not be a valuable exercise
- We believe that trustees are best placed to represent members' interests on ESG, as they do for many other issues
- By making at least one ESG tilted investment option available in the DC self-select options, we enable members to act on their preferences. So far, we have only seen limited interest.

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Annual Report

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Q6: When trustees of relevant schemes produce their annual report, we propose that they should be required to: - prepare a statement setting out how they have implemented the policies in the SIP, and explaining and giving reasons for any change made to the SIP, and - include this implementation statement and the latest statement outlining how trustees will take account of members' views in the annual report.
a) Do you agree with the policy proposal?
b) Do the draft Regulations meet the policy intent?

We agree with the proposal to show how the Trustees have implemented the policies in the SIP, however we do not agree with including a statement outlining how Trustees will take account of members' views (see slide 4).

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Requirement to publish the SIP

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Q7: We propose that trustees of relevant schemes should be required to publish the SIP, the implementation report and the statement setting out how they will take account of members' views online and inform members of this in the annual benefits statement.
a) Do you agree with the policy proposal?
b) Do the draft Regulations meet the policy intent?

We agree with the proposal to publish the SIP and implementation report, however we do not agree with that the statement outlining how Trustees will take account of members' views should be published (see slide 4).

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