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

Willis Towers Watson consultation response – March 2021

For the attention of Emma Walmsley, Tom Rhodes and David Farrar

Climate Change and Responsible Investment team

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I am writing on behalf of Willis Towers Watson (WTW) in response to the consultation "Taking action on climate risk: improving governance and reporting by occupational pension schemes".

We very much appreciate having the opportunity to respond to this consultation following our response to the August 2020 consultation, and also welcome the wider ongoing engagement between WTW and the Department for Work and Pensions (DWP) in this important area.

Overall views and context

Willis Towers Watson Investments is clear in its purpose of 'investing today for a more sustainable tomorrow' and in our conviction that sustainable investment is central to successful long-term investor outcomes. In particular, we believe that climate change is a systemic and urgent global challenge that necessitates specific risk management, opportunity identification and collective action. Please refer to our Sustainable Investment Policy for further detail on our position and activities in this area.

Against that background, we are very supportive of the TCFD and its recommendations, and view them to be an important part of how the investment industry can appropriately address climate-related risks and opportunities.

We are mindful that increased and improved TCFD reporting for investors must be appropriate and reasonable in the context of the organisation which is reporting, and that it is of value when it leads to better investment decision making and action.

Further we recognise that pension schemes have an important and influential part to play within a well-functioning investment system, but note that they are reliant on other organisations playing their parts too. This includes for example ensuring there is an appropriate availability and flow of accurate information as well as availability of suitable solutions, and therefore we note the need for a joined up regulatory regime to avoid one group of organisations bearing an undue burden. In this context, we also welcome the proposal that the Regulatory have 'Third party compliance notice' powers, although we expect these to be used rarely.

Given this, we are very supportive of the proposals outlined in this consultation, including the changes made to the original policy proposals put forward in August 2020. In particular, we are supportive of the overriding principle of trustees addressing climate change risks and opportunities through effective governance and risk management measures, and disclosing these appropriately to their key stakeholders.

Supporting observations

1. We welcome the use of proportionality and materiality in the proposals and draft statutory guidelines, including the “as far as they are able” provisions. We see this as a reasonable and appropriately flexible approach.

2. We support the addition of requirements for adequate trustee knowledge and understanding to identify, assess and manage climate change risks and opportunities. It is vital that all participants in the market understand, assess and manage climate change. As part of this, we note that the Investment Consultants Sustainability Working Group (ICSWG) published a guide for trustees on assessing the climate competency of their investment consultants in January 2021.

3. We support the proposed timeframes for feedback and assessment of these regulations, so that guidance and legislation can continue to evolve and adapt in this area.

4. In respect of time horizons, we would reiterate that risks that are predominantly long term in nature can have a financially material impact over a significantly shorter time horizon, as those risks become appropriately reflected and discounted in prices. We also would emphasise the nature of climate risk being far-reaching, foreseeable, and critically requiring action today, as the Bank of England and others have clearly articulated.

5. We support the move to a triennial focus for scenario analysis, the use of statutory guidance as proposed, and the reference to the Network for Greening the Financial System (NGFS) framework. In our work in this area thus far, we have often seen value in the consideration of at least three scenarios, roughly defined as an ‘orderly transition’, a ‘disorderly transition’ and a ‘hot house world’.

6. We support the amended proposals in respect of metrics, in line with our previous response around the value of a ‘balanced scorecard’ approach. We also support the proposed frequency. We note that this area in particular is evolving rapidly, and it may be appropriate therefore to keep metrics under specific review as industry thinking develops, for example through the Climate Financial Risk Forum’s Data and Metrics work. We think it likely that trustees would welcome further guidance in this area wherever possible.

7. We would also highlight in respect of metrics the known issues around the translation of certain carbon metrics to financial risks. As such we welcome the ‘additional climate change’ metric requirement, particularly where it can be focused on *financial* risk, in line with the aims of the TCFD.

8. We support the new proposed frequency of assessing performance against targets, and the process outlined around this including reporting on the steps being taken to achieve the target(s).