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

October 2020

UK Pensions & Benefits
Zurich Insurance Group

Details of response

- We are responding on behalf of the Trustee of Zurich Financial Services UK Pension Scheme “the scheme”.

- The scheme is a hybrid pension scheme with a defined benefits section (ZPen) closed to both new members and future accrual and an open defined contribution section (ZCashBuilder). There are 4,400 active members, 24,800 deferred members and 12,000 pensioners[1]

- The scheme has total assets across both DB & DC sections of c.£9bn[1]

- If direct quotations from our evidence are used by the DWP we request that they are anonymised

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[1]Data as at 30 June 2020

Scheme's response

ZURICH

Q1. We propose that the following schemes should be in scope of the mandatory climate governance and TCFD reporting requirements set out in this consultation:
a) trust schemes with £1 billion or more in net assets
b) authorised master trusts
c) authorised schemes offering collective money purchase benefits

Do you agree with our policy proposals?

We agree with the new suggested requirements for the larger schemes. We note that climate governance requirements and the TCFD reporting will be a journey for many schemes, therefore we would expect this process to evolve and improve over time. We also note that we are responding as a trust scheme with £1bn or more in net assets.

Scheme’s response c’d

Q2. We propose that:
a) trustees of schemes with £5 billion or more in net assets on their first scheme year end date to fall on or after 1 June 2020 are subject to the climate governance requirements from 1 October 2021 and the trustees must publish a TCFD report within 7 months of the current scheme year end date or by 31 December 2022 if earlier
b) trustees of schemes with £1 billion or more in net assets on the first scheme year end date to fall on or after 1 June 2021 are subject to the climate governance requirements from 1 October 2022, and the trustees must publish a TCFD report within 7 months of the current scheme year end date, or by 31 December 2023 if earlier
c) trustees of master trust or collective money purchase schemes which are authorised on 1 October 2021 are subject to the climate governance requirements with immediate effect, and the trustees must publish a TCFD report in line within 7 months of the current scheme year end date, or by 31 December 2022
After 1 October 2021:
d) trustees of master trust or collective money purchase schemes which become authorised are subject to the climate governance requirements with immediate effect, and the trustees must publish a TCFD report within 7 months of the current scheme year end date
e) where schemes cease to require authorisation, the climate governance and TCFD-aligned reporting requirements fall away with immediate effect, unless they remain in scope via the asset threshold on the previous scheme year end date
From 1 June 2022 onward:
f) trustees of schemes not already in scope of the requirements and with £1 billion or more in net assets on any subsequent scheme year end date:
are subject to the climate governance requirements starting from one year after the scheme year end date on which the £1 billion asset threshold was met
must publish a TCFD report within 7 months of the end of the scheme year from which the climate governance requirements apply
g) trustees of schemes in scope of the requirements whose net assets fall below £500m on any subsequent scheme year end date cease to be subject to the climate governance requirements with immediate effect (unless they are an authorised scheme) but must still publish their TCFD report for the scheme year which has just ended within 7 months of the scheme year end date

Do you agree with the policy proposals?

We agree with the proposal to stagger the requirements by the size of the scheme. However we note this is a very tight timeline, in addition we express our concern on the availability of quality data to abide by the climate governance requirements and the cost to access it (i.e. additional licensing costs). We also believe that regardless of the size of the scheme, there is pressure on resource due to a number of other new requirements that are likely to take place within this timeframe, i.e. new funding code etc.

Scheme’s response c’d

Q3.
Subject to Government deciding to adopt any of the governance or reporting requirements proposed in this consultation, we propose to conduct a review in 2024 on whether to extend the measures to schemes with below £1 billion in net assets which are not authorised master trusts or an authorised scheme offering collective money purchase benefits, and if so how and on what timescale.
This review would be informed by consideration of TCFD disclosures by occupational pension schemes to-date, their impact, and the availability and quality of both free and paid-for tools and services.
We would propose also to review any regulations and statutory guidance which had been put in place to identify whether any of this needs to be strengthened or updated.

Do you agree with these proposals?

Yes, we agree. We think it's worth noting that smaller schemes with below £1bn assets are likely to have less resource to comply with the additional reporting. We note that asset managers need to be held accountable for the data they make available. We would recommend ensuring fund managers are also formally required to report on a range of climate change metrics within this timescale. This would improve the chances of smaller schemes being able to comply with the regulations.

Q4. We propose that regulations require trustees to:

a) adopt and maintain oversight of climate risks and opportunities
b) establish and maintain processes by which trustees, on an ongoing basis, satisfy themselves that persons managing the scheme, are assessing and managing climate-related risks and opportunities.
We also propose that regulations require trustees to describe:
c) the role of trustees in ensuring oversight of climate-related risks and opportunities
d) the role of those managing the scheme in assessing and managing climate-related risks and opportunities, only insofar as this relates to the scheme itself and the processes by which trustees satisfy themselves that this is being done
We propose that statutory guidance will cover the matters in the box above.

Do you agree with these proposals?

Yes, we agree in principle with the proposed regulations. We do however note that climate risks should be assessed as part of the IRM approach as it is one of many risks faced by schemes. Establishing climate risks and opportunities should form a part of tracking scheme's progress. Formalising clear responsibilities of trustees and persons managing the scheme will increase accountability for the climate change topic.

Scheme’s response c’d

ZURICH

Q5.
We propose that regulations require trustees to identify and disclose the climate change risks and opportunities relevant to their scheme over the short, medium and long term, and to assess and describe their impact on their investment and funding strategy.
We propose statutory guidance will cover the matters outlined in the box above.

Do you agree with these proposals?

Yes, we agree in principle, however we would like further clarification on the extent to which the Trustee will need to disclose information about funding and covenant. We would not want any circumstances that would require the Trustee to disclose confidential information obtained in the covenant reviews.

Q6.
We propose that regulations require trustees to assess the resilience of their assets, liabilities and investment strategy and, in the case of defined benefit (DB), funding strategy, as far as they are able, in at least two climate-related scenarios, one of which must be a 2°C or lower scenario and to disclose the results of this assessment.
We propose statutory guidance will cover the matters outlined in the box above.

Do you agree with these proposals?

Yes, we agree in principle however we do have concerns on the availability of the data needed to prepare scenario analysis. We note that the initial reporting will be limited due to the availability of data which will develop over time as well as additional monitoring tools. We reiterate this will be a journey for many schemes and expect the process to evolve and improve over time.

Q7. We propose that regulations require trustees to:
a) adopt and maintain processes for identification, assessment and management of climate-related risks
b) integrate the processes described in a) within the scheme’s overall risk management
We also propose the regulations require trustees to disclose:
c) the processes outlined in part a) above
We propose statutory guidance will cover the matters outlined in the box above.

Do you agree with these proposals?

Yes, we agree. We note that formalising the processes will increase accountability and allow for tracking the scheme's progress.

Scheme's response c'd

Q8. We propose that regulations require trustees to:
a) select at least one greenhouse gas (GHG) emissions-based metric and at least one non-emissions-based metric to assess the scheme's assets against climate-related risks and opportunities and review the selection on an ongoing basis b) obtain the Scope 1, 2 and 3 GHG emissions of the portfolio, and other non-emissions-based data, as far as they are able c) calculate and disclose metrics (including at least one emissions-based metric and at least one non-emissions-based metric) used to quantify the effects of climate change on the scheme and assess climate-related risks and opportunities
We also propose in regulations that trustees be required to disclose:
d) why the emissions data that is estimated does not cover all asset classes, if this is the case
We propose that trustees will not be mandated to use a specific measure to assess the effects of climate change on the scheme's portfolio.
We propose statutory guidance will cover the matters outlined in the box above.

Do you agree with these proposals?

Yes, we agree in principle, but it is worth noting that initial results may be very limited due to the data availability and developing tools of data analysis. We expect a high level of pragmatism when assessing the results whilst the metrics evolve over time. The metrics will likely result in the need to subscribe to licences such as MSCI, which are costly. This coincides with a time when expenses are likely to be under close review. We believe the new regime should be sufficiently flexible to cater for schemes which hold complex investments (e.g. illiquid or private assets) or where they move closer to their end game (e.g. buy out). This will allow schemes to adopt scheme specific metrics and targets, which reflect the profile and maturity of their scheme and nature of their portfolios.

Q9. We propose that regulations require trustees to:
We propose that regulations require trustees to:
a) set at least one target to manage climate-related risks for one of the metrics trustees have chosen to calculate, and to disclose those targets(s)
b) calculate performance against those targets as far as trustees are able and disclose that performance
We propose statutory guidance will cover the matters outlined in the box above.

Do you agree with these proposals?

Yes, we agree in principle. Monitoring set targets against the actual results regularly will enable timely reaction to variances and engagement with asset managers. However we note that the fundamental point of a DB pension scheme is to meet the funding requirements in order to pay benefits as they fall due. We would not like to see an unintended consequence of setting climate-related metric targets that negatively affect the funding position. We re-iterate the points made in question 8 relating to complex investments and adopting scheme specific metrics and targets, which reflect the profile and maturity of their scheme and nature of their portfolios.

Scheme's response c'd

Q10. We propose that, for all schemes in scope:
a) the trustees should be required to publish their TCFD report in full on a publicly available website where the report is accessible free of charge
b) the trustees should be required to include in the Annual Report and Accounts a website link to the location where the full TCFD report may be accessed in full
c) the trustees must notify all members to whom they must send the annual benefit statement of the website address where they can locate the full TCFD report – this must be set out in the annual benefit statement
d) the trustees should be required to report the location of their published TCFD report to the Regulator by including the corresponding website address in their scheme return
e) the trustees should also be required to report the location of their published Statement of Investment Principles (SIP), Implementation Statement and excerpts of the Chair's Statement by including the corresponding website address or addresses in their scheme return

Do you agree with these proposals?

Is there a better way to notify members of where to find this information?
For example, for DB schemes, might the summary funding statement required by regulation 15 of the Disclosure Regulations be a more appropriate way to signpost members to this information?

Yes, we agree. We usually communicate with all members via regular newsletters, website, e-mails and internal Zurich website (active members). To ensure the majority of the members are reached we'll consider all communication channels we currently use and select the most appropriate ones.

Scheme's response c'd

Q11. We propose that:
a) The Pensions Regulator (TPR) will have the power to administer discretionary penalties for TCFD reports they deem to be inadequate in meeting the requirements in the regulations
b) there will be no duty on TPR to issue a mandatory penalty, except in instances of total non-compliance where no TCFD report is published
c) in all other respects, we propose to model the compliance measures on the existing penalty regime set out in regulations 26 to 33 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015
d) failure to notify members via the Annual Benefit Statement or to include a link to the TCFD report from the Annual Report will be subject to the existing penalty regime set out in regulation 5 of the Disclosure Regulations

Do you agree with this approach?

Yes, we agree in principle, however we do have some concerns on the application of penalties. We would like to see greater clarity as to how penalties will be applied and encourage direct engagement by TPR (e.g. through 1-2-1 supervision) as a better way to improve standards for the first wave of schemes. The approach needs some flexibility as the consultation notes that the earlier disclosures may well be "weaker or more limited".

Q12. Do you have any comments on the new regulatory burdens to business and benefits, and wider non-monetised impacts we have estimated and discussed in the draft impact assessment?

Additional reporting will require scheme resources and advisory fees to ensure compliance and good quality information. That will most likely be covered by scheme's assets or an employer. The additional resource requirements are also part of a number of other new requirements expected (i.e. new funding code), this will place more strain on employers/schemes.

Q13. Do you have:
a) any comments on the impact of our proposals on protected groups and how any negative effects may be mitigated?
b) any evidence on existing provision made by trustees in response to requests for information in alternative accessible formats
c) any other comments about any of our proposals?

We have nothing to add.