Speech: Environmental Social Governance (ESG) and responsible investment

Introduction

It has been 2 years since I last stood on the stage, making my first speech as Pensions Minister. Before that speech, I asked Huw Evans and Yvonne Braun what the one thing they most wanted government to do was, and they asked unequivocally with pensions dashboards.

I will speak about the huge success of automatic enrolment and moving to 8%, the success of the mid-life MOT and the importance of ESG, but I am particularly proud of the incredible effort that the department has made to progress the pensions dashboards.

Infrastructure/environmental social governance and responsible investment

I want to talk now about nudge theory, and 2 examples of where I have championed that theory. Firstly, environmental, social and governance issues.

Last year we introduced regulations to clarify and strengthen pension scheme trustees' investment duties, which will come into force in October. The financial risks from climate change, from under-investment or poor treatment of the workforce, from poor executive behaviour were too important to ignore.

I've been delighted by the way the regulations have been received by you and the wider community. People are talking about ESG – the response to the initial consultation and engagement has been transformational.

Many in the pension industry are also taking action. Schemes and providers have tilted their portfolios towards renewables or away from fossil fuels. Many are engaging much more forcefully with investee firms who fail to take the issues seriously; these schemes are doing the right thing. Others who think providing an ethical fund will do the job, or are still hoping this might go away need to understand that they are simply wrong.

The large companies are leading the way on carbon capture and storage, something I discussed during a very important debate 2 weeks ago with Ed Davey about the nature of long-term investment of pension funds. Individual companies must answer for themselves. Last year, Shell, one of the largest companies that we are debating, agreed to link its executive pay to its carbon emission targets, in direct response to particular shareholders. This is evidence of significant and real change.

However, there is still more to do. I note the Association of Member

Nominated Trustee’s report, published last week, found that most pension fund managers don’t have published policies to combat climate change, or promote gender and ethnic diversity.

It is clear that pensions schemes ought to be thinking about the assets which help drive new investment in important sectors of the economy – smaller and medium firms, housing, green energy projects and other infrastructure – which deliver the sustainable employment, communities and environments which all of us wish to enjoy.

The second nudge that I want to talk about relates to infrastructure investment. The government published an ‘Investment Innovation and Future Consolidation’ consultation in February 2019, building on the Patient Capital review. The purpose to the consultation was to enable investment in illiquid assets and highlight the opportunities for defined contribution pension schemes to explore the full range of possibilities offered by investing for the long-term. The department is currently in the process of responding to that consultation.

I continue to believe that we probably need to legislate to ensure that trustees can consider a wide range of investments. To help them do that we need to be clear what costs are within or outside the charge cap. There has been confusion on this point stemming from the current wording of the legislation – I accept that – and we intend to fix that in future primary legislation. That will assist this process.

Automatic enrolment

I would now like to turn to automatic enrolment which has been a real success story in getting millions of people saving. Thank you – automatic enrolment does not happen without the assistance that you have given.

We are reviewing the results from the increase in contribution rates to 8%. It will take 9 months for the data to be received and fully assessed so there will not be a full analysis until November or December this year. However, early indications are fantastically positive. This is thanks to DWP, regulators and yourselves.

Pension dashboards

Which brings me to pension dashboards. Pension dashboards will allow everyone to see their pensions savings online in one place.

On 4 April, we published the government’s response setting out our commitment to bring dashboards into being. That is why we will compel pension schemes to make consumers’ data available to them, via dashboards, when parliamentary time allows. We are committed to providing state pension information on the same platform and continue to work towards making this happen as soon as we can.

My officials have been supporting the Money and Pensions Service in setting this up. And many of you will have heard the announcement by the Money and

Pensions Service this morning that Chris Curry will be the Principal of the Industry Delivery Group. All of you know him – Chris has a wealth of experience driving forward innovation in the pensions industry, and his appointment to lead the latest of our truly transformative reforms is an important step. Chris will ensure that the design and delivery of dashboards is done for the benefit of consumers.

We expect the group to be up and running by the end of the summer and one of their priorities will be working to agree data standards. In parallel, we expect industry to start creating and testing consumer facing dashboards to determine what works best for the individual.

Simple annual benefit statement

I respect ABI's strong views on simplified annual benefit statements, but we disagree on whether or not a 2-page uniform annual benefit statement is the best way forward.

You know that I am a huge enthusiast for the simpler annual benefit statement – jargon free and readable in minutes. I know that some providers have their own simpler approaches and I have sat and listened to different views, but the problem is that each company thinks that their statement is better. It is a very complex process to create one statement that works for everyone, but we have to get better.

I welcome the work that ABI and PLSA have been doing to drive voluntary adoption of the statement across industry, including understanding what is happening in the industry, but to quote Kit Malthouse "More, Better, Faster". But I want to see much faster work in this area.

We also need to consider how best to communicate out a simplified statement. I am interest in the idea of a statement season, and I am a huge fan of the Orange Letter in Scandinavia. I accept that the Orange Letter is a 5-page simpler statement and not 2 pages, but we should be communicating the simplified statements at the same time. I think that this would increase engagement and facilitate conversations about simpler statements.

Mid-life MOT

One of my first jobs as minister was to read the Crickland review on raising the State Pension age. This was where I first read about the mid-life MOT, and I have been utterly committed to it ever since.

If you are in the financial services business, then you need to be looking at your staff and their engagement with their long-term finances. I recommend you read the Aviva review and Centre for Policy Studies paper 'All Hands on Deck', both of which outline the fantastic benefits of the mid-life MOT to employers, including skill retention.

Superfunds

For many years the pensions industry was dominated by the traditional final salary DB scheme but this is changing.

The government has been very clear that superfund consolidation represents a real opportunity to provide a more efficient way of managing closed DB schemes. Developing the right regulatory regime for superfunds is not an easy task, but if we can get it right, we can provide another route for managing legacy DB liabilities that will improve member security, and be good for sponsoring employers.

The advantages of scale from consolidation are clear – aside from greater security it can reduce costs per member, provide better governance and offer access to better and wider investments. Superfunds provide an incentive for the sponsor or the wider corporate group to pay to improve the funding level of the scheme in exchange for discharging their liabilities, reducing the real risks posed to members' benefits by a future employer insolvency.

However, we recognise that the current regulatory framework for pensions was not designed with these vehicles in mind. I have listened to the concerns expressed by the ABI and others on this subject and it's right to have a debate about the level of security superfunds must provide. I have also listened to those in the pension industry and employers who have been calling for government to act by providing a new affordable option for underfunded schemes.

Superfunds could provide support for employers and schemes that would never be able to afford buy-out, and would in time, have a high probability of requiring a bail-out from the Pension Protection Fund (PPF).

We are working hard to design a capital regime that strikes the right balance of security, affordability and commercial viability. We want to ensure that members joining a superfund can be confident that they are moving into a regime, backed by robust authorisation, with a regulatory framework which provides stronger oversight and protection for members and the PPF than currently exists in current DB schemes.

Thanks to my team and HMT for working so hard together to make this happen.

Financial inclusion

I will finish by discussing financial inclusion. The Prime Minister made me Minister for Pensions and Financial Inclusion, reflecting the importance that places on the subject.

We have an ambitious agenda, and one that requires us to work in close partnership with the financial services industry, civil society and the charity sector.

For example, the financial inclusion policy forum, which I co-chair with the Economic Secretary to the Treasury, brings together leaders on financial inclusion to ensure collaboration across all sectors, providing strategic leadership and promoting best practice in improving financial inclusion.

Significant progress is being made. The work of the forum’s sub-group on affordable credit informed the Chancellor’s important announcement in Budget 2018 to encourage a larger and more vibrant social lending sector. Fair4All Finance is working on deploying £55 million from dormant accounts towards financial inclusion initiatives over the next 3 years.

I would like to end today by not only asking you all to continue to work together on initiatives in the industry, but to also consider what you are doing, and what you could be doing to improve transparency and security for everyone. To misquote Kennedy, ask not what financial inclusion can do for you, but what you can do for financial inclusion.