IIPM October Webinar

14 October 2021

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- December 2nd

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Ian Moynihan
Head of Client Services – Pension & Risk
Irish Life

Ian Moynihan is Head of Client Services, Pension and Risk at Irish Life.

Ian joined Irish Life in 2017, and has 19 years' experience working in the Irish pensions industry with Irish Life, PWC and Bank of Ireland. Ian has extensive experience supporting and advising employers and trustees in relation to pension governance, administration and investment arrangements.

Ian holds the QFA, RPA and QPT designations, and is a graduate of Trinity College Dublin.

Group DC Governance and IORP II

Ian Moynihan
Head of Client Services - Pension and Risk
Irish Life

Group DC Governance and IORP II

1

The Obligations on DC Trustees

- Minimum qualification & experience standards for trustee boards
- Appointment of Key Function Holders for risk management & internal audit
- Requirement for written policies: risk management / internal audit / remuneration / outsourced activities
- Standards for internal controls / BCP Plan
- Communication & Information for members / prospective members / deferred members & those nearing retirement

2

Known deadlines

- Remuneration Policy – 31 December 2021
- Compliance Statement – 31 January 2022
- New form of Benefit Statement – 31 December 2022
- Trusteeship – 2 trustees / 2 trustee directors in the case of sole trustee company – 31 December 2021
- **Full compliance for existing schemes by 1st January 2023**

10 May 2021 – Overview of general themes from the Regulation

19 July 2021 – Draft Codes of Practice issued – 8 week consultation period

15 November 2021 – Final Code of Practice Issued

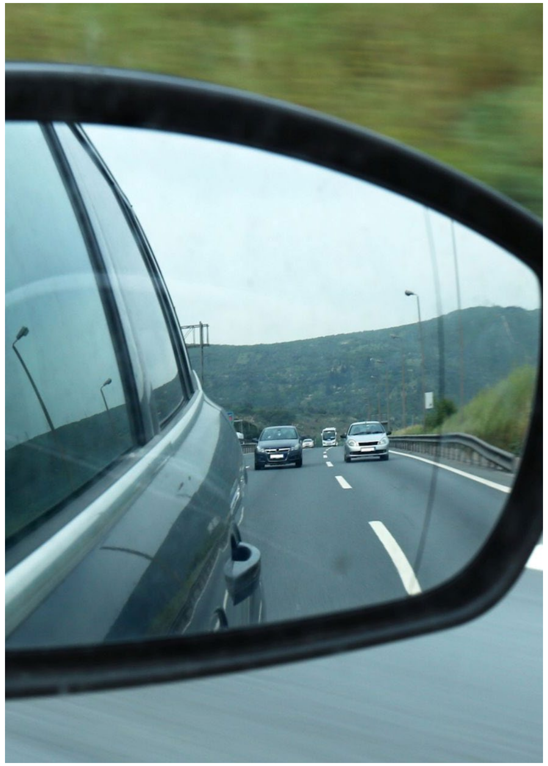
13 December 2021 – Guidance on Master Trust vehicles

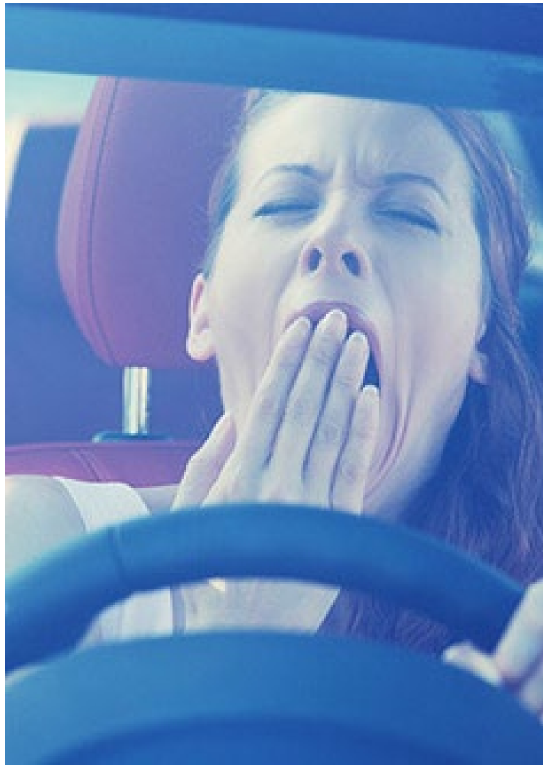
IIPM Irish Institute of Pensions Management

Group DC Governance and IORP II

Irish Institute of Pensions Management

Compliance vs Governance





Compliance vs Governance

Compliance

- Rules
- Regulations
- Guidelines
- Conditions
- Policy
- Qualification

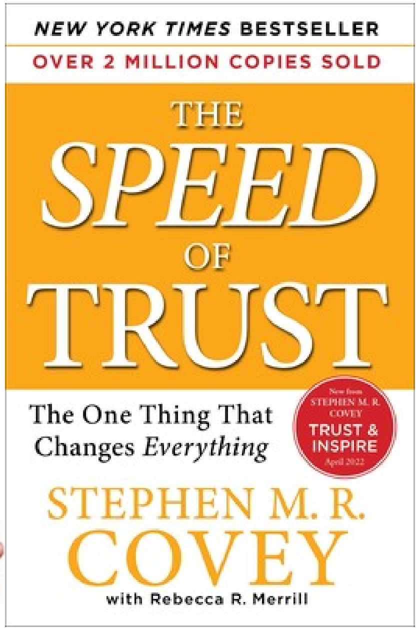
Builds Reputation

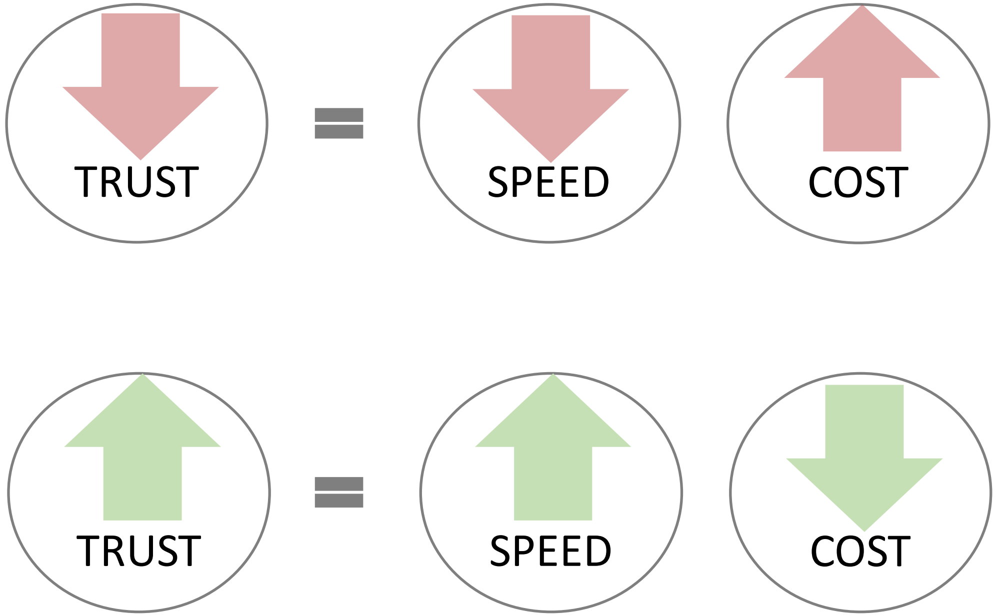
Governance

- Principles
- Processes
- Decisions
- Assessment
- Participatory
- Development

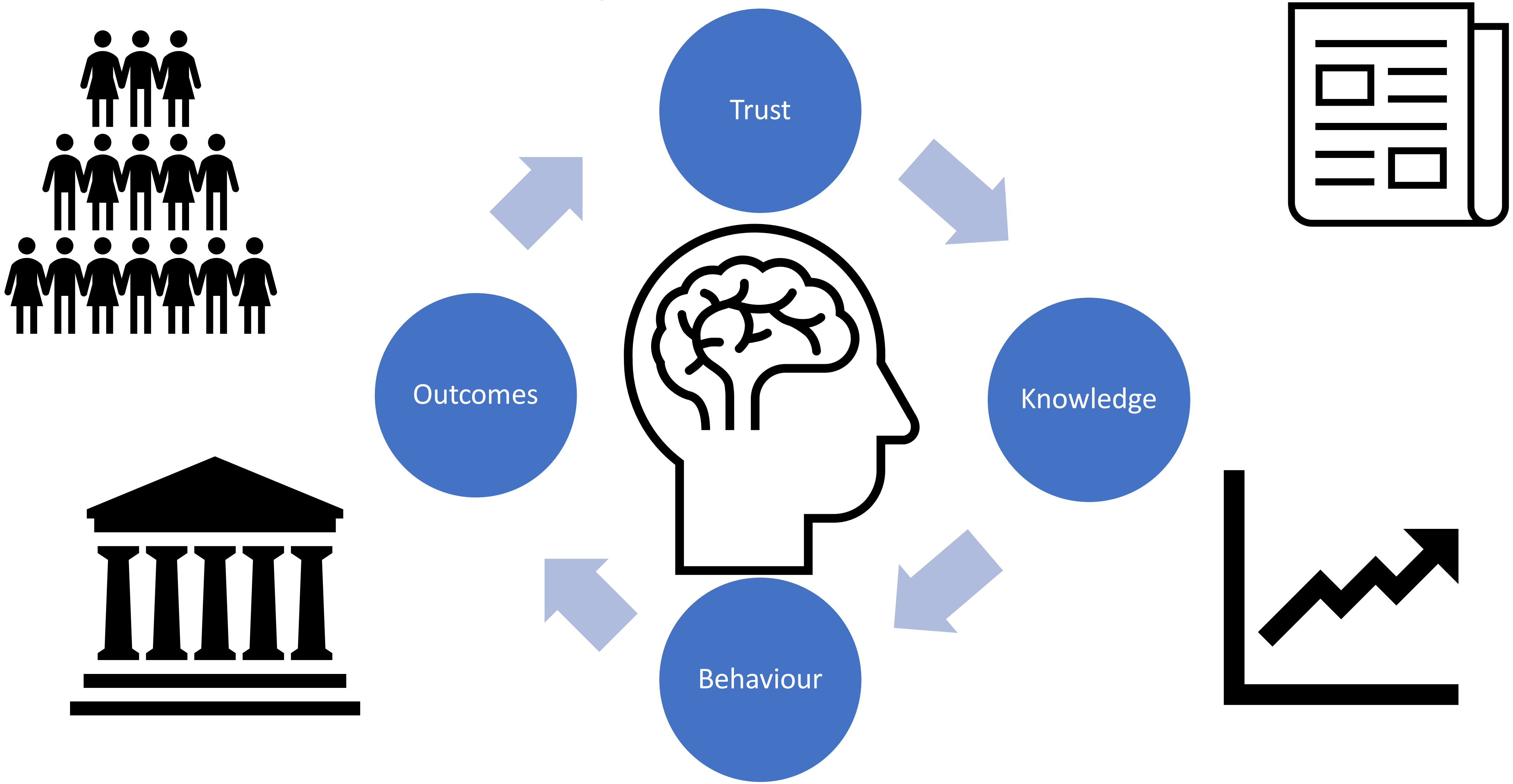
Builds Trust

Trust has clear benefits…

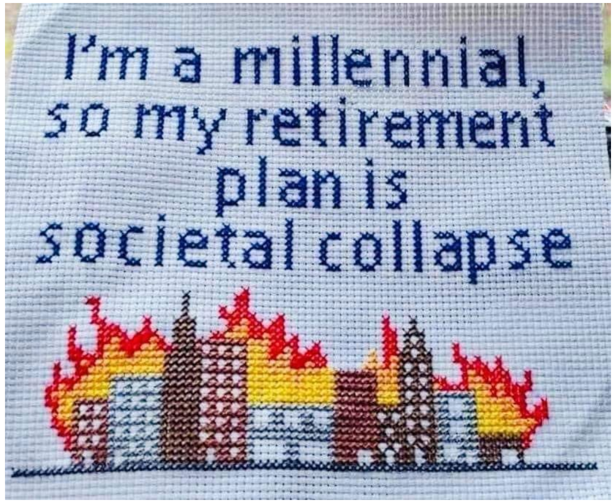


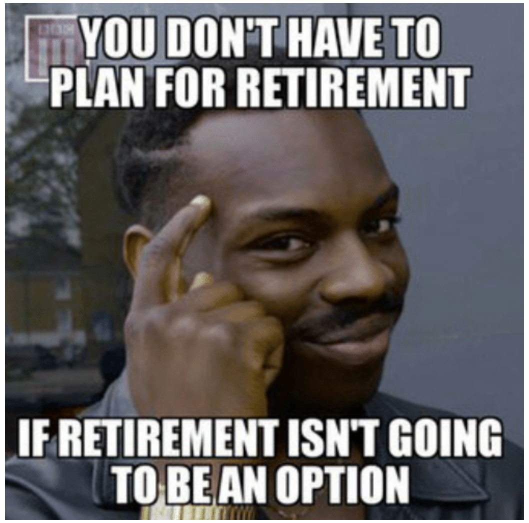


…but is hard to pin down



Expectations differ by generation…



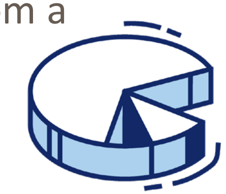


Simplicity is to be welcomed…

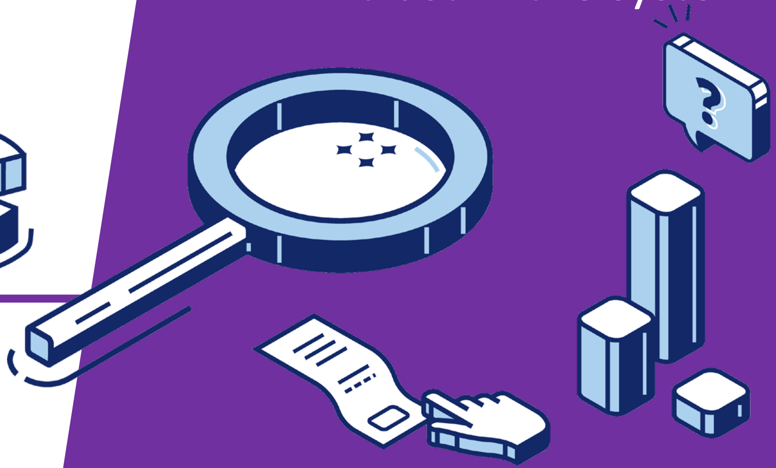
Report of the Interdepartmental Pensions Reform & Taxation Group – Nov 2020

The report made a number of recommendations and proposals:

- Simplify the range of pension products and phase out new Personal Pensions and Personal Retirement Bonds.
- Overhaul of PRSA products and legislation.
- Harmonise window for taking retirement benefits to between 55 and 75.
- Harmonise some benefit options across different pension products.
- Facilitate post retirement drawdown either using a PRSA or from a Group ARF or company pension scheme.
- To continue existing tax relief system, with regular review



➢ Sequencing of changes and regulatory conditions is key to success of reforms, and to maintain or increase pension coverage and trust in the system



…and IORP II can help

- Enhanced governance standards
- Better protections for members and beneficiaries
- Enhanced information provided to members and beneficiaries

Heather Humphreys, April 2021

Processes of adaptation are usually triggered by crises emerging from complexity

Adaptation gives rise to new challenges, prompts questions about how we did things in the past

Setting some goals…

- A layered approach to governance that builds trust in pensions

- Consistent with IORP II key objectives

…. So does achieving IORP II Compliance mean we've done it?

Not necessarily…

- Goodhart's Law:

When a measure becomes a target, it ceases to be a good measure

- Campbell's Law:

The more a metric counts for real decisions, the more it distorts the situation it was designed to monitor

Where to next?

3 different approaches…

	1. Compliance Focus	2. Governance Focus	3. Find Another Way…
Time/resource need	Limited	Plentiful	Limited
Approach to governance	Discussed through a compliance lens	Structure encourages separation of compliance and governance considerations	Compliance outsourced; Employer / Trustee / Member reps focus on trust, participation, outcomes
Driven by	Trustee	Trustee/Employer	Employer / Pension Committee

…crucial to ensure we continue to benefit from knowledge, experience and expertise

How might we decide?

Honest evaluation of time, resources and energy available

Clarity around pension goals and objectives

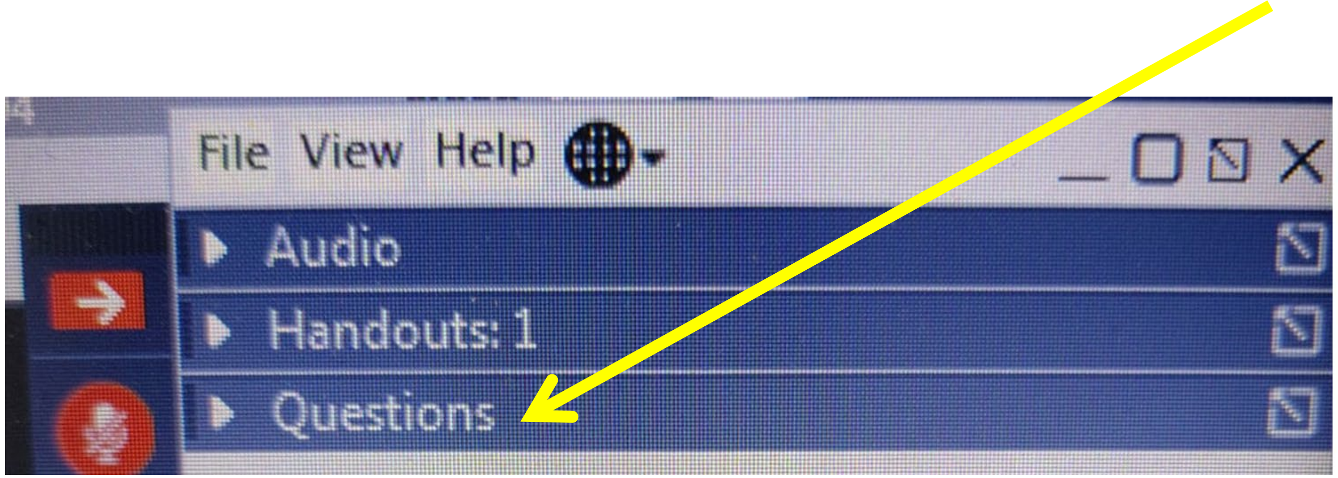
Explicit evaluation of trust levels in current arrangements

A structure which incorporates these elements to continually build trust and confidence


Governance
Compliance

Questions?

Please use the question section in the drop downs



Paul Torsney
Head of Trustee Services
Law Debenture Pension Trustees Ireland

Paul is Head of Trustee Services and an independent professional trustee with Law Debenture Pension Trustees Ireland, bringing the LawDeb model of trusteeship and governance to Ireland. Prior to joining LawDeb, Paul spent over 14 years with Willis Towers Watson, working as a consulting actuary, advising companies and trustees on all aspects of their pension provision.

Paul is a Fellow of the Society of Actuaries in Ireland and a Chartered Enterprise Risk Actuary (CERA). He is the current Chair of the Pensions Committee and a member of the Council of the Society of Actuaries in Ireland. Having obtained a B.A. in Theoretical Physics from Trinity College Dublin, Paul went on to complete master's degrees from Dublin City University and the University of Cambridge. He is currently undertaking the Qualified Pension Trustee qualification with the IIPM.

Society of Actuaries in Ireland

Governance and reporting of climate change risk for pension schemes - the UK approach

14 October 2021

Disclaimer

The views expressed in this presentation are those of the presenter(s) and not necessarily those of the Society of Actuaries in Ireland or their employers.

Recent Irish / EU Sustainable Investing Legislation

- Shareholder Rights Directive
- Sustainable Finance Disclosure Regulation (SFDR)
- IORP II

….. and much more likely to come down the track

Climate change governance and reporting - UK approach

The UK government is the first to apply the Taskforce on Climate-related Financial Disclosures (‘TCFD’) recommendations to pension schemes

The new requirements will apply as follows:

2021: From 1 October for schemes with over £5 billion in assets

2022: From 1 October for schemes with over £1 billion in assets

Similar requirements for small schemes may follow at a later date.

TCFD Recommendations

In 2017, the TCFD released climate-related financial disclosure recommendations designed to help companies provide better information to support informed capital allocation.

Our disclosure recommendations are structured around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets. These thematic areas are intended to interlink and inform each other.

Source: *https://www.fsb-tcfd.org/about/*

TCFD Recommendations

Recommendations and Supporting Recommended Disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Source: *https://www.fsb-tcfd.org/*

Paris Agreement

The Paris Agreement is a **legally binding international treaty on Climate change**. It was adopted by 196 Parties at COP 21 in Paris, on 12 December 2015 and entered into force on 4 November 2016.

Its goal is to **limit global warming** to well below 2, **preferably to 1.5 degrees Celsius**, compared to pre-industrial levels.

To achieve this long-term temperature goal, countries aim to **reach global peaking of greenhouse gas emissions as soon as possible** to achieve a climate neutral world by mid-century.

Source: https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement

1: Governance

Under the new regulations the trustees are required to:

Establish and maintain oversight of relevant climate-related risks and opportunities

Establish and maintain processes for the purpose of satisfying themselves that:

- Anyone involved in the governance of the scheme (other than trustees) takes adequate steps to identify, assess and manage relevant climate-change risks and opportunities
- Anyone who advises the trustees on the governance of the scheme (other than a legal advisor) takes adequate steps to identify, assess and manage relevant climate-change risks and opportunities

2: Strategy

Under the new regulations the trustees are required to:

Identify climate-related risks and opportunities

Assess climate-related risks and opportunities

Undertake scenario analysis:
- At least two scenarios where there is an increase in the global average temperature
  - In one of which must be within the range 1.5 – 2 degrees Celsius above pre-industrial levels

Climate-change risk classification

Examples of Climate-Related Risks and Potential Financial Impacts

Type	Climate-Related Risks[32]	Potential Financial Impacts
Transition Risks	**Policy and Legal**	
	– Increased pricing of GHG emissions – Enhanced emissions-reporting obligations – Mandates on and regulation of existing products and services – Exposure to litigation	– Increased operating costs (e.g., higher compliance costs, increased insurance premiums) – Write-offs, asset impairment, and early retirement of existing assets due to policy changes – Increased costs and/or reduced demand for products and services resulting from fines and judgments
	Technology	
	– Substitution of existing products and services with lower emissions options – Unsuccessful investment in new technologies – Costs to transition to lower emissions technology	– Write-offs and early retirement of existing assets – Reduced demand for products and services – Research and development (R&D) expenditures in new and alternative technologies – Capital investments in technology development – Costs to adopt/deploy new practices and processes
	Market	
	– Changing customer behavior – Uncertainty in market signals – Increased cost of raw materials	– Reduced demand for goods and services due to shift in consumer preferences – Increased production costs due to changing input prices (e.g., energy, water) and output requirements (e.g., waste treatment) – Abrupt and unexpected shifts in energy costs – Change in revenue mix and sources, resulting in decreased revenues – Re-pricing of assets (e.g., fossil fuel reserves, land valuations, securities valuations)
	Reputation	
	– Shifts in consumer preferences – Stigmatization of sector – Increased stakeholder concern or negative stakeholder feedback	– Reduced revenue from decreased demand for goods/services – Reduced revenue from decreased production capacity (e.g., delayed planning approvals, supply chain interruptions) – Reduced revenue from negative impacts on workforce management and planning (e.g., employee attraction and retention) – Reduction in capital availability
Physical Risks	**Acute** – Increased severity of extreme weather events such as cyclones and floods **Chronic** – Changes in precipitation patterns and extreme variability in weather patterns – Rising mean temperatures – Rising sea levels	– Reduced revenue from decreased production capacity (e.g., transport difficulties, supply chain interruptions) – Reduced revenue and higher costs from negative impacts on workforce (e.g., health, safety, absenteeism) – Write-offs and early retirement of existing assets (e.g., damage to property and assets in "high-risk" locations) – Increased operating costs (e.g., inadequate water supply for hydroelectric plants or to cool nuclear and fossil fuel plants) – Increased capital costs (e.g., damage to facilities) – Reduced revenues from lower sales/output – Increased insurance premiums and potential for reduced availability of insurance on assets in "high-risk" locations

Source: *https://www.fsb-tcfd.org/*

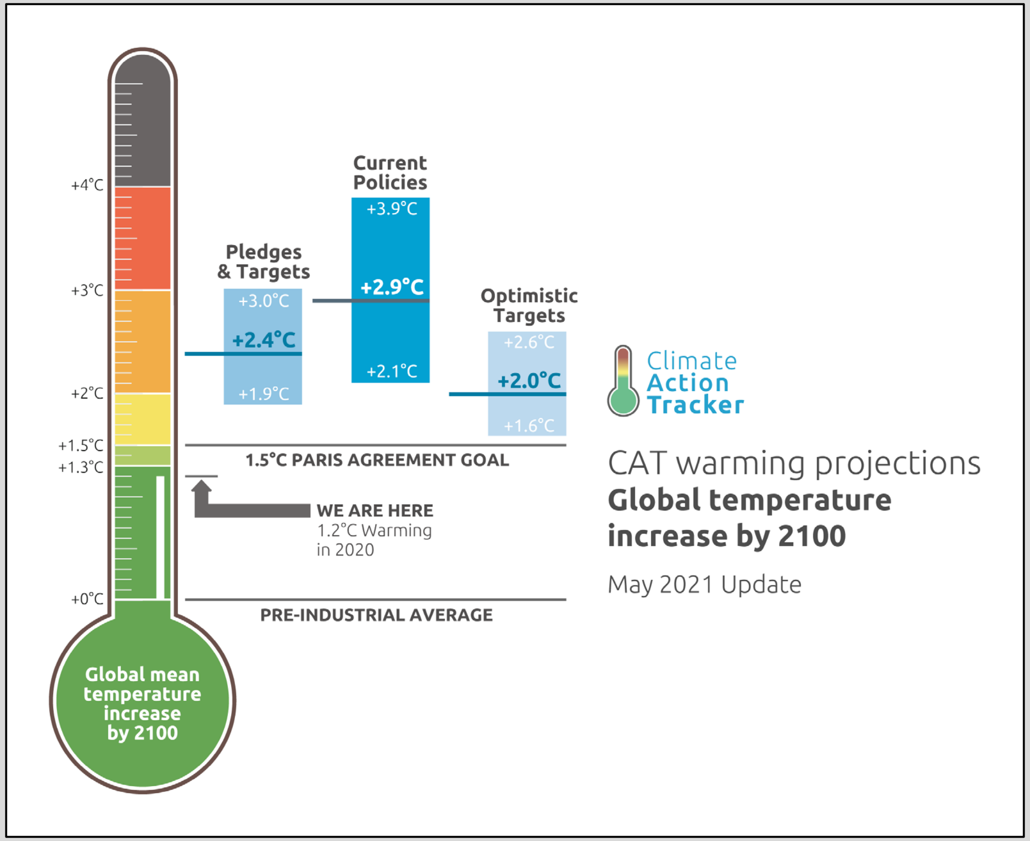
Climate-change opportunities classification

Examples of Climate-Related Opportunities and Potential Financial Impacts

Type	Climate-Related Opportunities[13]	Potential Financial Impacts
Resource Efficiency	– Use of more efficient modes of transport – Use of more efficient production and distribution processes – Use of recycling – Move to more efficient buildings – Reduced water usage and consumption	– Reduced operating costs (e.g., through efficiency gains and cost reductions) – Increased production capacity, resulting in increased revenues – Increased value of fixed assets (e.g., highly rated energy-efficient buildings) – Benefits to workforce management and planning (e.g., improved health and safety, employee satisfaction) resulting in lower costs
Energy Source	– Use of lower-emission sources of energy – Use of supportive policy incentives – Use of new technologies – Participation in carbon market – Shift toward decentralized energy generation	– Reduced operational costs (e.g., through use of lowest cost abatement) – Reduced exposure to future fossil fuel price increases – Reduced exposure to GHG emissions and therefore less sensitivity to changes in cost of carbon – Returns on investment in low-emission technology – Increased capital availability (e.g., as more investors favor lower-emissions producers) – Reputational benefits resulting in increased demand for goods/services
Products and Services	– Development and/or expansion of low emission goods and services – Development of climate adaptation and insurance risk solutions – Development of new products or services through R&D and innovation – Ability to diversify business activities – Shift in consumer preferences	– Increased revenue through demand for lower emissions products and services – Increased revenue through new solutions to adaptation needs (e.g., insurance risk transfer products and services) – Better competitive position to reflect shifting consumer preferences, resulting in increased revenues
Markets	– Access to new markets – Use of public-sector incentives – Access to new assets and locations needing insurance coverage	– Increased revenues through access to new and emerging markets (e.g., partnerships with governments, development banks) – Increased diversification of financial assets (e.g., green bonds and infrastructure)
Resilience	– Participation in renewable energy programs and adoption of energy-efficiency measures – Resource substitutes/diversification	– Increased market valuation through resilience planning (e.g., infrastructure, land, buildings) – Increased reliability of supply chain and ability to operate under various conditions – Increased revenue through new products and services related to ensuring resiliency

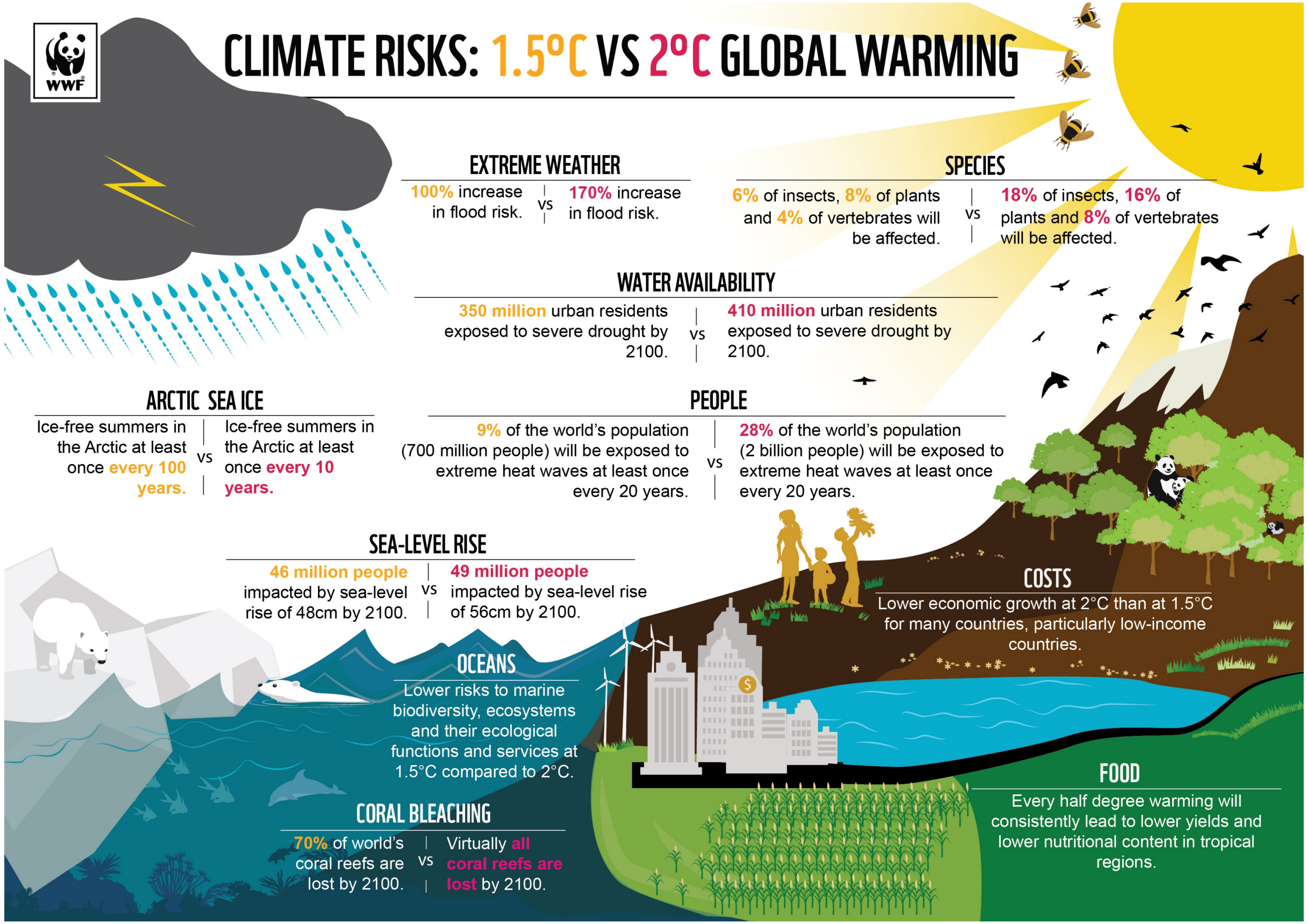
Source: *https://www.fsb-tcfd.org/*

Scenario analysis - How are things looking now?



Source: https://climateactiontracker.org/global/cat-thermometer/

Scenario analysis – what difference does 0.5°C make?



Source: *WWF*

Scenario analysis – what scenarios might make sense?

- For example, the PCRIG guidance outlines three broad types of scenario that are likely to be of interest:

Orderly transition, 1.5-2^{o}C scenario – emission reductions start now and continue in a measured way in line with the objectives of the Paris Agreement and the UK government's legally binding commitment to reduce emissions in the UK to net zero by 2050. Investors and companies face disruption from physical climate-related risks, yet these are expected to be much less severe than under a no transition scenario.
An abrupt transition, 1.5-2^{o}C scenario – little climate action in the short term, followed by a sudden and unanticipated tightening of policy as countries rush to get on track with the Paris Agreement. The falling cost of the solutions may mean companies and investors face a double policy and technology shock
No transition, pathway to 4+^{o}C scenario – a continuation of historic emission trends and a failure to transition away from fossil fuels. Physical climate-related risks are severe, and increase over time, causing widespread social and economic disruption. (Note that conventional economic approaches are very likely to underestimate the impacts.)

Source: *https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/955878/aligning-your-pension-scheme-with-tcfd-recommendations-part-3.pdf*

3: Risk management

Under the new regulations the trustees are required to:

- Establish and maintain processes for the purpose of enabling them to identify and assess relevant climate-related risks
- Establish and maintain processes for the purpose of enabling them to manage effectively relevant climate-related risks
- Ensure that management of climate-related risks is integrated into their overall risk management

Stewardship

The Pensions Climate Risk Industry Group guidance notes:

The UK Stewardship Code defines stewardship as "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."

There is a growing body of evidence which demonstrates the benefits of active ownership, or good stewardship, to corporate performance. Engagement activity with investee companies (including through appointed managers) can help to encourage better practices and corporate behaviours related to climate-related risks as well as improving disclosures by those companies to enable better assessment of climate-related risks by asset owners. It should therefore form a key part of the integration of climate issues into trustee investment processes.

Although there is only one specific TCFD recommended disclosure on stewardship or engagement, it is difficult for trustees to have a meaningful and effective governance and decision-making framework – for instance regarding investment beliefs, or use of metrics, or in disclosing their approach on climate change – without consideration of how they fulfil their stewardship role. Good Stewardship can also be an effective form of post-investment risk management.

*Source: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/955876/aligning-your-pension-scheme-with-tcfd-recommendations-part-2.pdf

Stewardship or Divestment?

“This house believes that effective stewardship is more influential in tackling ESG issues than what you invest in”

Law Debenture Pensions Debate 2021

https://www.lawdebenture.com/news/view-the-lawdeb-pensions-debate-2021-recording

Stewardship or Divestment?

"Divestment is the process of selling assets already held by a pension scheme. Divestment remains a fallback strategy for pension schemes with investments in assets which are unable to reduce their contribution to climate change or where a good stewardship approach has failed. Nevertheless, widespread divestment by pension schemes is unlikely to have the required impact on the real economy's contribution to climate change. Encouraging behaviour change in companies through good stewardship is more likely to be an effective approach to help the real economy transition to net zero.

We welcome the Minister's clear statement that divestment should be a last resort. We recommend that the Department set out, in response to its report, what specific steps it is taking to ensure that its policies do not incentivise divestment over good stewardship— while making clear that schemes could nevertheless consider divestment when there is no other option."

House of Commons Work and Pensions Committee
Pension stewardship and COP26

Source: https://committees.parliament.uk/publications/7454/documents/78039/default/

4: Metrics and Targets

Under the new regulations the trustees are required to:

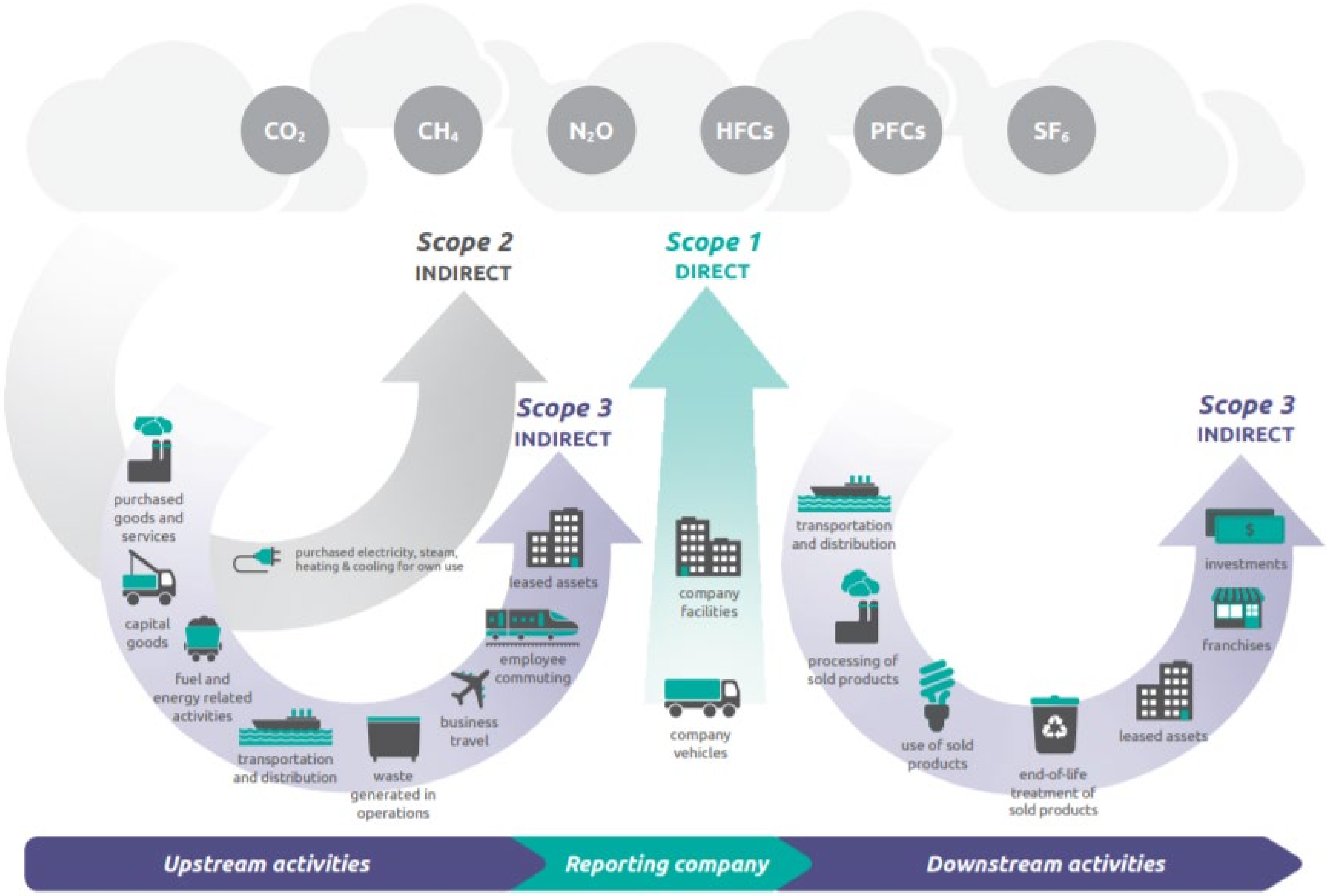
Select at least three metrics:

- total greenhouse gas emission of assets (‘absolute emissions’)
- total carbon dioxide emissions per unit of currency invested (‘emissions intensity’)
- one other related to climate change (‘additional metric’)

Obtain data each year to calculate the metrics and use this to identify and assess the climate-change risks and opportunities

Set a target for one the metrics and measure the performance against this measure each year

Greenhouse Gas Emissions – Scopes 1, 2 and 3



Source: *Greenhouse Gas Protocol*

What About Net Zero?

- The regulations require a target to be reported each year but do not require schemes to set a ‘Net Zero’ target
- However, some schemes have already begun to do so, for example:

BT Pension Scheme sets 2035 net zero goal for its entire £55bn portfolio

Major UK pension funds worth nearly £900bn commit to net zero

Church of England, Lloyds and the National Grid among those pledging to meet 2050 target

UK university pension fund proposes net zero investment strategy

Sources: www.btps.co.uk, www.guardian.co.uk, www.ft.com

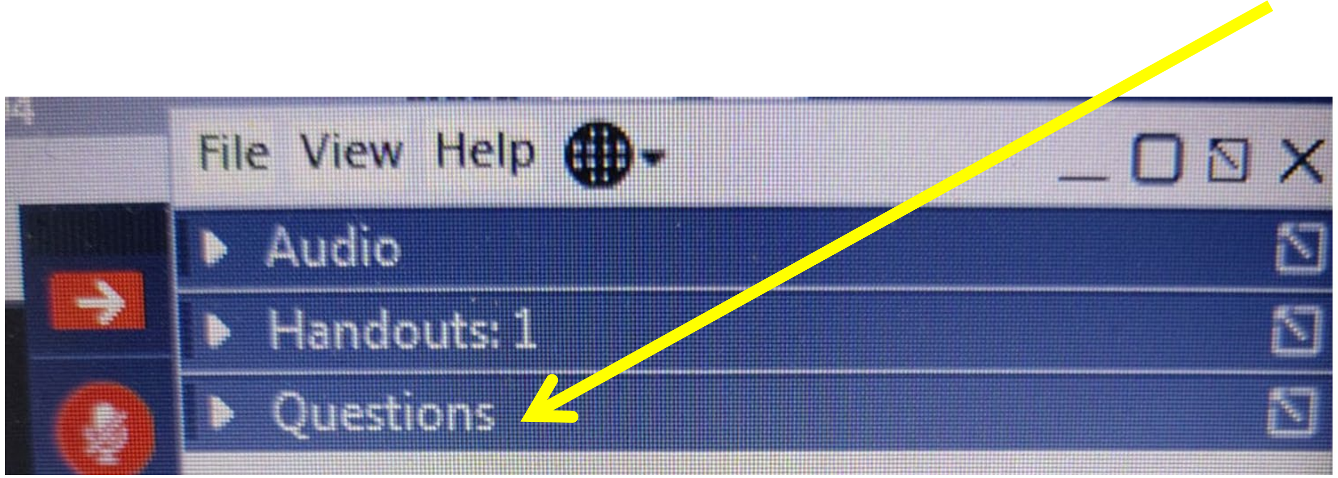
What About Net Zero?

- … and some groups are putting pressure on large schemes who have not made sufficient Net Zero commitments, for example:

Source: www.linkedin.com ('Make My Money Matter')

Questions?

Please use the question section in the drop downs



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