LCP INSIGHT CLARITY ADVICE

Helping pension fund trustees engage with insurers on ESG and climate change

1 **How are bulk annuity providers integrating ESG (Environmental, Social and Governance) factors into their investment processes?**

2 **As large investors, are they engaging with investee companies on important issues such as climate change?**

3 **Are insurers managing climate risk appropriately within their bulk annuity asset portfolios?**

The results of our biennial responsible investment review of bulk annuity insurers are in and the results are quite revealing. We provide trustees with ratings of insurers relating to ESG integration, stewardship and climate risk, helping them factor ESG into their insurer selection decision or helping them with their ongoing monitoring of providers.

Headline conclusions and summary stats:

Insurers have *"upped their game"* across the board when it comes to incorporating ESG into their processes.

Some insurers are *ahead of others* in their ESG journeys.

Insurers have been dedicating extra resources to managing climate risks: *7 out of 8* insurers have now set net zero targets for their asset portfolios.

We identified some areas for improvement, particularly around stewardship. Somewhat disappointingly only *2 out of the 8 insurers* are signatories of the 2020 UK Stewardship Code.

Of the 8 insurers we reviewed:

7 *have set a net zero target for their asset portfolios*

4 *are already producing a TCFD style report*

5 *have disclosed interim targets on their net zero pathways*

3 *are intending to start producing a TCFD style report in 2022*

Why should you consider ESG factors when selecting and monitoring insurers?

ESG factors pose risks for insurers. Trustees should ensure they are being addressed.

Selecting new insurers

Risks to insurer: ESG risks, such as those arising from climate change, could negatively impact an insurer's solvency position if left unmanaged.

Risks to solvency protections: Some ESG risks are systemic and could affect many insurers at the same time, potentially causing significant losses across the industry. They are a source of tail risks that may be too large for the Financial Services Compensation Scheme to cope with (and, as a consequence, put members' pensions at risk).

The insurer's management of ESG risks should be considered alongside its financial strength.

Action: Ask to see our ESG scores for your shortlisted insurers

Monitoring existing insurers

Your ESG responsibilities: Trustees should monitor all of their investments on an ongoing basis, including buy-ins. This can include how the insurer is managing ESG risks, including climate change, through its investments and stewardship.

Your stewardship responsibilities: Trustees are expected to use their influence along the whole investment chain to encourage long-term value creation for the benefit of members. Their buy-in provider is part of that investment chain, so trustees should engage with them to encourage strong ESG and stewardship practices. This can help to reduce risks to the insurer's solvency from ESG factors and promote a well-functioning financial system that will benefit the trustees' other investments.

Trustees have a responsibility to consider RI across all their investments – including buy-ins.

Action: Ask to see our ESG scores for your existing buy-in provider

Contact us to find out more

Claire Jones
Partner, Head of Responsible Investment
+44 (0)1962 873373
claire.jones@lcp.uk.com

Tom Farrell
Partner
+44 (0)20 7432 3071
tom.farrell@lcp.uk.com

Laasya Shekaran
Consultant
+44 (0)1962 672950
laasya.shekaran@lcp.uk.com

Beckie Wilson
Consultant
+44 (0)1962 672971
beckie.wilson@lcp.uk.com

At LCP, our experts provide clear, concise advice focused on your needs. We use innovative technology to give you real time insight & control. Our experts work in pensions, investment, insurance, energy and financial wellbeing.