

# Climate market watch

April 2021

Climate market watch is a Hymans Roberson initiative to highlight research, regulatory developments and thought leadership published both within the financial service industry and beyond.

## Articles this month:

**GreenBiz's 2021 State of Green Business report**

**The Government's response to consultation on TCFD reporting and governance requirements**

**Final report on the TCFD recommendations pilot**

**Most savers unaware of pension scheme climate action**

## GreenBiz's 2021 State of Green Business report

GreenBiz has published their 14<sup>th</sup> annual edition of the State of Green Business report, which contains key data and trends to watch in the world of sustainable business. The first half of the report shares GreenBiz's top ten sustainable business trends to track in 2021 – covering the emerging areas, technologies and the key players to watch for each trend.

The State of Green Business Index, produced in collaboration with S&P Global, makes up the second half of the report. Tracking almost 30 indicators of corporate sustainability performance for the largest 1,200 companies globally, the index reviews the trends in sustainability performance over the last five years. To enhance the analysis further, this year, for the first time, data from S&P Global ESG Scores and the SAM Corporate Sustainability Assessment has been incorporated into the index as well.

## How is this relevant?

In the key trends section of the report, GreenBiz suggests concepts and actions that could be taken to help ensure sustainability. Tracking these trends and their key players, will be important when it comes to reviewing long-term investment strategy and next steps in sustainability.

The State of Green Business Index provides many useful facts and figures – covering emissions targets, climate reporting, ESG performance and capital costs. This information can be drawn on when monitoring covenants and used to inform stakeholder discussions.

## Our view

This report is a fantastic source of information and provides an engaging review of the steps businesses are taking to embed sustainable practices. The variety in the trends section shows that there are many different ways businesses can take action against climate change and that one size doesn't have to fit all. The collateral information provided by the report can be used to inform internal strategy discussions, as well as to engage and challenge asset managers on their investment decisions. Finally, as with last year's report, it is great to see the key players behind each trend recognised for the ground-breaking work they are doing.

**Further reading suggestions:** Our first suggestion is the State of Green Business<sup>1</sup> report which we found to be an interesting and engaging read. For a more in-depth view of the financial system and the role it can play in delivering a sustainable transition, we recommend The Economics of Biodiversity: The Dasgupta Review<sup>2</sup>.

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<sup>1</sup> [The 2020 State of Green Business Report | Greenbiz](#)

<sup>2</sup> [Final Report - The Economics of Biodiversity: The Dasgupta Review - GOV.UK \(www.gov.uk\)](#)

## The Government's response to consultation on TCFD reporting and governance requirements

On 27 January 2021 the DWP published its response to the consultation on mandatory TCFD reporting for pension schemes, along with updated guidance from the Pensions Climate Risk Industry Group and draft regulations for consultation over the period to 10 March 2021.

### What does their response say?

The proposed requirements remain broadly aligned with the government's initial proposals, with more detail now given on how and when the requirements will apply. Schemes with assets of more than £5bn will be required to submit their first TCFD report within seven months of their scheme year ending 1 October 2021. For schemes with assets of £1-5bn, the deadline is a year later.

The DWP has introduced some flexibility in how often scenario analysis must be performed – at least once every three years. The response also states that a minimum of two emissions-based metrics and one additional climate-related metric, need to be disclosed.

### Our view

The majority of the changes made to the proposals and outlined in the draft regulations are sensible and reflect feedback, including our own, from the market. There will need to be a balance found between consistency of metrics and targets chosen by schemes and flexibility from the Regulator to allow for new ideas and opportunities to flourish from the work done as part of TCFD reporting.

**Further reading suggestions:** Your first port of call, if you haven't read it yet, is the DWP's response<sup>3</sup> itself. For a summary of the main information, our own consultants have written a briefing note<sup>4</sup> highlighting the key takeaways from the response. The PCRIG guidance<sup>5</sup> that sits alongside the consultation response and draft regulations are also a long, but very useful indication of how the regulations may be tackled practically.

## Final report on the TCFD recommendations pilot

This pioneering report by the UN Environment Programme's Principles for Sustainable Insurance Initiative, in collaboration with 22 leading (re)insurers, develops assessment frameworks and methodologies which can be used to implement the TCFD recommendations. These methods were developed using forward-looking climate scenarios and applied to a variety of publicly available case studies.

### Why is this important?

The report takes some vital first steps in developing an integrated approach to climate risks, helping to ensure that insurers develop consistent and transparent climate assessment frameworks. Crucially, the pilot initiative developed two distinct options for quantitative analysis of litigation risk – a risk category in which most insurers have not progressed beyond qualitative analysis. The overall approaches outlined are a useful reference point for any insurer looking to implement their own approach to climate risk in line with the TCFD's recommendations.

### Our view

Insurers should be reviewing the methodologies outlined in this report as they implement and develop their own climate risk assessments. The development of more quantitative approaches to transition and litigation risks is a welcome breakthrough given that qualitative approaches are more common for these risks. As acknowledged in the report, there are many challenges still to be addressed, however we believe that the report makes a strong initial contribution and we look forward to seeing how the methodologies are developed in the future.

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<sup>3</sup> [Taking action on climate risk: improving governance and reporting by occupational pension schemes \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/92444/taking-action-on-climate-risk-improving-governance-and-reporting-by-occupational-pension-schemes.pdf)

<sup>4</sup> [The Government has responded to their consultation on the Taskforce on Climate-related Financial Disclosures reporting and governance requirements - Hymans Robertson](https://www.hymansrobertson.com/insights/the-government-has-responded-to-their-consultation-on-the-taskforce-on-climate-related-financial-disclosures-reporting-and-governance-requirements)

<sup>5</sup> <https://www.gov.uk/government/publications/aligning-your-pension-scheme-with-the-taskforce-on-climate-related-financial-disclosures-recommendations>

**Further reading suggestions:** If you haven't read it yet, our first recommendation is the report<sup>6</sup> itself. It is also worth keeping an eye out for any information regarding the Climate Biennial Exploratory Scenario which launches in June this year. So far, the PRA have set out a high-level approach to the CBES<sup>7</sup> along with a provisional set of scenario variables to be included, more information is due imminently.

### Most savers unaware of pension scheme climate action

In Mid-February, the Pensions and Lifetime Savings Association (PLSA) published the results of a survey polling more than 2,000 adults on global warming. The research found that, whilst 80% of adults believe global warming is an important issue, 59% of workplace pension holders don't know if their schemes are taking any climate action.

### What does this mean for me?

Many pension funds are united in their support for climate-aware investing and yet the results of the survey show that many pensioners are not aware of the actions being taken. The results also show that pensioners support action against climate change, with two thirds saying that investors should encourage the companies they invest in to address climate change. With this strong vote of support for the actions schemes are taking, the PLSA is encouraging schemes to take the opportunity to better communicate with savers on their climate-aware investing, and in doing so, helping individuals become more engaged with their pension scheme and climate-aware investing.

### Our view

There is clearly much scope for improvement when it comes to engaging with savers on climate-related actions schemes are taking. The results are a great reminder for schemes to stay engaged with their members and promote the positive impact their savings are making.

**Further reading suggestions:** In their recently published report<sup>8</sup> "A changing climate: How pension funds can invest for the future", the PLSA sets out the challenges facing pension schemes along with their recommendations and actions to be taken to address them. There are also specific DB<sup>9</sup> and DC<sup>10</sup> publications that Trustees may find helpful in identifying their next steps in this area.

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<sup>6</sup> [PSI-TCFD-final-report.pdf \(unepfi.org\)](#)

<sup>7</sup> [Update on the Bank's approach to the Climate Biennial Exploratory Scenario in selected areas \(bankofengland.co.uk\)](#)

<sup>8</sup> <https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2020/A-changing-climate.pdf>

<sup>9</sup> <https://www.hymans.co.uk/insights/research-and-publications/publication/tackling-climate-change/>

<sup>10</sup> <https://www.hymans.co.uk/insights/research-and-publications/publication/dealing-with-climate-change/>