Dear Ms Creagh

Green Finance inquiry – request for information from the Aviva Staff Pension Scheme

I refer to your letter of 28th February requesting information regarding the strategic response of the Aviva Staff Pension Scheme to environmental risks, including climate change.

I include our responses to your questions as an appendix to this letter. As a Trustee Board we have a duty to act in the best interests of our members and we take this responsibility very seriously. We recognise the potential risks posed by environmental issues such as climate change and also the opportunities that may arise for investors. We are at the early stages of considering these important risks.

Yours sincerely

Sir Ian Prosser
Chairman
Aviva Staff Pension Trustee Limited
Response to the Environmental Audit Committee’s Green Finance Inquiry

The Aviva Staff Pension Scheme

The Aviva Staff Pension Scheme is the primary pension scheme for current and former employees of Aviva plc in the UK. The Scheme has two sections; a Defined Benefit Section and a Money Purchase Section (sometimes referred to as Defined Contribution). Our responses below cover both sections.

The Defined Benefit Section is closed to future accrual. The Board's objective is to ensure that the DB Section has sufficient assets to meet all the benefits payable to members. The Defined Benefit Section is mature and well funded.

The Money Purchase Section is open to employees who work for the Aviva Group in the UK. The Board aims to ensure the section offers members value for money and helps them to manage their pension savings to achieve a good outcome in retirement. The Board provides a flexible framework that allows members to make decisions that are appropriate for their personal circumstances.

Our responses

1. Do the trustees accept the TCFD conclusion that pension funds are potentially exposed to financial risks through climate change?

Our Board recognises that the Scheme is potentially exposed to financial risks through climate change.

We are aware that our sponsor had representation on the Taskforce and have been kept informed of its progress and recommendations.

2. Which climate-related financial risks are you most concerned about?

We take all ESG issues seriously. We have not undertaken a detailed review of the potential risks posed by climate change but recognise that this could result in financial losses as well as significant social issues that would impact our members. Our sponsor is an insurance company which could also be impacted by climate change.

3. Has your pension scheme formally considered climate change risk at Board (or Investment Committee) level?

The Board has recently commenced a review of our environmental, social and governance (ESG) policy, which incorporates climate change risk. We have not considered climate change risk specifically but have done so as part of our broader existing policy on ESG.

Our sponsor's Chief Responsible Investment Officer, also a member of the TCFD, attended our December 2017 meeting where we discussed ESG issues, including climate risk.

4. If you have considered climate change related risks, what actions have you taken in response to these risks? We are interested, for example, in the development of specific investment strategies on this issue, whether you have taken formal advice, any changes in your investment strategy made or planned, and the exercise of your ownership responsibilities on this issue (either directly or through your investment managers).

Aviva: Internal
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Aviva: Confidential
Our existing policy takes ESG issues into account when selecting fund managers and all of our fund managers are signatories to the UN Principles for Responsible Investment. We give our fund managers full discretion to take ESG issues into account when making investments and exercising rights attached to the Scheme’s investments. Our Scheme is also a signatory to the UN PRI.

Within our defined benefit section we have not developed specific investment strategies with climate change risk in mind although we do have investments in the renewable energy sector. We recognise the importance of good stewardship when making investments. We do not currently have an allocation of funds to listed equities either directly or via a pooled fund and so while we take stewardship issues seriously, they are of limited practical importance to our Scheme given the nature of our asset mix.

Within our money purchase our equity managers are expected to vote in line with the UN PRI principles and other relevant codes of practice.

We recognise that some members of our money purchase section may wish for their assets to be invested in funds which focus on environmental and social issues. We have therefore made such funds available to them. However currently 88% of our members are in the default strategy, with 12% opting for alternative funds.

5. **Are you planning to adopt the TCFD recommendations in your scheme’s reporting? If so, please indicate your planned timing.**

We have not currently made plans to include the TCFD recommendations in our Scheme’s reporting. As noted above, we are currently reviewing our ESG policy, including reporting.

6. **How would you suggest the Government and regulators implement the recommendations on climate risk reporting? Is a voluntary approach sufficient to ensure widespread adoption?**

Careful consideration should be given to the potential costs of additional disclosure as these costs could ultimately be borne by members of defined contribution schemes. We are aware that the FCA is also consulting on this at the moment to provide a joint FCA/Government response to the Law Commission’s recommendations.

7. **Would guidance from Government or regulators on climate-risk reporting be helpful for pension funds?**

We would welcome a dialogue with Government and regulators on these issues. Guidance would be helpful, after appropriate consultation, including best practice examples. We note that much of the current industry thinking relates to equity investments which are not relevant for the vast majority of the investments we hold, whilst corporate bonds, infrastructure assets and other fixed income assets are more aligned to the long term nature of a pension scheme profile, and indeed the impacts of climate change.

8. **Have you discussed climate change with your actuarial advisers, having regard to the Risk Alert that the Institute and Faculty of Actuaries (IFoA) issued to its members last year?**

We have not specifically discussed climate change risk with our actuarial advisors. We note that their reports to us now include a disclosure which states the environmental risks exist and could be material. However, I understand that environmental risks haven’t explicitly been taken into account when providing their advice to us.

9. **Please share with us any other information you think may be relevant as we develop our understanding of the approach UK pension funds are taking to climate change and, more generally, green finance.**

As we outlined above, we take these issues seriously. When making decisions we recognise our duty to take into account financial risks and act in the best financial interest of members.