



HIT SEND TO THE WRONG PERSON?

## Email: the #1 cause of data leaks in 2021

SOURCE: IDC DATA SECURITY INCIDENT TRENDS REPORT, Q2 2021/22



PENSIONS

OPINION

## Ros Altmann: Could pensions be used to boost more sustainable investing?

Pension or insurance investment in net-zero projects could even serve to make pensions more popular



As we rebuild the economy after Covid-19 and pursue the government's aims to 'Level up' and 'Build back better', the greening of finance has become increasingly important. With the impacts of climate change ever more apparent, politicians seek to appeal to the 'green vote'.

The legislative measures to boost the battle against climate change include: mandating the UK's main financial regulators to factor in climate-related issues; statutory requirements for pension schemes to address the international Taskforce on Climate-related Financial Disclosures (TCFD) requirements in the 2021 Pension Schemes Act; and requiring large firms and financial institutions to publish climate plans well ahead of the TCFD recommended timeframe.

Such trailblazing policies demonstrate the government's determination to be a global leader in green financial issues, but they are only a start.

### **Long-term investors**

The government alone cannot solve this. Nevertheless, the UK is well placed to capitalise further on sustainability trends thanks to our multitrillion-pound domestic pension and insurance assets. These long-term investors could be incentivised to fund substantial green growth-boosting initiatives, deliver badly needed infrastructure, improve the housing stock and benefit from successful projects offering better investment returns than bonds.

Both defined benefit and defined contribution assets could be used. At the least, the £200bn invested in local authority pension schemes could help fund nationwide green investments, especially as taxpayers underpin the pension promises (they do not belong to the Pension Protection Fund), so there is a social interest in ensuring long-term growth that helps overcome deficits.

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Climate change mitigation, early-stage infrastructure and housing improvements can deliver inflation-linked returns that boost risk-adjusted returns. If the Treasury offered minimum-return guarantees to match long-term gilts, the pension investors could more easily help with acute environmental challenges, at little or no Exchequer cost.

For example, domestic institutional investors could help address the acute challenges in both the transport sector and the UK's large oil and gas exposure.

Transport sector emissions are also a problem as people drive more and online deliveries replace high-street shopping for many. However, there could be an opportunity to accelerate the transition to electric vehicles — perhaps with pension funds developing a nationwide charging-point network that could offer inflation-linked returns from regulated charges.

- “ The government has made an excellent start in getting our financial sector ready for net zero but action is needed to make it happen in practice

In the energy sector, switching from fossil fuels to a cleaner, more sustainable future poses risks for many communities. However, green finance here could address North Sea industrial decline, providing new prosperity for future generations.

As we move towards renewable energy, the government's support for floating and fixed offshore wind as part of its plan to become the 'Saudi Arabia of wind power' could bring investment in more innovative, clean energy solutions.

## Traditional energy

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Investors increasingly want to ensure their money is put to good use, without damaging the planet. Pension funds could, therefore, press traditional energy companies in a greener direction without necessarily divesting from polluting businesses. Selling a company's shares does not destroy its value, nor improve its climate impact.

The government has made an excellent start in getting our financial sector ready for net zero but action is needed to make it happen in practice.

- “ The greening of finance has become increasingly important

There is scope to deliver a win-win outcome all around. Younger generations are expressing a desire to see their money invested in environmentally friendly opportunities. Increasing green investments can help make people proud of pension investments by delivering greener, sustainable growth,

improving UK infrastructure and providing much better returns than very low interest rates on offer nowadays