HOUSE OF COMMONS

Treasury Committee

Oral evidence: Decarbonisation and Green Finance, HC 147

Wednesday 14 October 2020

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Watch the meeting

Members present: Mel Stride (Chair); Rushanara Ali; Mr Steve Baker; Harriett Baldwin; Felicity Buchan; Mike Hill; Julie Marson; Siobhain McDonagh.

Questions 183 - 235

Witnesses

I: Saker Nusseibeh, CEO, Federated Hermes International; Sandra Boss, Global Head of Investment Stewardship, BlackRock; Huw Evans, Director General, ABI; and Steve Waygood, Chief Responsible Investment Officer, Aviva Investors.

Examination of Witnesses

Witnesses: Saker Nusseibeh, Sandra Boss, Huw Evans and Steve Waygood.

Q183 **Chair:** Good afternoon and welcome to the Treasury Select Committee evidence session on decarbonisation and green finance. I am very pleased today to welcome our four panellists and I am going to ask each of them in turn to give their name and organisation for the public record.

Saker Nusseibeh: Good afternoon. Thank you very much for having me here today. My name is Sakar Nusseibeh. I am the chief executive of what is now called Federated Hermes International. It started life as the in-house fund manager for PosTel, which became the British Telecom pension scheme, and has a 30-year track record in integrating ESG, stewardship and, indeed, carbon reduction in its mainstream investing.

Sandra Boss: I am Sandy Boss. I am the global head of investment stewardship for BlackRock, which is a large global asset manager. We have 3,300 people working in the UK, very focused on helping clients here meet their net zero aspirations.

Huw Evans: I am Huw Evans. I am the director general of the Association of British Insurers. We represent the UK insurance and long-term savings industry, which has a vital role to play in achieving a transition to net zero.

Steve Waygood: I am Steve Waygood, the chief responsible investment officer at Aviva Investors. It is a pleasure to be here. I am also a member of the Financial Stability Board Task Force on Climate-related Financial Disclosures.

Q184 **Chair:** Thank you very much and, once again, thank you for joining us to each of the panellists. The questions will be put by members in sequence, one after another. Members will generally indicate the panellist or panellists they would like to answer that question, but if you are not brought in at that point, and you feel that you really want to say something in respect of a particular question, do not hesitate to put your hand up and I will attempt to bring you in at that point.

One other point I should make is that there may be a Division in the House of Commons at about 4 pm. In fact, there might be two Divisions at about 4 pm, in which case I will suspend the Committee in the event of a single vote for up to 15 minutes, and for about 25 minutes if it is two Divisions. That is just to alert viewers and panellists to the possibility that that might happen.

Let me start with my first question, which I am going to put to everybody, but I am going to ask Saker to respond first. When Alok Sharma, the BEIS Secretary of State, launched COP 26 in February, he made the point that each part of the global financial system had a critical part to play in achieving net zero. Clearly, the Covid virus has put a great strain on the whole economy, and on the financial sector as well. Could you tell us a bit about what your focus is at the moment? Is it still very much on the net zero issue? What contribution is your organisation making to achieving that?

Saker Nusseibeh: We remain very committed to this. It is our contention that there is no contradiction between integrating ESG, particularly care for the environment, and long-term returns. In fact, we think it enhances returns. What are we doing to do our bit for the country, the economy and wider society? We concentrate on four aspects.

First, we participate in various forums, in which we help the industry to come up with the standards that help us achieve that. That includes the PCAF, the Partnership for Carbon Accounting Financials, to come up with the same terminology. We are on the FCA PRA climate risk forum, so that helps us gather together all people in the investment universe to try to come up with the same language. We participate in impact investing forums. We are founding members of the Impact Investing Institute, which was established under the leadership of Dame Elizabeth Corley. That is the first thing we do. We do other things: UNEP FI, and I could name many. We have done so for many years.

Secondly, we actively engage in stewardship with companies that we invest in. My predecessor, Alastair Ross Goobey, more or less started the whole business of stewardship more than 20 years ago. In our engagement with companies, we emphasise the financial and societal upsides of holding to a net zero target and reducing carbon outputs. We do that. Thirdly, in our direct investments, we try to invest in businesses that benefit from the transition to a low-carbon economy, as well as mitigate the risk from being exposed to it.

Last and by no means least, in our direct investment, particularly in our properties, we partner typically with local councils in building new place-makings, typically reviving city centres around the country. We do so with a low-carbon footprint and mitigating the carbon for the future. We create a place in the middle of old cities that can revive these communities, but at low carbon or net zero carbon if we can.

Q185 **Chair:** That is very helpful. You mentioned the PCAF. There are a number of these climate change forums around. What is it that makes that particularly important?

Saker Nusseibeh: It is an attempt to get everybody to agree and promote measures of disclosure of carbon emissions in the financial sector that we all agree on. Like all these things, it depends how much money you can get to support it. The membership that promotes it can bring together about $10 trillion of assets, which is quite substantial. If that many people combined believe we can do something, at least we can move forward.

Q186 **Chair:** Sandy, I am going to come to you next. One thing that Saker just said is that ESG can enhance returns. I wondered whether you might give us your thoughts on that point as well.

Sandra Boss: It is our investment conviction that embedding environmental, social and governance factors into investments both reduces risk and sometimes enhances return, so you get a better aggregate risk-adjusted return. We have done research in that area. The research and the conviction that climate risk is an investment risk has led us to four key areas where BlackRock is very involved in making a contribution, as you asked.

First, we are working with clients up and down the entire value chain of the energy transition in the UK to make the investments that are necessary. Our clients are invested in renewable power generation, whether it is the big companies like the SSEs and the BPs, or small, independent private projects, like the Beckton plant or the Hornsea 1 wind farm. There is a range of sizes of renewable. We work on smart distribution and storage. Today, there was an announcement that we have just made an investment in a $100 million company called Arrival. It is a $100 million investment in a company that does EV production. There is a variety of investing directly in that transition.

Secondly, we are helping clients meet their own net zero ambitions. We have products that are designed specifically to enable companies to move toward investments that are conducive to net zero goals. As you have said, by 2023 you are asking pension funds to make that commitment. We are helping them do that. We have risk analytics working with indexers to try to get them to produce net zero benchmarks.

Thirdly, much as Saker's organisation does, we engage globally with companies. We are the largest investment stewardship firm in the world. Wherever BlackRock clients are invested, particularly with a set of 400 companies that we have identified as being most carbon intensive, we are engaging with them on TCFD. We are asking them, "Show that you have a plan for how you are managing climate risk. Demonstrate that it is consistent with a global aspiration that we all would like to live with." We are concerned that the companies that do not have those kinds of plans are exposing their end investors to climate risk, which is not in the long-term interests of those companies, let alone society.

Finally, much like Saker's organisation, we spend a good deal of time working with others in this market. We are also a member of the PRA FCA forum. We are advocating policies that we think can be beneficial. We have long been a proponent of TCFD, and it is something that we care very much about because it brings investors the information they need, alongside things like a long-term asset fund and helping small savers get access to long-term investments. There is a variety of areas where we are trying to push for new opportunities.

Q187 **Chair:** On this issue of higher-carbon businesses and your speaking to them about having a plan, are you often in a situation where you simply will not invest at all in those companies unless they make those kinds of changes? How does that part of the investment opportunity work?

Sandra Boss: That is a great question, particularly because BlackRock is 90% index in our equity portfolio. In our active strategies, our active investment managers have a variety of ESG considerations and risk analytics that inform their investments. They will increasingly, particularly in strategies that are ESG-focused, put more capital against companies that have a desirable sustainability profile and less capital in companies that do not.

In the indexing business, if a company is in the index, our clients are invested in that. They have contracted with us to say, "I would like the FTSE 250, not the FTSE 247. Please replicate that performance." That is when engagement comes in, because we are invested for 20 times longer as a client invested in an index portfolio than it would be in an active. It is a very long-term commitment. We stick around.

Huw Evans: The ABI first got involved in the climate change agenda in 2007 when we helped set up ClimateWise, under the auspices of Cambridge University's sustainable leadership centre. We set up Flood Re with the coalition Government as a world-leading public-private partnership to help mitigate flood risk and the cost of that for homeowners. We helped lead the insurance industry's campaigning in Paris ahead of the 2015 summit, to add our voice to those campaigning for tough targets to be set there.

Our job at the moment is mainly paying claims to deal with the manifestations of climate change and our warming planet. We expect just this year to be paying out £540 million in claims as a result of the flooding we saw over the winter period at the end of last year and the beginning of this year. We do what we can to invest within the current structures in sustainable long-term investments, to help pay the long-dated liabilities that insurers carry, for example paying annuities and pensions.

The most important thing I want to say is that our main role now is to lobby for change, because we need so much more change if we are going to fulfil our potential as a sector. That takes two forms. The first is supporting the UK regulators in their world-leading leadership of areas such as stress testing and developing tools for insurers and long-term savings companies, and for disclosures. It is not always that I will come in front of a Select Committee and praise the UK's regulators, but they are doing a world-class job in this and they deserve our support.

Most importantly, looking forward, we have to support the Government and lobby them to change the Solvency II framework so that insurers are in a position to invest in a much wider range of sustainable ESG assets that fully meet the task of policyholder protection and of delivering sustainable returns over the long run, but that enable insurers to put their £2 trillion-worth of assets to much more sustainable and good use going forward.

We have an opportunity with the reform of the regulatory system that the Government have announced and with Solvency II, in particular with our departure from the European Union, to craft a system that works best for the UK. We should take that opportunity, as well as encouraging the Government to do what they can to issue Government-backed sovereign bonds that insurers will be able to invest in, which will give us the full opportunity to put those trillions of assets to good use and help drive forward a much more radical set of investments than we are currently able to do under the existing regulatory and legal structures.

Steve Waygood: I would like to start by supporting everything my fellow witnesses have said. We are doing broadly very similar things. I will detail those shortly. I particularly support what Huw just said about Solvency II. I am sure we will come to that.

To talk about Aviva's own operations, there are also four areas, as with Saker. First, our own business has been carbon neutral since 2006. I am very proud of that. Secondly, in relation to our own assets under management, £6 billion has been proactively directed towards climate solutions technologies. That includes direct investments in infrastructure, as well as green bonds.

Thirdly, since 2001 our voting and engagement policy has explicitly included climate risk and climate change. I believe we were the first fund manager in the world to do that. It is still rare, incidentally, but it is nice that others are following suit. Fourthly, as with Huw, Saker and Sandy, I think we are discussing the world's biggest market failure: climate change. We need to support, encourage and cajole, or lobby as Huw put it, for changes to the system that correct the market failure. That is why this Select Committee and this hearing are so incredibly important.

Q188 **Mr Baker:** Good afternoon, everybody. You may know that this Committee was among six Select Committees that commissioned a climate assembly. That assembly has now reported, and one of the things it concluded was that individual responsibility and consumer choice would be important in the transition to net zero. I am going to take all your views on this one. To what extent is consumer choice important in the transition to net zero?

Huw Evans: There are two points I would make. I have seen the summary of the report and it made some valuable points. There are two challenges. The first is to overcome the very low levels of financial capability that most consumers in this country have to start with, which is something the Committee has looked at in the past and which the Money and Pensions Service is doing good work to try to overcome.

We have to build on a baseline of higher financial capability than we have at the moment. Most people in my world do not know the difference between a defined contribution and a defined benefit pension scheme, so it is quite hard to then have an advanced discussion about how their investments may work. Of course, 96% of defined contribution pension schemes, those used in auto-enrolment, are in default funds. There is an opportunity for a much more sophisticated discussion, but it has to go in partnership with one on financial capability.

Thereafter, the key thing, which I am sure we will come to, is about reporting and disclosures. We have to have a common language that we talk about when we talk about what options are available to customers. Work is being done, which other witnesses have been more involved in that I have, on disclosures and a common taxonomy for both what you are labelling and the buckets that it goes into. That is critical.

If we are talking about retail investors as opposed to institutional investors, we have to have a very straightforward set of explanations that do not mislead and that enable those customers to fully understand the potential risks as well as the potential rewards, to go alongside their motivation. I will just leave those two points. They are probably the most fundamental from my perspective.

Q189 **Mr Baker:** Can I ask you to elaborate a bit on default funds? Is there anything specific that you would like to see in terms of policy relating to consumer choice and default funds? If I caught it correctly, you said that 96% of contributions are in default funds.

Huw Evans: Yes, that is correct.

Q190 **Mr Baker:** With the figure so very large, maybe we cannot see the wood for the trees here. Is there something in policy you would like to see relating to default funds?

Huw Evans: There are two things. From a policy perspective, the charge cap that we currently have in place for auto-enrol pension schemes is set at 0.75%. Nearly all ESG funds are above that because they involve active management, so they are more expensive to run. As long as you have a charge cap that does not allow for any exceptions, for example for ESG, you will find it hard to shift that. I would argue there is a strong case in public policy terms for the charge cap having an exemption if there is an ESG component, to give people who are auto-enrolled in those funds to have the option to go above it. At the moment, the charge cap would not really make that possible. That would be the main public policy change.

The consumer change that I hope will come with it, and we may come to fintech, is the development of more consumer-facing apps and opportunities for customers to engage with how their pension funds are managed.

Q191 **Mr Baker:** Let us not go any further on that, because I want to get all the other witnesses in on the importance of consumer choice. I have plenty of other questions but, Huw, it is fascinating and we could keep going. Sandra, on the importance of consumer choice, what does BlackRock think?

Sandra Boss: Consumers are ultimately the beneficiaries, so their opinion and voice are incredibly important. First, I would echo what Huw was saying about consumer education. For those who are touching the end consumers, that is an incredibly important role, as well as the state opportunity. There are two specific things. First, this product taxonomy for ESG investing is incredibly important.

There are two ways to think about this. First, what will be the UK's solution for the EU taxonomy that has been introduced on deep green investing? You have an opportunity to design something there. Secondly, at a more simplistic level, what is the way that you will help small savers, all savers in fact, understand the different ways they can invest? We have proposed a really simple three-part model, about avoiding things that you do not want to do from an environmental and social perspective, advancing ESG outcomes and impact, where you are saying, "I am seeking both return and a social goal alongside." A three-part framework like that could be incredibly helpful for investors.

Secondly, I will mention the long-term asset fund idea that I raised earlier. Thinking about the default and recognising Huw's points about fees and the fee cap, there is an opportunity for long-term savers. If you are in a DC plan or a DB plan, this is a multi-decade investment. There are long-term assets that need funding. Right now, it is very difficult for small savers and retirement savers to get access to those types of products.

The FCA could use an existing vehicle that would be safe and have the right precautions around these illiquid assets. It would occasionally have a bit less liquidity for the end user but, if it is overseen in the default fund by a professional investment decision-maker, that could be a great way to help bring private capital to the investments that we really need to fund in the UK.

Q192 **Mr Baker:** There is a lot to be said about small savers, but that is perhaps for another day. Steve, do you have any brief point to add to what has already been said?

Steve Waygood: I support everything on long-term asset funds, as well as the charge cap. That is an excellent idea of Huw's. We should be amending the Pension Schemes Bill to have a mandatory requirement for pensions to be net zero by 2050. You may have seen that we have made that announcement for our own default funds, that by 2050 they will be net zero. That will apply to 2 million pension scheme holders across the UK, but it is only a very first step on a long journey. It needs to apply industry-wide.

Q193 **Mr Baker:** What does that announcement mean for pension savers who are using those products? What does it mean for their returns?

Steve Waygood: I would support Saker and Sandy's points that long-term returns are absolutely enhanced by the integration of ESG. There is now an enormous amount of research from the academic and broker community that evidences that. All you are really doing is saying that companies that look after their employees, reduce their emissions and are good citizens are good long-term investments. That should not be a surprise.

Q194 **Mr Baker:** That is not a shock. Saker, thanks very much for your patience. Do you have any brief point on individual consumer choice and responsibility?

Saker Nusseibeh: I would make two very brief points. First, we always have to remember that the consumers are the same as the savers, who are the same as the citizens, and they live in the society. They will have to live with the world we create with their investment. It is their money. Secondly, people underestimate the consumer and ordinary citizens all the time. The move in the market, I would argue, was not just because there were activists pushing for this for some years, but because savers themselves moved and asked firms to come up and meet their targets. I would trust consumers.

Finally, it cannot just be in the financial sphere. We should move it to everything else. When I go to my local Greggs and I buy my local sandwich, I can see how many calories it has cost me. I cannot see how many carbon points it has cost me. At some stage, we have to move to that, too.

Q195 **Mr Baker:** That is a very interesting point. I am going to stick with you as I move on. The FCA recently told us, "To excite customers, you need exciting products." Can you tell us a bit about what you have done to make your products more exciting to green consumers?

Saker Nusseibeh: I am afraid we are the most boring of boring people out here. We have believed for more than 30 years that integrating ESG is the key to our long-term performance. We have believed that long-termism is the other aspect. In fact, the two are related. We are very careful about not creating new products for the sake of creating new products. That is good business, but that is not the business we are in. There is a place for impact investing, and we are very much in that sphere. There is a space for people who want to invest particularly in the SDGs. All mainstream investing should incorporate ESG as a matter of course and should be long term as a matter of course.

Sandra Boss: Consumers and savers are excited if they meet their long-term financial goals. That is our purpose. We are an indexer so, yes, excitement is not the first name. We have done two things that are important. First, we have introduced a very large number of new index products, whether ETF or mutual fund structures, for purposes of helping people make ESG choices as an alternative to traditional indices. That really opens up the opportunity for more sustainable investing.

Secondly, coming back to the labelling of calories, all our EMEA funds are now labelled with their carbon intensity. That is something we are doing worldwide. We are really trying to help people see the sustainability content of the product they are buying. That will help as well. Hopefully, ultimately, they will also get those long-term savings goals.

Q196 **Mr Baker:** I sense I am getting very close to time. I have to say, I am ready for some dull financial products with a good return. I sense that most of the people watching this are. Is there any last point anyone would like to make about the issue of greenwashing? Does anybody have anything they want to say about the dangers of greenwashing?

Saker Nusseibeh: Controversially, I think greenwashing is at least an acknowledgment by the industry that it is important, that society thinks it is important and that the regulator thinks it is important to reduce carbon footprint. That must be a first step. A second step is to have the taxonomy and the regulation to winnow away the truth from that which is less true.

Mr Baker: On that happy thought, unless anybody waves frantically at me, I am going to hand over.

Q197 **Harriett Baldwin:** Sandy, in terms of BlackRock's assets under management, when do you think sustainable funds will take over from conventional flagship funds?

Sandra Boss: That is a fantastic question. The momentum is absolutely in favour of sustainable funds. We have seen tremendous pick-up this year. It is about a 40% increase year-on-year in sustainable products. One of the biggest impetuses for that was, ironically, the Covid crisis. We found that many companies pulled out of risk assets and put money in cash during the February, March and April timeframe. When they went back in, overwhelmingly we found that our clients were saying, "I would like to come back into a sustainable product."

That said, we have a long time to go. One of the biggest challenges for all institutional asset managers is that client mandates are long and they need to be changed one by one. As we have more clients coming to us, like so many of the UK pension funds, saying, "I want to make a change. I proactively want to shift," the products are there and the strategies are there. It is really just a matter of making that change, but we have a way to go before it takes over.

Q198 **Harriett Baldwin:** In a debate we had last week on the pensions legislation, I raised the fact that so many of the default funds have quite a lot of potentially stranded assets. Do you feel that consumers who have invested in index funds around the world were aware of that and were able to activate a choice if that is something they do not believe in?

Sandra Boss: The default fund structure is something the trustees would need to determine. It is for them to make that choice. More and more end beneficiaries of pension funds are asking, "What is my investment mix?" It is quite important to invest in both the new and the transition. Take a look at BP. This is a company that has announced an unbelievably radical and important transformation strategy this year. Clearly, it is a fossil fuel company. Investors, including probably everyone on this call, have been engaging with BP for years on what its plan would be.

We are invested in the planet. Collectively, the UK is part of it, but we need both to work with traditional companies that are on that journey, as well as trying to find new and exciting ways to deploy capital, like some that I mentioned earlier in the call. Transparency is important, but it is also really important for savers to understand that they benefit from getting big companies to work through the climate risk that we are all facing.

Saker Nusseibeh: I would support what Sandra said, that the important thing is to work with companies to transform their energy. By and large, because we are active managers, we tend to invest in companies that are either in the transition or benefiting from the transition. Stranded assets is a very important concept and principle. As you are well aware, it was developed here in the United Kingdom in Carbon Tracker, which I was chair of for a short while. It shapes the way we look at the value of assets going forward.

In our other business, our stewardship business, where we represent about $1 trillion, as Sandra says, we do a lot more engaging with companies and convincing them to move from dirty carbon, to start off with, from petrol to gas, and then from gas to something else, which is the transition you have to get, because they are typically the funds that are invested in indices. For our active, we are actively investing in new technologies.

Q199 **Harriett Baldwin:** Steve, what would you say needs to happen? I know in your written evidence you did not think that the current steps were going to go far enough. You thought there was scope to go further. What more could the market do to support customers to make greener savings and pension choices?

Steve Waygood: I have two areas of response for you. First, the passive fund industry has obviously boomed over the last few decades very successfully. It creates two issues from a climate change perspective. First, it is an investment in the past, not the future, by function of the way that indices grow. Secondly, this is hypothetical and needs to be further examined, but we have heard a lot of discussion about the Minsky moment that might apply to a rapid readjustment of pricing of various securities, particularly in illiquid markets but not just there. Just as a function of the way that indices are rebalanced, different ones balance at different times. It is conceivable, if a Minsky moment took days or maybe a week or two, which is entirely plausible as the market reacts to the stranded asset risk, that it is the passive fund holders who would benefit least and probably suffer most. Assuming that they can spot the issue and trade rapidly, active funds would be exploiting those.

I am sure Sandy wishes to come in on this. I have a second point, but it would only be fair to allow Sandy to respond to my first, because it will not be so challenging for Sandy.

Sandra Boss: We have had an unbelievable risk crystallisation in the last few months, which was the Covid rebalancing. The index funds actually performed very well. At some points, our fixed-income index funds were the best source of clarity and price transparency at a time when bond spreads were incredibly wide. We engage with companies because we know this is a long transition. We want to avoid that cliff edge. We all know that, as companies get ahead of climate risk and begin to make their transition plans known, they are getting ahead of the physical risk. They are getting ahead of the transition risk that they are facing.

Hopefully we avoid such a cliff edge. If we had a tactical one-week or two-week event of the type that Steve is describing, index funds have demonstrated that they can perform operationally and handle those types of challenges.

Q200 **Harriett Baldwin:** Can I get Huw's perspective? A lot of insurers are invested in passive-type funds as well.

Huw Evans: Yes, they are. This comes down to a theme I would like to elaborate on, if I get the chance later in the questioning, about the regulatory permission set, which you will be very familiar with from your Treasury ministerial experience, Ms Baldwin. The Solvency II regime is constructed overwhelmingly for financial stability and policyholder protection. Those are the two pillars on which it rests. It therefore makes it quite hard for insurers and long-term savings providers to invest in a much broader range, even if their customers would like them to do so.

There is a challenge before that of getting engagement with customers. They have options even within, for example, a GPP pension scheme. They can adjust in many cases what the default settings are. They do not have to be invested in a tracker if they do not want to be. There is a challenge there to get to them and to encourage them to engage with what is available. I am hopeful that the pensions dashboards will be helpful, when they become up and running, not just in terms of people knowing exactly what pension pots they have around the place. A second stage of the development of pension dashboards is their being able to see how those pension schemes are invested and being in a position to act upon that, if they are not comfortable with the balance of investment portfolio that they have.

I am hopeful, even if there were no change in terms of Solvency II, that there would be more opportunity for consumers to engage with how their DC pensions are invested. For there to be real change in the investment programmes that insurers are carrying out, that needs the Solvency II reform that we will hopefully come to.

Q201 **Harriett Baldwin:** I am going to come to insurance in a moment. Steve, I sense I cut you off, perhaps before you had finished saying what you wanted to say.

Steve Waygood: It is very kind of you to come back to me. Thank you. I want to build on Huw's point about the pensions dashboard. When the London Stock Exchange was created in 1802, investors knew what they owned. They would walk into the exchange with cash and walk out with a share certificate. They behaved as if they were long-term owners. With the intermediation that has evolved in the industry in the last few hundred years, very few UK citizens understand a pension, let alone that they own companies, let alone that they have a vote. That financial literacy abyss needs to be addressed.

One way we can do that is through the pensions dashboard. There may be a fintech solution. There is an organisation we have been working with for a few years now—we have been beta testing—called Tumelo. It is an app and it is a start-up business. I know other fund managers are also testing it. What it would do is reconnect the end investor to their ownership rights. There are different legal ways that we would need to assimilate the guidance it gives us. They are not technically their rights if it is a pooled scheme, for example.

Nevertheless, imagine seeing at the touch of a button what is in your pension or pensions. It needs to be one response for the whole industry that we can use collectively, so that it can be assimilated. Imagine seeing what you own, how you voted and being allowed to input to the vote that is coming up. There are enough votes now that are sufficiently interesting, and there are enough investors out there who are sufficiently well-informed, for this to be exciting to at least a significant minority of people. That would enable the kinds of customer choice that we saw from the climate assembly report.

It needs more innovation. The reason why the Government have a role to play here is that, under the Tumelo business model, if we were to pay for its entire costs and give it a reasonable margin, it would be uneconomical for us as a business to offer to all. We have offered to a few.

Harriett Baldwin: You are making a really interesting point and we will definitely take that evidence when we come to writing our report. Unfortunately, time is rushing on for me.

Steve Waygood: We will provide more in writing.

Q202 **Harriett Baldwin:** I need to ask Huw about the cost for consumers of insurance policies that cover the kind of risks that climate change will expose them to. The most obvious one is flooding. What is the market doing to mitigate the risk to consumers and ensure that they have access to affordable insurance climate coverage? I am very aware of what the state has been able to do in terms of Flood Re, but what is the market doing? Is it a risk that there will become completely uninsurable risks for consumers from climate change?

Huw Evans: There is certainly that risk. As you will remember, that is why we set up Flood Re, including with your support. It is important to remember that it is the insurers that are on the hook for Flood Re. There is no state backstop behind Flood Re. Insurers are entirely responsible for its solvency position, so they carry all the market risk associated with it. The state and Parliament have enabled the Flood Re scheme to exist, but the financial liabilities rest entirely with the insurance market. That has provided a 25-year sticking plaster for homeowners and people in rented accommodation, personal lines customers in insurance jargon.

The challenge is still corporate risk. Many businesses are flooded every year, sadly. Then there is the wider natural catastrophe risk, which is less an issue in the UK but is heavily insured from the UK if we look at the wider global natural catastrophe insurance coverage, particularly in the US and the Caribbean, a very large chunk of which is written out of London as the insurance capital of the world.

We face a very real challenge as an insurance industry globally in providing enough capital to insure against those risks, particularly against natural catastrophe risks. We have seen the incidence and the violence of the hurricane season, particularly in the US and the Caribbean, growing over recent years. In the UK, we have had more serious floods since 2000 than we had in the 40 years before that. We see it both on our own doorstep in flood risk in the UK and in natural catastrophe risk more widely.

There are schemes in place, not just in the UK but elsewhere, to try to provide some form of additional risk pooling and, in some cases, some state support. You will know that there are various little schemes in US states and other affected area to try to provide some support. They are all sticking plasters to some degree. My real concern is about reinsurance capacity, because fundamental to the provision of frontline insurance, whether it is to businesses or to individuals, is the fact that insurers are able to reinsure some of that risk away. That is what keeps both availability of insurance and its affordability for frontline customers.

The big challenge, if the world does nothing or, more likely, if we do not act quickly enough in tackling the underlying causes of climate change, is that we face a growing problem where insurance becomes increasingly unaffordable or difficult to buy, simply because the reinsurance market and the insurance market are stretched too widely, covering too many episodes of climate change-related risk happening around the world in a way that is impossible to cover. It is a very important question and it is key to why it is so important that policymakers, regulators and all those in a position of authority grasp this nettle very firmly and have a very urgent view of how quickly change needs to happen.

Q203 **Harriett Baldwin:** In your written evidence, you spoke about the innovation that is happening in the insurance sector for consumers. Can you highlight some of the main ways that you see your industry innovating to help consumers react to the changing climate?

Huw Evans: Particularly on flood risk, which is the main manifestation of climate risk in this country, we are beginning to see more use of resilient repair, which is vital when people in high-flood risk areas, including in your constituency, have repeated flood events. They are enabled by their insurer to rebuild in ways that are resilient to future incidents. That is really important for businesses, which need to be able to get back up and running within days, rather than months. We have seen resilient repair increase, particularly among businesses.

A shop on Cockermouth high street was badly flooded in 2009. When there was a subsequent flood, as a result of the resilient repair it put in, it was able to open within three days. That is an example of the power of resilient repair. We are beginning to see that come through now. There are active discussions between Flood Re and Defra about how that can be further incentivised in the claims that Flood Re pays out, in a way that is consistent with the design of the Flood Re scheme. That is a big innovation.

The use of apps, greater knowledge and more specific data modelling about incidents of flooding, in particular, offer more opportunity for customers to be better aware of their flood risk and to potentially buy products that are more responsive to that.

Q204 **Harriett Baldwin:** Have you done any market research that tells you what consumers want in their insurance product and its resilience to climate change?

Huw Evans: It is a big challenge, because historically they have been very resistant to resilient repair. Customers have traditionally taken a view that it marks their house out as a flood risk and that they therefore do not want their property to look like it has had customisation, whether it is plugs halfway up on walls or other changes that can be made to keep the flood waters out. Historically, customers have been resistant, but business owners less so. Often, they are tenanted premises anyway. But those attitudes are beginning to change and the technology is beginning to improve so that some resilient repairs are much more aesthetically appealing.

As flood risk widens, there is less of a gap between homeowners at high risk of flooding and everyone else. The fact is that the flood risk is much more prevalent for all homeowners now than it used to be. You used to have just a sixth of homeowners who were at risk.

Q205 **Harriett Baldwin:** More widely, in terms of consumer research, it does not sound as though you have done anything in particular as an industry to figure out what consumers are after in the wider insurance sector, as opposed to just the flood reinsurance market.

Huw Evans: Flood Re is doing some research in that area, in part to inform its discussions with Government about ways to continue to expand

and develop the scheme, to make it easier to provide resilient repair and to encourage customers down that journey. I am not aware that the research is completed yet, but the insurance industry is doing that research through Flood Re.

Q206 **Felicity Buchan:** My questions are on financing low-carbon infrastructure, first of all. Infrastructure investment is a major priority of this Government, but it seems to me that the private financing market for infrastructure is quite undeveloped. That is slightly counterintuitive because, as Huw said in his opening remarks, insurance companies and pension funds have long-dated liabilities and annuities. Infrastructure assets would seem to make a lot of sense. Saker, what type of low-carbon infrastructure does the market currently support in terms of financing? What does the future look like for the sector?

Saker Nusseibeh: It is a very interesting question. The answer is a bit varied, because infrastructure is a very wide world. The market already invests in some infrastructure projects that immediately spring to mind, offshore wind farms for example. It invests already in projects that develop the technology needed for battery life, for example.

Infrastructure is wider than that. In the way we think about it, it encompasses, as I said at the beginning, infrastructure that includes building actual cities or the rejuvenation of cities on a net zero carbon footprint, which is necessary for the future. That includes the infrastructure for transport in such cities. Think about London. In a few years' time, you will not be able to drive a car that is not an electric vehicle or a hybrid, for example. That needs infrastructure.

If your point is that there is not enough being done there, you are right. As investment opportunities appear and as the market shifts towards that, people are more excited to go down that route. We have been down that route much earlier, particularly in terms of place-making and elsewhere, but that is where the opportunity comes. It will not be private on its own. You have to think of it as a partnership between private and public. We have discovered that, when that happens, it allows for very long-term partnerships, as we have done in Birmingham, for example, in rejuvenating Paradise Circus there.

Q207 **Felicity Buchan:** Do you see any current gaps in the market?

Saker Nusseibeh: The market is not covering the whole remit and we have to see a much bigger shift. I am a great believer that the market will go where the trend is going. That is why the work of this Committee and the public clamour for movement is important, because you need two things. First, you need permission to go down that route. Permissions are in the regulations and, by and large, there are permissions, but you need more assets going in there. You need co-operation with local government. Secondly, you need the opportunities to appear. That comes as part of a long-term plan by Governments to move down that route on a much wider scale.

Q208 **Felicity Buchan:** My next question is to Huw. Mark Carney noted in a speech in 2019 that only 2.5% of insurance assets were in infrastructure. Why do you think that is the case?

Huw Evans: It is because of the Solvency II regime and the way in which it was set up. The Solvency II regime was set up originally in the UK off the back of the Equitable Life insolvency and then the problems caused by the dotcom crash. Then it morphed into the EU-wide regime, which was finalised in the aftermath of the financial crisis. Unsurprisingly, its focus was on financial stability and policyholder protection. No one would argue that those two aims should be taken away from the regime.

They have ended up acting effectively as a straitjacket on the insurance industry's ability to invest more widely in assets that, in our view and consistent with the testimony given by the other witnesses, are safe for policyholders to invest in over the long run and do contribute to financial stability, not least because they are trying to make the world a safer and more sustainable place.

We want to see Solvency II reformed to allow greater opportunity for insurance and long-term savings providers to do what they can currently only really do at the margins. That is to invest in sustainable, long-term investments that both provide a very good, safe, effective return over the long run, but also play a part in creating the more sustainable environment that we all want to see. That is where some changes to the Solvency II regime under the bonnet are critical.

Q209 **Felicity Buchan:** Would you like to see capital charges being reduced for infrastructure assets, for instance?

Huw Evans: Yes. For example, the matching adjustment is the bit of Solvency II used in the UK in particular to ensure that insurers are not penalised for holding assets for a very long period, for example to pay out annuities. The matching adjustment provides a degree of capital relief for assets that are in it, but it requires, for example, that assets invested in it have a very regular and predictable flow of income. They have quite a lot of rules that you have to meet. Some of those rules are quite difficult to meet for some of the investments we are talking about, but are very easy to meet if you are talking about a high-quality corporate bond or a gilt.

The insurer, faced with the almost herculean task of trying to get an asset into the matching adjustment that is really not designed for it, or a corporate bond or a gilt, which is, invariably will go for the corporate bond or gilt. It is not about opening the gates of the matching adjustment; it is about prising them open a little and making it easier, more straightforward and more normal for appropriate assets to go in. I am sure Steve, who does this for a living, has better examples to illustrate the point. That is structurally the change we are looking to see.

Steve Waygood: I support everything Huw has just said. We are very big fans of the review of the matching adjustment. Rather than a pure brown-penalising factor or a green-supporting factor, which has been the debate in Brussels and has become quite a dead end, there should be a scaling factor that has consideration for the underlying asset's alignment with the Paris agreement, particularly the 1.5° scenario.

This is a problem because the prudential regime has tipped insurance company assets into old economy corporate bonds. Most of the sectors that seek funding through corporate bonds are quite carbon intensive, particularly fossil fuels, chemicals and autos. You also have telecommunications businesses and banks. The first three of those have benefited quite significantly from more insurance capital flowing towards them, which has reduced their cost of capital and enabled them to expand at a greater rate than they otherwise would have done.

This has created more physical risk in the system, with insurance company assets, and it is the physical risk that is harming the long-term business model of the insurance sector, exactly as Huw has said. At the very heart of the prudential regime is an imprudent climate mechanism. We need to redress that. At the moment, the debate in Brussels has become politicised, as they think this is not about prudential risk. It is about prudential risk. It is not a political issue about supporting a green new deal. We need to address this problem within Solvency II. I absolutely support Huw.

Q210 **Felicity Buchan:** That is very loud and clear. Let me move to Sandy on the asset management side. In infrastructure, we are looking at assets that are long term, often illiquid and potentially risky. Is this asset class appropriate for retail investors?

Sandra Boss: That is an excellent question. The asset class can be appropriate if it is structured correctly for some retail investors. I talked previously about the long-term asset fund idea, on which we have been working with the Investment Association. There is an active proposal that would say, "Let us take some of these long-term infrastructure products." There are plenty of projects out there. Right now, the institutional investors are getting them. They are not very accessible to retail. The key is to have a structure with the right underwriting standards, the right governance and mechanisms for matching the liquidity or illiquidity of assets with the liquidity expectations of investors.

Funds like this exist in other countries. There is something called Spezialfonds in Germany. There are interval funds in the US. It does exist. How could that be used? One way is being sold through a registered investment advisor who could give advice if it was to go directly to retail. The other way is as a default position in some DC schemes, so that long-term savers would get access to this product, but again with a vehicle that ensured it is appropriate in the round.

To do that, you would need to make a further adjustment, not only the FCA approving this type of a product, but you would have to adjust something called the permitted link. Right now, you cannot put this type of fund into a DC default unless you adjust this permitted link. It has to do with the levels of illiquidity. That is something to think about.

It is appropriate if it comes through advice. There need to be liquidity tests for individual savers. In a DC plan, it can be overseen by the professionals who make the decisions for the default fund.

Q211 **Felicity Buchan:** Let me go back to Saker for one final question on this topic. We clearly will not have the European Investment Bank investing in British infrastructure. Do we need to create a UK investment bank? Should that be publicly funded, privately funded or a combination of the two, as you suggested earlier?

Saker Nusseibeh: I am not an expert in that field, and I caveat my comments with that. We are broadly supportive of the idea. As we find our way post-Brexit, we have to realise that we have to make our own way and adapt. One of the ways that we should do so is to think about mechanisms that combine both public and private that can be utilised for long-term Government investment.

There is an issue here. Steve and Huw alluded to this. This is a 50-year issue that we are dealing with. The private sector can do a lot to think about 10 and 15 years, but there is an element where we are considering the national security of the United Kingdom over 50 years. That is where Government have to be part of this and part of the planning as we go forward.

Q212 **Felicity Buchan:** I have some questions on the UK as a centre for green finance going forward. Sandy, we have COP 26 coming up and that is a great platform for us to highlight the UK as a centre for green finance. What should Government be doing to promote our leadership role here?

Sandra Boss: It is a great question. The UK is leading on certain policy initiatives. The simple fact that the UK made an early net zero 2050 commitment, as a country, is incredibly stimulating for opportunity here. The City of London, as a centre for investment banking and finance, has been the centre of a lot of green financing, albeit often not yet in sterling. My one suggestion could be quite critical here. I hate to say "emulate the French", but there is €20 billion of French sovereign green debt, or €25 billion now with the latest data.

The UK should do a green-plus gilt. Everyone is nodding simultaneously. Everyone else is probably a signatory. It is a great opportunity. Investors are really seeking this kind of product. Corporate green bonds are trading at tighter spreads. It is actually cheaper for a company to finance with a green bond than it is for their traditional debt. For the country, that sounds like a good deal, but furthermore it could really stimulate more corporate green debt.

Earlier we were talking about infrastructure and whether you invest directly or in the old economy. There are a lot of companies in the UK where those of us who are invested in listed companies are, right now, indirectly investing in green infrastructure. More green bonds directly tied to that infrastructure would be a fantastic impetus for a lot of the change that we need to see.

Q213 **Felicity Buchan:** It seems to me to be a no-brainer for the DMO to be issuing green bonds, especially given that you have captive money, as Steve alluded to. You mentioned £6 billion for green initiatives. Why do you think the DMO has been reluctant to date? We asked that question in one of our previous sessions, and I did not feel as though the response was all that convincing. Do you have a view?

Sandra Boss: I do not have any specific insight into the thinking of the DMO. It has been very busy lately, because it has been a very challenging time. Hypothecation is a question that was raised. What I mean by that is the linking of proceeds to specific activities. Recently, there is more clarity that, as long as you have matched project with funding, that should not be an impediment, but it is possible that the detail really needed to be ironed out.

Steve Waygood: I would speculate that, when the World Bank started to issue green bonds, people asked, "What are the others, then?" The fear of that PR could be partly what is holding them back. I completely agree with Sandy's point. It is time for the green-plus gilt to be issued. UK citizens would do better for it.

On the broader question of COP 26, this is a huge opportunity. We are also hosting G7 next year. The two countries chairing COP 26 are Italy and the UK. Italy is hosting G20 next year. This is a very rare alignment of some very big geopolitical opportunities. I started going to COPs in 1999. I have only been to six, thankfully, but I have observed a massive change in investor interest in them, particularly in the last three years. The Paris agreement is a huge diplomatic achievement for the Foreign Ministers, but it is not a financial plan. It is a political vision and a political plan. Then there are political mechanisms that bring the plans together for conversation.

It is not a capital raising plan from each country, which we need to see in addition to the nationally determined contributions. It is not yet requiring financial institutions to set out what they mean when they say they support Paris. We have done TCFD reports now for four years. I am on the task force. It does not require that we align our portfolios with net zero. We should require all financial institution saying they support Paris to do more than just the TCFD report. They need science-based targets, to set out what capital they will put towards financing the transition and to set out their engagement strategy.

We need a Marshall plan for the planet, and the UK is perfectly positioned in the coming 14 months to make that vision a reality. At the moment, we are all scurrying around looking for the single big idea. We need something that brings this all together into a shared vision and a shared strategy. We have been advocating for some kind of international platform for climate finance and have enjoyed good conversations with officials at BEIS, the Cabinet Office and the Treasury. It is very early days, but we think we have a very big idea and there is a coalition of others working alongside us. Some 70 people now turn up to phone calls every few months to discuss what we could do to support these policymakers deliver a really big COP 26.

Q214 **Felicity Buchan:** I have time for one quick question, so let me just bring in Huw on this topic. We have talked about what Government can do to make a big deal of COP 26. What can the finance sector do, apart from the great big idea that Steve is tantalisingly alluding to?

Huw Evans: To pick up where Steve left off, we can contribute on the how. We have the what as a result of Paris; we do not have the how. The big prize for COP 26 is to chart that roadmap, the how. From a financial institution perspective, we are in a position to inform what is doable if certain decisions are made. That goes back to the green-plus gilt proposal. As a sector, we can make commitments that if the Government were to issue such a gilt, such a bond, over a period, institutions could make commitments to do it, which may be a way of encouraging the Government to actually get behind it.

If the political decision-makers move forward to a certain point, in particular if they seek to resolve some of the trade-offs that currently exist and push together some of the currently divergent strategies and standards that we have, our role is to provide some confidence that that is worth it and that we can get in behind it quickly, start to act and invest accordingly.

Q215 **Julie Marson:** I would like to follow on this theme of how the finance sector can best support the UK's transition to a low-carbon economy. I would also like to mention COP 26. Maybe I could start with Saker, please. We have touched on this already, to a certain extent. I would like to refer specifically to the Bank of England's COP 26 private finance agenda. I am going to quote from its objective, which is specifically—it is very ambitious—that "every professional financial decision will need to take climate change into account" and that "every company, bank, insurer and investor will need to adjust their business models for a low-carbon world." What are asset managers doing to educate and influence the companies you invest in? To what extent has the virus helped or hindered the work towards sustainable finance?

Saker Nusseibeh: There has been a huge amount of movement, particular in the United Kingdom, towards integrating the E part of ESG, as well as others, into mainstream investment. We are not yet at a place, with the exception of some firms—Aviva is one of them—where ESG is integrated in everything firms do. But people are coming towards that place. That is the very first thing that asset managers should do.

The second thing that asset managers should do is, essentially, work together to try to move the whole system. The reason we should do so is twofold: first, it is the right thing to do but, secondly, we have an advantage. The United Kingdom, as you have heard from Steve, is in a particularly good place. To put it into perspective, Europe is essentially bound by what the EU does, but it does not own an asset management business as advanced as the United Kingdom's. The United States does have an asset management system that is as advanced, but it is way behind in that argument. Therefore, the United Kingdom is uniquely placed, where the two can come together. That is the way forward, and it is obvious to me that people have moved there.

Secondly, the consumer and society are moving there. We recently did a survey among IFAs, independent financial advisers, and more than 80% said they had been approached by their own customers, asking them about this.

The third element is a matter of advocacy. I do not mean simply advocacy with the regulators or with Parliament, but general advocacy out there. The key point to make there comes back to Steve's point. How can you invest if you do not integrate a low-carbon output? How can you do it? This is not a sensible, rational investment to make. How can you invest without being green? It does not make sense. How can you invest without, effectively, trying to achieve an output that is holistic rather than specifically just a cash flow output? This is about education, not of consumers but of all of us, about where we stand. If we do that, we have an opportunity, post-Brexit, for the asset management industry in the United Kingdom to take a leading stance versus others.

Q216 **Julie Marson:** That is very helpful. The other part of the question is whether you think the virus has helped or hindered the process.

Saker Nusseibeh: My view is that the virus has helped the process. It has helped the process in two ways. First, it has allowed us as a society to engage in a very important discussion. What is it that we value more? Do we value nominal GDP growth, or do we value communities? That is a discussion that, right now, you in Parliament are grappling with. There are difficult decisions. It is a discussion that the whole country is undertaking. By and large, we are seeing the people whose money we invest saying, "No, we understand the values of community and long-termism." Therefore, there is more movement.

As Sandy has said, there has been an increased flow into ESG funds, which is slightly counterintuitive, but it is true. It is partly that the performance is better, undoubtedly, but partly that people have realised there is something important about looking after your community over a long time.

Sandra Boss: Saker is right that the UK is uniquely positioned to think about this. Speaking as a US asset manager, but one that has $700 billion of assets managed for UK investors, we have been pushing—and I agree with Saker that it is quite important—for the common disclosures that can really be a foundation for how investment can take off. We need as investors to understand what is going on inside the companies we are invested in. The Task Force on Climate-related Financial Disclosures was mentioned previously. This is something that we and other investors have been advocating. We are all looking for something similar. The UK is clearly a leader in expecting to make it mandatory. At least, we have recommended to the FCA that it be mandatory as soon as possible; we would like 2021.

It is also about the whole ecosystem of standards and trying to bring that together so we really have a common understanding of the risks that companies are facing and how they are managing them. Then we can build investment products off that. We have been promoting the Sustainability Accounting Standards Board standards. We have seen a 400% increase this year, in no small part because we said at the beginning of the year, at BlackRock, that we wanted to see that. The point I am making is that, as investors, we can really advance that.

I completely agree with what Saker said about the need for risk analytics. You cannot have risk analytics if you have no data to analyse. We all should be embedding ESG considerations into every single one of our processes. We are 86% of the way through that journey on active, going to 100%. As Saker was saying, Aviva is already there. Many of our asset managers are on that journey, and that is what we will need, because climate risk and other sustainability risks are becoming incredibly significant, just like market risk, credit risk and all sorts of other so-called traditional risk factors. Those two tools are incredibly important for us to help with this transition.

Q217 **Julie Marson:** I want to follow up with you, Sandy, on a particular sector. It has been estimated that the UK's built environment—that is commercial and residential property—accounts for about 40% of our carbon emissions. Low-carbon retrofits are a big priority. Asset managers, pension fund managers, are large-scale owners of commercial and residential property. What are fund managers doing to contribute to decarbonising those buildings?

Sandra Boss: It is a good question, and I imagine others have a similar list. First, to the extent possible, we design with efficiency intent. You do not want to destroy existing buildings, because the carbon effect of destroying and rebuilding is substantial, but if you can get in early to design that is incredibly important.

Secondly, we are focusing on the efficiency of those operations. What can be done to ensure that the windows are airtight and lighting is being used appropriately and sequenced, turning on and off at the right time? All those little practical things make that building use energy more efficiently. The third thing is trying to get those buildings on renewables. We have a goal of having all the buildings in our property portfolio use as much renewable energy as possible. That cannot be done yet for every single property, but we are heading in that direction.

Finally, we believe that, for property owners who want to push their properties down into a low-carbon position, sometimes offsets can be very appropriate. In the round, we and other building owners need to be investing in all four of those streams. We cannot just be sitting there and expecting that operating companies will do it but properties will not. It is very important.

Q218 **Julie Marson:** Perhaps I could turn to Huw and reference the Prime Minister's ambition in his speech last week about offshore wind. The contracts for difference auction is next year. Do you think this is going to be enough to build all the floating windmills that the Prime Minister would like to build, to bring private finance in?

Huw Evans: Not entirely. We would certainly like to see them built, but the Solvency II reform that I talked about before is critical to unlocking significant flows of investment from the insurance and long-term savings sector. For the reasons I have already outlined, and I will not repeat, without those structural changes to the Solvency II framework, there simply is not enough opportunity for that sort of money to get through the very narrow gateway I described. The appetite is certainly there. The appetite is there to invest in wind. There is already some insurer investment in debt financing for wind, including offshore wind farms and solar farms. In a recent case, one of my members has invested in a solar farm in southern Spain up to 2041.

You can see how far in advance these investments can go and the huge potential that they have when you find a way round the system. Really, we need to stop having to find a way round the system and have a way through the system that is fully compatible with the wider regulatory objectives of financial stability and policyholder protection. Then we can play our part in making the Prime Minister's vision a reality.

Julie Marson: That is brilliant. Thank you very much.

Q219 **Rushanara Ali:** Good afternoon and apologies that I was not able to be here for the whole meeting. I had another urgent meeting that I needed to attend. I want to focus on just transitions and risk issues. My initial questions are for Sandy and Saker. BP's CEO Bernard Looney announced in February 2020 that the oil and gas giants would reinvent themselves for the green era, but we know their future is not necessarily going to be bound up, in the same way as others, with net zero, at least not in their current form. What would be the impact of that transition on regional economies and jobs? How do we need to approach this to ensure that there is a just transition?

Already we are seeing differential impacts. We have seen demonstrations and protests in France. We are starting to see, certainly in constituencies like mine, some of the positive changes that are being made having a knock-on effect. For instance, if you are a cabbie in my constituency you are caught between a rock and a hard place, between some of the changes and the immediate impact on your wages. What do we need to do? I am giving you a micro example of those issues and the costs of transition. How do we approach those issues? If there is any repetition, do not repeat. Just add to what you have been saying.

Saker Nusseibeh: Let us start with the basics. A just transition is a necessary risk mitigation of that move. It just is common sense, and it extends beyond our shores. Unless we have a just transition in countries that border Europe, to ensure that they mitigate the move towards a low-carbon economy, we are going to have massive immigration pressure, which is going to have its own effect on our own economies, social cohesion and so on. Within our own economies, you are absolutely right, Rushanara, that there is an issue here. The cabbie is a beautiful small example. Does the cabbie invest £65,000 in a brand new electric cab, which is a lot of money, in the midst of a Covid crisis in which she cannot find the fares to pay for it? Where is the infrastructure? How does she cope with that as the shift goes?

That is where we have to ensure that, as we move forward in terms of investments, as companies like BP change their model and as we invest in infrastructure, Government action is also taken beside that to ensure that particularly the more vulnerable in society are protected from this, and that we invest enough in alternative employment and income streams to ensure a just transition, so that the divisions that we know exist in our country do not become wider still.

Sandra Boss: I would echo what Saker said. Taking the example of a big company that needs to make that kind of a transition, there are losers, people who will lose employment, and winners, people who might get the opportunity to work in a new renewable sphere. It first behoves the company to think about how it can create employment opportunities associated with renewable energy.

There are two ways to think about the people who are going to be displaced and lose their livelihoods in the context of this transition. First, we increasingly see—and the Covid crisis has made this incredibly clear—that companies understand that, as they manage this transition, they have a social licence with all their stakeholders, and that they need to think about how they manage that transition from a private sector perspective as best they can, in terms of appropriate arrangements for workers who lose employment, thinking about retraining or redeployment. There is a private sector responsibility.

On the public sector side, Saker talked about a variety of mechanisms that could be brought in. One of the key questions is how you pay for that? I know the UK is thinking about what kind of emissions tax programme you might set up. There is an interesting question about whether there is a funding mechanism that can help with the just transition. The emissions structure—and I am not an expert in these structures—would need to be one that would bite and that would be relevant in facilitating the transition. It may then fund beneficial reinvestment in some of those who are most displaced. It will be a very difficult time, and not easy coming on the back of the Covid crisis.

Q220 **Rushanara Ali:** On financing, with the International Energy Agency estimating about $3.5 trillion needing to be invested in the global energy sector each year up to 2050, how much transition finance is needed to transition the whole economy? How should Governments be approaching these sorts of big number challenges to meet the target, in both the medium term and the long term? It seems to me that successive Governments have tended to be good at making long-term commitments, but when you look carefully we all fall short, across different countries, of meeting the year-to-year, medium-term targets.

Sandra Boss: I could respond with the idea that it needs to be publicly seeded, but private capital must be the solution. All Governments right now have had to go into an unprecedented financial deficit position in the context of the Covid crisis, so there is no way that the public sector can magically finance this incredible, multi-trillion investment challenge. I think it was Steve who talked about a green national bank or a green infrastructure bank. The European Investment Bank structure was quite constructive. Where public finance can be most helpful is in turbocharging or seeding bigger projects, mobilising some of that private capital.

Thinking about a structure where the public might take guaranteed positions, or pieces of investment that are not appealing to a typical private sector investor, is an opportunity. Huw has just told us about locked-up capital that is waiting to do infrastructure investment. That is one angle. I have mentioned this long-term fund. It is about those steps, the green investment bank, Solvency II and the long-term asset fund.

Q221 **Rushanara Ali:** That is brilliant. Thank you. To the point that was made about what Huw said, are those interventions likely to be adequate, between the green investment bank, EIB and other institutions, in releasing funds to meet that challenge? Those are big numbers.

Steve Waygood: They are necessary but not sufficient. I agree with all the suggestions that have been made. We need to be thinking even bigger and bolder than this, though, given the pace and scale of the challenge, if we are to decarbonise at 7.6% per annum between now and 2050. This is a very, very big ask. We touched before on COP and the opportunity that that offers, as well as the G7 and G20, being one of the two co-hosts. The green finance strategy, which was cutting edge at the time, is now a few years old in terms of when it was prepared and written—not published. It is already time to update it. I was on the task force that advised those who were writing it. We were not allowed to look at fiscal measures. We now need to revisit that. As Sandra was saying, fiscal is absolutely key here.

In Europe, we now have the sustainable finance action plan, a green new deal and an investment plan for that green deal. We do not have the equivalent documents in the UK yet. We do not have a plan. We need to set out what the nationally determined contribution is, which has been done. What specific infrastructure needs to be built? What is that going to cost? Where it actually produces revenues, it can be securitised. How will it be securitised, to whom, what asset classes, which asset owners? What is the plan? If it was a company, it would have a capital-raising plan. Where it cannot be securitised—let us imagine it is a dam, for example, which does not directly generate revenues—it needs to be funded through the state, through gilts and perhaps green bonds. A structured approach to that, a plan that is delivered and monitored, is missing. Europe is now ahead of us. I hate to say that, but it is true.

Huw Evans: I agree with what has been said. To frame it, this is about what Government can enable as well as what Government has to do. Some of it, the Government has to fund, but it is not all about saying, "If only the Government would write a huge cheque, everything would be solved." I mentioned earlier how Flood Re happened because the Government enabled it, but the insurers paid for it. The Government can issue sovereign debt, in which it is very adequately invested, at an effective cost to the taxpayer. It can enable insurance investment through reform of Solvency II. It can enable a much greater and more productive use of capital through an investment bank to mirror the EIB, as Sandy was outlining.

There are a number of things here wrapped up in a revised green finance strategy, as Steve talked about, where the Government can enable so much that comes from the private sector. At the moment, because financial services is so regulated, there are all sorts of constraints and guardrails that have to be moved out of the way.

Sitting suspended for a Division in the House.

On resuming—

Q222 **Rushanara Ali:** I want to focus on a couple of specific questions. This one is for Sandra. In one of the hearings I raised some issues around investment in fossil fuels. Could you take us through some of that? Your chairman, Larry Fink, told CEOs in a letter this year, "We will be increasingly disposed to vote against management and board directors when companies are not making sufficient progress on sustainability-related disclosures." Can you talk us through your criteria for making such a move and when that will start in practice? You will be aware, perhaps—this is something I raised in one of those sessions—of the story that came out related to the investment that is doing damage to the Amazon, with deforestation scandals and so on. I know this is a slightly awkward question, but it needs to be addressed. If you could talk us through those two areas, I would be very grateful.

Sandra Boss: Yes, Larry announced in January 2020 that we were putting sustainability at the heart of everything we do, stewardship being one of those things. This year, we asked companies to report using the

TCFD framework, as well as SASB-aligned metrics. The TCFD framework we selected because you have to actually manage climate risk in your governance and your risk management. You need to have strategy and metrics to produce a disclosure. We identified 400 companies that we thought were the most carbon-intensive in our portfolio. We have had extensive engagement already, with 1,200 engagements on environmental and climate issues this year. In doing that, we focused on whether we felt the companies had made sufficient progress, as a function of where they ought to be from an industry perspective and dialogue we had had to date. This only came out in January.

Immediately, in this voting season, we did two things. First, we took 61 votes. It was 55 companies. We said, "These companies are not yet doing as much as we think they should be doing," and either we voted against directors or we voted in favour of shareholder proposals. We were the first company to really use voting against directors as a lever. That is a tool we have across all our markets. Shareholder proposals tend to be isolated in a few countries, particularly the US.

Secondly, we created a watch list of 191 companies and said, "These companies are not yet meeting our expectations. We will wait until the end of 2020. If we are not satisfied with what we are seeing, we will consider voting against them in the next year." These companies are all very attentive to the dialogue they are having with us and with other investors about their need to manage climate risk. We think that has been a real sign of the commitment we have shown.

You asked a second question about deforestation. We have an explicit policy on deforestation. We engage actively in countries such as Brazil, and countries in south-east Asia, on deforestation. Almost all the companies where we have investments are controlled by either state actors or family actors, so we are very much a minority investor. We use the influence that we do have, even though we are a small investor. We do two things. First, we engage with those companies, which we have done on multiple occasions. Secondly, we often vote against directors. Particularly in Brazil, there are several situations where we have voted against directors. We also look to what the multinational companies are doing on deforestation.

There was an announcement today about the Procter & Gamble vote, where they were facing a deforestation-related proposal having to do with palm kernel oil. That was one where we voted in favour of the shareholder proposal, because we felt that this company had a high expectation from society and its stakeholders in terms of what it was doing in sourcing palm oil, and it had not quite met our expectations.

Q223 **Rushanara Ali:** You are not a minor player. You are a major player, along with Vanguard, State Street and the others named in the report that came out last year. There is a Government-to-Government level dimension to all of this, but do you feel that you, along with other companies, are doing enough to get a grip on these issues? The Amazon contributes 20% of oxygen to the world, and there are grave concerns here. Can we have confidence that the private sector is playing the right kind of role, using all your might, influence and finances, alongside Government? There is plenty to criticise Governments for, both in Europe and in the emerging economies. Are you doing enough?

Sandra Boss: When I look at what we and other investors are doing on climate change, I feel very happy about the progress. There is much more to do, so do not get me wrong. We are moving in a direction that increasingly Governments are moving in as well, so I feel like that public–private partnership is working. It is more challenging when we are operating in a country environment where we cannot count on the rules and regulations, and the enforcement of those rules and regulations, as we would in the developed world.

Q224 **Rushanara Ali:** Why invest? Why play? Why not walk away? Is what you are doing enough to save the planet? I want to ask that question to others as well.

Sandra Boss: Right now, our holdings in the companies that you are referring to, where deforestation is a major risk for their business models, in some of these developing countries, are typically in index investing. A client says, "I would like to invest in index XYZ." That contains a holding. When they do that, we are contracted to invest in that company on behalf of the client. The client makes the decision. That is the index that they choose, and we then need to match the index. There are three things that we can do there. First, we can talk to all our clients about sustainable investing and suggest products that screen out the kinds of companies you are talking about.

Secondly, we can engage with the companies and see if we can influence them, using whatever influence skills we have. The third thing, though, is actually working with the index providers. When we find that there are companies that, increasingly, clients do not want to own, index providers have the ability to remove companies from their index-related products. We are really working on all those levers to have the effect that you are looking for.

Q225 **Rushanara Ali:** Steve and Saker, is enough being done to save the planet?

Steve Waygood: No, it is not. Collectively, as fund managers, even if we all work together, as many of us are—those of us here are working together—we cannot replace Government action. We need to work in concert with Government to create the transition, to power the transition, through engagement, through our vote, and to correct the market failures. At the moment, even though there are 1,800 policies around the world on climate risk alone, we are still heading towards a 4° future much more rapidly than 2° or 1.5°.

It remains the world's biggest market failure. The corrections that we need stem from the treasuries and the Finance Ministers around the world. We can help and support that. I am very proud of our engagement record. We go back to 2001 on climate voting. Just to gently correct something that Sandy said earlier, we have been taking voting action on the re-election of board members as well, since 2008.

A colleague of mine, David Cumming, the CIO for equities, was speaking to the Brazilian Environment Minister a few weeks ago, with other investors too, raising our concerns about, as you put it, the lungs of the planet, and what is clearly an extremely poor, suboptimal situation. We all know about the species loss and the environmental degradation, whether it is fisheries or agriculture, and this abyss of unsustainable economic growth that we face. We cannot address that by ourselves. This is why the green finance strategy is so incredibly important.

Saker Nusseibeh: I will be brief and maybe a little controversial. I completely support what Steve and Sandra said. The pool of developed world savings is between $70 trillion and $80 trillion, roughly speaking. That is already out there, so you are not generating new capital. When people buy and sell shares, you are not allocating capital. You are simply buying and selling shares. By the way, a lot of the companies that you buy shares in actually create the capital, be they banks or others. The only instrument you have in your hand is your ability to convince them that it is madness for us, as a species, not to decarbonise quickly.

I want to bring it back to the just transition. There is another danger about deforestation that we have to be careful of. Somebody mentioned carbon credits earlier. There is a danger that we end up, in trying to meet the carbon credits in the developed world, going into the developing world and imposing tree planting, effectively, with little regard for local communities. We feel good about what we have done, but in the process we have not been entirely fair to local communities, particularly in west Africa, where this might be happening. It is a complex one. I agree with Steve: all of us should take a position on this. We all have to acknowledge that no one is doing enough at this stage if we are to avert what might happen.

Q226 **Mike Hill:** My section is on the future of carbon pricing and divesting from polluters. Saker, should the Government increase the carbon price to incentivise a change towards a less carbon-heavy business model?

Saker Nusseibeh: That is a very good question. The carbon price should come up. As for whether the Government can effect such a change by unilaterally changing the carbon price in the United Kingdom, I am less convinced. This perhaps has to be agreed in the G20. We have got to a situation, which is a good point, where people accept the idea of carbon pricing as a prelude to a carbon tax. Two years ago there was a meeting in the Vatican between oil CEOs and some asset managers, including Mr Fink in the first meeting. At least by the second rmeeting, they had accepted the principle. This has to be a concerted, worldwide effort, rather than a single-country effort.

Q227 **Mike Hill:** I appreciate the answer. Obviously, the economy is only just recovering from a major downturn and we still have the virus among us, so when would you suggest such a change?

Saker Nusseibeh: Incentivising a move to something that is exciting, that is new technology, that is clean, that is safe is a good move, provided we take into account the just transition and we look after the parts of our community that are going to be more vulnerable. This is an opportunity. Let us not forget that the United Kingdom has many advantages over others. Our technology corridor between Oxford and Cambridge is world-leading. We tend not to speak enough about it. The financial sector, as we have talked about, is world-leading. Rather than look at this as something that might dampen growth—it will have an effect on some sectors—we should see it as an opportunity for other parts of the economy to grow, new skills to be developed and new employment to be found.

Steve Waygood: Sandy talked earlier about hypothecation. We have a carbon tax in the UK, but it has not escalated in the way it was originally intended to. It is time now to revisit that escalation and to hypothecate the revenues to those communities, households and individual workers who will suffer as the transition takes place. There are clearly going to be others, who are the winners within this mix, but we need to protect the workers, retrain them and ensure their pensions are secure. Tax hypothecation needs to be revisited. As I mentioned earlier, that kind of initiative was off the table when we were looking at the green finance strategy for the Treasury a few years ago.

On top of the price floor that the tax would offer, carbon trading would mobilise and motivate the right kind of behaviours in the market. On top of that, as we are recommending, it is really important to internalise the externalities at the source of the problem. That is the economic jargon. It just means making sure that people who generate the cost pay for it, so that when we are evaluating the company's revenues we price the company properly and its cost of capital reflects its cost of carbon, and therefore the market works properly. That internalising of the externalities is done through the tax, through the trading scheme and through regulation. The bit that is missing at the moment is enough money to finance carbon capture and storage at the scale we need to see.

The place to make that internalisation is the fossil fuel sector. If you required them, using the extended producer responsibility regulation, to finance the recovery of their scope 3 emissions, or a fraction of them that escalates, you will start to see huge money flowing into CCS, internalising the cost of carbon at source. As with the IMF, this needs to be done in a carefully choreographed fashion. We need to see climate-friendly global growth, but we do need to see global growth. That combination of those three things orchestrated together, the tax, the trading mechanism and those kinds of regulations, would internalise the externality at source and make the market work as it should. That has to be where we start: making sure that carbon is priced properly.

Q228 **Mike Hill:** I firmly believe there is going to be a massive push on CCS and the conversion of oil and gas to facilitate that. Saker, in September the UN special envoy for climate action, Mark Carney—we all know him—launched a private sector task force to scale up voluntary carbon credit markets. What is your view of the proposal to scale up carbon credit markets, and would a global price for carbon help or hinder a green recovery in the UK?

Saker Nusseibeh: The first one is straightforward. It is a wonderful idea and we fully support it. I would go back to something that Steve said, in passing, we should concentrate on. The market is evolving. As we are talking about carbon credit, let us talk about scientific carbon credit as opposed to what we have now, and sequestering rather than simply buying and selling pieces of paper, carbon credits, so that we have a real offset of carbon. That is the first point. As we build that, we will start to physically bring down carbon. In everything we do in my firm, going back to the guys who started it, we are interested not so much in what looks good but in the real outcome. The real outcome we want is a reduction in global warming. That will help it.

Will it help or hinder growth? Undoubtedly we are going through a massive hit to consumer spending at this stage because of the shutdown we are facing right across the world. Very clearly, lots of people are going to face hardship as the furlough schemes unwind. It does not mean that we cannot lay the foundations for economic growth out of this that is green, and if Government put the regulation and the leadership in place, it does not mean that that cannot have within it elements that look after those who are less well off so that we all move forward together. This is a long-winded way of saying to you, Mr Hill, that, yes, we should do it and it will bring growth, but done the right way.

Q229 **Mike Hill:** Thank you for the explanation. Sandy, increased carbon pricing might incentivise investors to disinvest from high-carbon sectors. However, given the urgency of the climate emergency that Parliament declared in 2019, should asset managers not be moving more quickly to disinvest from these sectors?

Sandra Boss: That is a good question. We are providing ourselves and, increasingly, our clients with tools that test the effects of different carbon pricings. We have a carbon-pricing tool that is incredibly important. It shows that companies that are carbon intensive will fare less well from a financial perspective in the context of these types of instruments. That then informs our investors in terms of what they want to hold in their active portfolios. It informs our dialogue with our clients, as we are suggesting to them ESG strategies that lean towards companies that are managing their sustainability challenges well and away from those that are not doing so.

We are seeing the culmination of disinvestment actions by some, shifting products towards sustainable products, as I mentioned earlier has happened in the Covid crisis. We are already seeing a change in the cost of capital for the most carbon-intensive companies. Some of them are facing existential crises. In particular, many investors, including BlackRock, have disinvested from thermal coal. It is really having an impact on their market capitalisation and viability.

The analytics are vital. The change in investment appetite is very, very important. Where we are invested in these companies, we should engage much more intensively and with urgency. To Steve's point about taking director votes in 2008, director votes in climate, as a mechanism for making sure that the companies that are not transitioning are hearing our concerns, are a really important tool that all investors should be thinking about.

Q230 **Mike Hill:** I really hope this is not taken as a cheeky question, but BlackRock has committed to stop financing coal by the end of this year. Why have you and other major leading asset managers continued to finance coal and other fossil fuels since 2015?

Sandra Boss: Specifically on coal, we made a commitment in January. I will admit that I showed up in May, but the commitment in January was to stop financing coal in the context of all our active portfolios, equity and debt. We did that. We have now introduced coal screens in any of the products where we have discretion over the formation of the product. Increasingly, we are doing this. As we discussed before, if a client says, "I would like to buy an index that contains coal. I do not want an ESG structured index. I want that index", there are places where, in the legacy portfolio, that still exists. We are engaging in the conversation and discussing our concern. Coal, in addition to the climate concerns, from a risk return perspective is a risk that we do not advise our clients to be in, but it remains in the indices in some cases.

Q231 **Mike Hill:** Therefore, given the environmental and stranded asset risk, when will you and others cease to fund oil and gas?

Sandra Boss: That is an important question for all of us. Everybody in this room who is an investor has investments that include companies like BP, which is an oil and gas company that is making the transition. We offer a product set. If someone says, "I do not want to invest in any fossil fuels," we have that offer. That is the conviction of some of our clients, but most of our clients share our view that there is an appropriate investment strategy in oil and gas companies. Many of them are managing the transition very well. Those that are not managing it as well are increasingly finding their cost of capital goes up, so over time our clients' assets are ever so gradually shifting towards the superior performers on sustainability.

Steve Waygood: To add to what Sandy has said, I strongly believe that divestment should be the last course of action, not the first. Divestment should represent the end of a failed engagement process. We should use all the rights at our disposal—Sandy has referred to a few of them—to effect and power change. The answer to your question, "When will investors cease to fund oil and gas?" is, "When it is made to be a bad investment." The way it is made to be a bad investment is by Government doing the transition plans towards net zero effectively, soon, and internalising the cost of capital where it should belong. We are big investors in BP. Given its new strategy, we expect to continue to be. If it is successful, it will be reducing global emissions per year by more than the UK's current emissions by 2050, which is incredible.

Sandy mentioned this earlier. I have been engaging with BP since 1999. I recall it going beyond petroleum. We have seen this before, so we need to be a little circumspect as to whether it will deliver. To power the transition, you do not do that by walking away. You do that by being a patient owner and voting with your vote before you vote with your feet. Part of me would love to put all our money into the fossil fuel sector so that we have more position and greater power, and can mobilise them more rapidly, but that is clearly not a very sensible investment strategy. That is to make an extreme point. The divestment calls to action are not calls to action at all. We need to use our voice and our vote, and to work with you, as we are here, to power that transition by correcting the market.

Q232 **Mike Hill:** That is very interesting: good influences. In the next section on regulations and climate risk, I would like to start with Steve and Saker. The Financial Conduct Authority and the Bank of England—I think this was mentioned earlier—have sponsored the creation of the Climate Financial Risk Forum, which issued guidance to the industry in 2020. Can you explain your work on this forum and why it is important?

Steve Waygood: A colleague of mine is on the forum. We believe that climate risk is one of the most significant long-term risks that our business faces. Indeed, it is an existential crisis, at its most extreme, for the entire insurance sector. Our board, the risk committee and the governance committee frequently consider it. Out of six risk committees last year, four had climate change as one of the discussion items. Most people spend more time talking about transition risk, but it is the physical risk that represents the greatest challenge to us, because there will come a point where the price of the product we sell is unaffordable and uneconomic, as a one in 200 risk becomes a one in 20. After all, who do we know who would pay 10% of their house price to insure their house? That is the kind of challenge we are up against.

The forum is excellent, but it is time for the Chancellor to write to the FCA and issue its remit letter, making it clear that the Paris agreement is part of its remit. That was expected, following the green finance strategy, but not all the remit letters have been sent, particularly that one. It is time to do that.

Q233 **Mike Hill:** Saker, what has been the take-up of this guidance?

Saker Nusseibeh: The guidance is very interesting, and we have seen very strong take-up and co-operation. It has concentrated all participants on the risk aspects of climate, right across all their investments. That was clear in the work. It brought together colleagues from across industries, asset management, insurance and so on, to think about it. I still say what I said a few minutes ago: not enough is being said about the opportunities. These opportunities are there for us to take. That is where I hope the forum will go next as we come together. It is fine if you highlight the risks in investments or companies. Let us talk about the opportunities that exist for us to create employment and income for the United Kingdom by looking at this from the other side.

Q234 **Mike Hill:** My final question is to Huw and Sandy. Unlike the Bank of England, the FCA has not yet incorporated climate risk into its approach to supervision document, nor has it been identified as a priority risk in its 2020–21 business plan. Do you feel the FCA supervisors understand the material financial risk to consumers arising from climate risk, particularly stranded assets risk?

Sandra Boss: I have a lot of insight on how the PRA used to do this, because I was at the meeting of the Prudential Regulation Committee when we decided to create the forum. I do not have that much insight into the FCA's supervision and policy on climate, but I would say that this is a matter of time. The remit letter was mentioned. If that were to happen, that would certainly be relevant.

Where the FCA is most pertinent on this topic is its opportunity. It has a proposal out right now to ask for TCFD disclosures from corporates, in its capacity of overseeing listed companies. It has been forward thinking in being the first regulator to contemplate asking for them. We think it could go faster. We would like it to ask for them in 2021. We would like to see it making this a requirement for all listed companies, not just the premium listed, and we want to make sure it is a requirement, not just a soft "comply or explain". What the FCA is doing is important, and it is ahead of other countries, but I imagine this will be an area of active focus for it in the years ahead.

Q235 **Mike Hill:** That is a powerful answer. Huw, do you think the Government should step in and impose a requirement on the FCA to consider climate risk more and more in its work?

Huw Evans: As part of the Government's review of the regulatory framework, they should look at both regulators' statutory objectives having a more explicit responsibility for climate change and for the development of the appropriate policies that could come underneath that. These are regulators. Their job is to enforce the rules, so they tend to follow the rules themselves. In particular, they tend to stick very closely to their own statutory objectives as set out by the Government and agreed by Parliament. If you want real change, and change on a day-to-day basis within regulators, it has to be reflected in the statutory objectives.

Otherwise, what tends to happen—and we see this with the PRA over Solvency II—is that the primary statutory objectives, in the PRA's case for financial stability and policyholder protection, are the trump cards that trump everything else. If you have that, climate change inevitably is lower down the pecking order, and it can be harder to push it up. Frankly, I would like to see that reflected in the statutory objectives for both regulators, and then it would start to cascade down, Mr Hill, in the way you describe, particularly in supervision.

My view at the moment is that the PRA is further ahead in this being part of its regular supervision programme. We have seen that with its programme of stress tests, which are excellent. It did one last year, and it is planning a climate-only stress test next year, which we fully support. We have seen it in its work on the forum, as has already been mentioned, and I will not repeat that. We have seen it in the PRA setting out expectations for firms last year, which resulted in the creation of senior management function roles in the major firms, which are themselves a powerful driver for change.

Steve Waygood: I was so pleased to hear Sandy say what she said about the TCFD vote. I completely agree with Huw in relation to the mandates. What we would like to suggest is not just TCFD reports being mandated by the FCA, important and good though that is. I should reiterate that I am on the task force, so this is coming from an inside perspective. This is not the task force's view; this is mine. Comply or explain will only work when you have proper oversight by investors of either the compliant report or the explanation. As you will know, at an AGM in the UK certain issues are standing agenda items, for example the remuneration policy, re-election of individual directors and so on. We believe the TCFD report itself should be an advisory vote on a standing basis at company AGMs.

That would create the right kind of oversight and the right stewardship environment, because not only do we get to vote and voice concerns specifically on that issue, but we are then under some oversight ourselves, from our clients and other stakeholders, on how we have voted. If the whole of the TCFD oversight is buried in the broader report and account vote, that voice will be dulled. As the FCA is considering making this change, which we think is very welcome, perhaps it is also time to change the company law environment so that companies put that report or the explanation to the vote. We have seen it work well in other areas. The UK has a very proud record in this space of comply or explain. It will not work in every jurisdiction, but it will work here. But we need the vote.

Chair: That brings us to the end of this session. I thank our panel very much indeed, particularly for bearing with us during the Division we had a little earlier. These are hugely important issues, as we all know, with climate change. It is encouraging that there has been such an appetite among your organisations to look very carefully and closely at what you can do to help us towards net zero in 2050. As this discussion has shown, there are many strands to this. A lot of work and progress has been achieved, but a lot of progress is yet to be achieved. Sandy mentioned the issue of ESG-related financial disclosures being important, to get that information out to investors. As a Committee, we looked at that in quite some detail in an earlier session.

There are some areas for reform and, Huw, you might have mentioned Solvency II at some point. I was not quite sure; perhaps it was mentioned six or seven times. You have certainly landed important points around that. Also what have been interesting are the exciting areas of innovation. Saker, thank you very much for your comments on green gilts and the various other things you discussed. Steve, it was very interesting that you raised the issue of fintech and the possibility of apps being able to direct investor influence in the way you described.

Perhaps I could finish by thanking you for all you are doing and for sharing your expertise and insights with us. Given the organisations you represent and who you are, it was not surprising that you made a very considerable contribution to our discussions today. Thank you very much indeed.