



Select Committee on Risk Assessment and Risk Planning

Corrected oral evidence: Risk assessment and risk planning

Wednesday 24 March 2021

10.15 am

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Members present: Lord Arbuthnot of Edrom (The Chair); Lord Browne of Ladyton; Lord Clement-Jones; Lord Mair; Baroness McGregor-Smith; Lord O'Shaughnessy; Lord Rees of Ludlow; Lord Robertson of Port Ellen; Viscount Thurso; Lord Triesman; Lord Willetts.

Evidence Session No. 16

Virtual Proceeding

Questions 163 - 175

Witnesses

I: Eoin Murray, Head of Investment, Hermes Investment; Joanne Holden, Chief Investment Officer UK, Mercer; Kate Nicholls, CEO, UKHospitality; Leigh Pomlett, President, Logistics UK; Dr Adam Marshall, Director-General, British Chambers of Commerce.

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Examination of witnesses

Eoin Murray, Joanne Holden, Kate Nicholls, Leigh Pomlett and Dr Adam Marshall.

Q163 **The Chair:** Good morning and welcome to this morning's session of the Lords Select Committee on Risk Assessment and Risk Planning. This morning, we are looking at the views of business and investors. We have five witnesses: Jo Holden, the UK chief investment officer of Mercer; Adam Marshall, the director-general of the British Chambers of Commerce; Eoin Murray, the head of investment at Hermes Investment; Kate Nicholls, chief executive officer, UKHospitality; and Leigh Pomlett, the president of Logistics UK.

Witnesses, you will have the opportunity to correct the transcript of the evidence, which will be published on the committee website, as necessary. We finish taking evidence at 11.30 this morning, so please do not feel it is essential for each witness to answer every question. If you feel anything has been left unsaid or needs to be corrected, please feel free to write to us afterwards, by way of written evidence. Thank you very much indeed to an amazing panel of witnesses for coming in front of us today.

I would like to set off by asking you to give us your perspective on how business and investors handle the issue of risk; how it compares with the way government handles the issue of risk; and what government could learn from business and investors.

Joanne Holden: Our mandate is to manage risk for pension schemes. In that context, we will talk about the schemes themselves, but when we are talking about government we are primarily talking about our interactions with the Pensions Regulator. Covid-19 was the ultimate stress test for pension scheme investors. The last year gives a lot of context to what I would like to say.

The industry had done an awful lot. It had taken great strides to embrace long-term risk management, some of which was driven by regulation. It meant that the economic impact of the pandemic crisis last year was probably less than it would otherwise have been. Funding levels of, say, the FTSE 350 company pension schemes dropped by only around 3% over 2020. If you look at the volatility in the market and the way that gilt yields dropped, that was quite some achievement. More than that, some pension schemes saw very little adverse financial impact as a result of Covid, due to the risk management steps they had taken.

For those schemes that did particularly well last year, a lot of it was down to some very complicated risk management techniques. We are talking about interest rate and inflation hedging, for example. Some more tangible and practical steps were also taken by some investors, such as cash flow management, to make sure that they were not disinvesting at the most inopportune time. They were thinking about frameworks that look outside the traditional models, numbers and statistics, taking a scheme-specific approach.

In terms of how government handled risk, the regulator has laid down various legislation that relates to risk and pension scheme investors. It is often very prescriptive. It often assumes that risk is a bad thing, which we would not say is the case, and that it almost has to be avoided at all costs. Sometimes, that can lead to contradictory actions and legislation. In terms of what government can learn, the answer is to take a much more pragmatic view, not to rely on models, predictions and statistical measures of risk. Those sorts of things simply tell you that everything will be okay on average. Legislation often does not lead decision-makers in that direction.

I understand that regulators have to be accountable. They are never well resourced enough to sign off on bespoke, pragmatic or holistic frameworks, particularly for the 5,000 plus schemes in the UK. From an investment perspective, the key to managing long-term risk is knowing exactly how much risk you really need to take, but also having a key philosophy, so you can pin your actions to it.

Dr Adam Marshall: I wanted to agree with something that Jo just said. Government, from our perspective, is generally focused on risk management and elimination of risk, rather than risk awareness and setting risk appetite. That is a fundamental differentiator from the world of business. We see boards and, in many cases, audit and risk committees having very dynamic and regular conversations about risk appetite and what the principal business risks are, setting and evaluating a risk framework. You always generally then have an understanding of how much risk you are willing to take.

We feel that Governments often spend far more time considering judicial or political risk, leading to that rather risk-averse situation that Jo was describing a moment ago. I would like to see government focus much more on economic or societal risk and opportunity when making those assessments, rather than asking, "Will we be judicially reviewed? Is it going to cause a political problem?" It would result in an extremely different approach to it and perhaps a different view of a more risk-positive UK Government by society and the media. If all their focus is on the elimination of risk, none of the opportunity that comes along with it will be realised.

Eoin Murray: I suspect that businesses and investors can learn as much from how government manages risk as vice versa, for the very reasons Jo and Adam have just mentioned. We would recommend taking a science-based approach. That does not mean adherence to statistical models. That has historically led us to paths that were not optimal. We have well-known examples of those. We need to capture shorter-term financial risks as well as longer-term risks that we, as investors today, think of as typically being related to environmental, social and governance factors. We need to balance long-term action plans to mitigate and deal with those risks, along with short-term measures of progress against those risks. Unless we have the combination of the two, we will fail.

We should also recognise that these days we are largely dealing with many systemic risks. It behoves us to act in a collaborative fashion more often than not. The interactions of the risks that we deal with are also extremely complex. A better understanding of those and addressing those together will lead only to better results.

Kate Nicholls: I will try not to repeat too much of what colleagues have already said. In hospitality, we have had experience of and are used to juggling a wide range of risks that have come through in our businesses over recent years, being a consumer-facing and people-facing industry. That means that our businesses and our boards, to echo what Adam said, are much more likely to take a dynamic approach to risk awareness and an understanding of the risks that are likely to come through. Rather than the static approach of looking for a longer-term review on an annual basis, it will be a much more fluid and dynamic approach, and a lateral one.

We would have risk-owning departments that would look at all the risks that might come through to a business. We would also make sure that, at a business level, we had the horizontal links between the two, so you can see how those complicated risks interact with each other. Something that impacts food supply chain might also impact our people and might interact with business costs and margins. If you look at the risks we would have built into our risk management planning, you would go back to things such as foot and mouth, terrorism, food supply disruption from petrol strikes through to Brexit, financial and economic crisis, but also legislation that can change the business model. Therefore, we would not look at those in a siloed approach. We would look at them horizontally across the business, with an assessment of risk awareness.

When you look at what government does, it tends to be very siloed. They are risk-owning departments and you do not necessarily learn the lessons from one to the other. You do not necessarily translate across all those risks. Government tends to be focused on an immediate emergency response to a civil contingency or a civil crisis, looking less at the societal and economic risks we face, which tend to have longer-term and longer-lasting effects. The risk management and mitigation you see from government will tend to focus on something that needs a short-term intervention, is resolved and then is moved on from, rather than, as we have seen coming through the Covid crisis, many complicated risks that interrelate and have a long-term impact and a longer-lasting effect.

Leigh Pomlett: I will give you a more operational response to that. We lead the supply chain industry, and the Covid pandemic has given us a bigger shock than we could have envisaged since World War II. It has been a bigger shock to our industry than I can ever recall. It has changed the thinking of the supply chain industry. I come from a world of lean supply and "just in time". I have noticed that, over the last 12 months, that has changed to resilience: what does a resilient supply chain look like?

When you consider the importance of the things we have had to do over the last 12 months, such as ventilator distribution, we have had to compress time from 20 years to 12 weeks. The vaccine rollout is a logistics operation that the world has probably never seen before, let alone this country. The sorts of challenges that we have faced have never been there before. The word "resilience" has come to the top of the vocabulary of logisticians. Just-in-time and lean logistics have gone backwards in importance. That is a really important point to make.

As an industry, we have no visibility of what the Government do in terms of risk management. We get involved in responsive management to a particular challenge, and I have mentioned the ventilator one. We do not have visibility of what the Government do in planning for these things. The industry has templates and methods for managing risk, which are probably just as useful to government officials as they are to industry leaders such as me.

The risk-management approach has changed as a consequence of Covid. We have all been through the ash clouds, earthquakes and trade wars that affect supply chains, but this is fundamentally in a different dimension, which has altered all the thinking. I would suggest to you that the thinking that we have as industry leaders is extremely useful for the Government to look at too.

Q164 **Lord Willetts:** In order to focus this down, this might be an issue specifically for Joanne Holden and Adam Marshall, who did not touch on it earlier. It is the issue of longer-term risk and the extent to which all of us, but perhaps particularly government, focus on the short term. Do you have any ideas about how we can ensure that long-term risk is properly assessed within government and how resilience becomes an attractive feature driving business investment?

Joanne Holden: Our clients are in the business of long-term risk and I can make lots of glib comments about the fact that long-term advance planning helps our clients. To keep the answer reasonably short, the way we tend to encourage our clients or investors to think about long-term risk is to see the long-term time horizon as a luxury. I talked in my previous response about the idea that having beliefs, having a good set of goals and knowing exactly where you are going, are key, while being aware of the level of risk you need to take, not taking too much and taking quite a slow and steady approach, almost like a super-tanker. Building in a level of flexibility and not being afraid to change course is also key. If you are going at it in a slow and steady fashion, you have more time to change course.

Seeing the longer-term time horizon as a real advantage to have in your pocket is the way investors tend to look at it. Of course, that then gives you the advantage of being able to bring in a wider source of risks. I note that some of the other witnesses have emphasised non-traditional, such as societal, risks. Having a longer-term time horizon gives you the advantage of being able to build in a wider range of perhaps more

pragmatic, realistic, real-world, rather than shorter-term or numbers-based, types of risk.

Lord Willetts: Adam Marshall, you referred to this earlier. It is legitimate to have some appetite for risk, but what about longer-term risk and government?

Dr Adam Marshall: A clear long-term strategy leads to better consideration of risk. As a business organisation, if we have one very big concern, it is that UK political culture privileges very short-term and reactive intervention, rather than thinking over 20, 30 and 40 years. If we could set out a clear vision for what it is we want to achieve as an economy, a society and a country, we could then have very regular and systematic consideration of the long-term risks that go along with those strategic priorities. I would suggest that, in my 12 years with the British Chambers of Commerce, having been through a number of national strategies over that time, innumerable Business Secretaries, five Chancellors, et cetera, we do not have the political culture that gives us that longer-term consideration that we would like to see.

If you had it, you could do things such as having the Cabinet meeting three or four times a year to consider whether any changes are required to the Government's overall risk appetite. You could have greater interchange with business and, quite frankly, greater transparency with the business community from the Cabinet Office and government generally about their risk considerations. The overall point is that it takes a plan to be able to consider risk appetite and risk awareness. That is very much needed.

Q165 **Lord Robertson of Port Ellen:** I want to take you back to the situation before the pandemic. How aware were you, or the sectors you represent, of the work done on risk planning and risk management by the Government themselves: the national risk register, the local equivalents, the local resilience units and the guidance on GOV.UK? Did these inputs have any impact on your planning in the pre-pandemic period? Mr Pomlett, you have already touched on that. Maybe you would like to expand.

Leigh Pomlett: We, as an organisation and as a sector, were unaware of the risk register or any risk planning the Government did that was of any particular relevance to the supply chain industry. I come from a point of ignorance. I do not know about the government risk register. I am unaware of it. I do not know what work has been going on. I am encouraged by the fact that I am even on this call, frankly. It is great to be recognised as important enough to have a contribution to make from the logistics industry. Probably for the first time, people are beginning to realise that getting vaccines around the world, getting shelves stocked and keeping our factories going are pretty important. Going forward, I am a lot more comfortable. Historically, before the pandemic, I had absolutely no visibility of it whatsoever.

Lord Robertson of Port Ellen: That is deeply depressing. It has to be.

Anyway, that is one of the reasons why we were set up.

Dr Adam Marshall: I would echo the point that Mr Pomlett has made. We have been far more aware, as a chamber of commerce network, of considerations of risk locally than we have been centrally. Our business communities have been very involved with local resilience fora. They have been very involved with gold commands when looking at events and issues coming up locally, but I cannot recall us being asked to do the same thing at national level. I do not recall ever having been invited by central government to a discussion around risk and its systemic impact on society or the economy, by the Civil Contingencies Secretariat or any other part of the machinery of central government. I am unsure whether I should blame myself for not asking, or them for that fact. Local-level discussions on risk pre-pandemic were far stronger than they were centrally.

Lord Robertson of Port Ellen: This is quite stunning. You have never read the national risk register, then.

Dr Adam Marshall: I am in the same position as Mr Pomlett on that, I believe.

Lord Robertson of Port Ellen: It is extraordinary.

Eoin Murray: I am a member of our local mountain rescue organisation and qualified in flood incident management, so I have a modest awareness of national resilience planning. I have, indeed, had the pleasure to dip into the document you described, but it is very specific to flood incidents. I am not going to claim that that has a huge impact on my daily investment work.

Q166 **Viscount Thurso:** May I declare an interest? I am a trustee of the parliamentary pension fund and recently was on a panel where Mercer were being considered for advice, so we have met. Through my role as chair of VisitScotland, and others, I know Kate Nicholls. It is to Kate Nicholls that I wish to address my question, please. The hospitality industry, which has been obliterated by the pandemic, is about 70% small businesses. Did any of them know about national risk planning? I suspect you will say no, so is it realistic that they should ever know or be likely to know? If it is, how do we get the knowledge to them? If it is not, what should government be doing about it? To wrap all my questions into one, should we be considering some form of pool reinsurance for small businesses?

Kate Nicholls: There is quite a lot to unpack there, so if I miss any of your points please come back and reiterate them. I have been involved in discussions at a central government level about the national risk register. I have read the document. We have been consulted about it. The last time was in summer 2018. That goes back to my main point that this is a static document, not a living document in the way businesses would understand a risk register and risk management. Although we have tried to make the links for government when we have those engagements,

they come and talk to us about how hospitality can help if there is a flood, how we can house people in our hotels and how we can manage the risk when a business, such as the Bataclan or Tiger Tiger nightclub in central London, is the target of a terrorist attack.

Brexit gave us an opportunity to talk about the food supply chain, the disruptions and the risk to food supply, which allowed us to join the dots for government at a central and a local level. We were involved very heavily in local food resilience forums. That is probably the appropriate level for SMEs to be involved in. We spent a lot of our time talking to government about potential disruptions to food supplies, saying, "You have done all this pandemic planning; you have done all this planning on petrol strikes and how you are going to get food round the country. Why are you reinventing the wheel? Why are you not learning from the risk-management and mitigation measures that you put in place in those points?" Central government did not seem to do that joining of the dots and linking across, which was my point about how it is all done in horizontal siloes, not through vertical links.

You are right that 70% of hospitality and tourism businesses are SMEs. It is very difficult for them to do risk management and horizon scanning. The majority of risk that impacts their day-to-day business is government legislation that changes fundamentally their profitability, margins and business model. Out of the blue, somebody can decide they have to do something different and the way they operate their business has to change fundamentally. It is very difficult for SMEs to lift their head above their own business day to day and look at big strategic threats and risks that they may need to address. That is what their trade associations are there to do. That answers the second point of your question: yes, we need to be aware of that.

As the trade association, it is incumbent upon us to feed back up into government when we talk to the Civil Contingencies Secretariat about the added layer of complexity that needs to be built in because of it being SMEs and an SME supply chain, rather than dealing with supermarkets and big business, where you talk to four or five key players. Our role is to make sure that the SME voice is heard and understood in government, and then to cascade and make what are quite complex risk register and risk analysis documents appropriate and accessible, for SMEs to understand what they need to do in their own businesses day to day.

There is government guidance to business on business resilience planning. That was last updated in 2015, so the Government have a role to make sure that, at the same time they are doing their national risk registers, they update their guidance to business to talk about what businesses should do for their own business resilience planning. Those risk-owning departments within government need to keep reflecting on what is changing as a result of the changing situation. It is fine to look at the risks and the risk management. You cannot then sit on it for two years. You need to have that steady feedback through as to what is

happening, which will help to answer the resilience point about longer-term business planning.

On your final point about pool reinsurance, as we come out of the Covid crisis, the impact on hospitality and tourism has been so severe that, given the appetite for risk of banks, landlords, insurance companies and utility suppliers, across the board we are having a refusal to supply to hospitality businesses. When contracts are coming up, utility companies are refusing to give a quote for new business to hospitality businesses, because they are now seen as too risky a proposition. A lot of our businesses are struggling to get event insurance and trade credit insurance in order to maintain the resilience in their supply chain. That is something government needs to look at as we come out of this crisis, as a temporary measure.

The trade credit insurance that the Government put in place was vital last year. It expires in June and needs to be extended. Many of our wedding venues, event venues and music festivals will not be able to get insurance to cover the costs of putting on a production, let alone our theatres, unless we have some government-backed insurance. We will need to have that, in the same way that, after a plethora of terrorist attacks, we had to have government pool insurance for a short period to rebuild resilience.

Viscount Thurso: Thank you. That was a very full answer.

The Chair: That was very helpful.

Q167 **Baroness McGregor-Smith:** To declare my interests, I am president of the British Chambers of Commerce, so I will not directly ask Adam a question this morning. We have kind of had this conversation a bit already, but my question was going to be about the direct communication any of you had with government, either local or national, about contingency planning. You have answered part of that question already, but I am quite interested, if you have ever had any involvement with government centrally, to take a look at which bits of government that was with. I am particularly interested in whether Treasury has been involved in these central government conversations, or whether it was the Cabinet Office or department-led. I am interested in any examples of where there was good, positive engagement at a local level before the pandemic. This covers not just the pandemic, but Brexit and all the other things that have happened.

Leigh Pomlett: Locally, we responded with Kent authorities down there, particularly because of the problems around Christmas time with Brexit and Covid sort of conspiring together. The driver queues at the port were massive. The Kent Resilience Forum engaged our organisation very successfully to try to ease the problems, which we see as part of our role. Local engagement on a very specific issue, as happened in Kent around Christmas time, is very effective and useful. We have a lot of contact with the Department for Transport, as you would expect, BEIS and the Cabinet Office. There is a lot of toing and froing between this organisation and

various offices. There has been some contact with Treasury as well, which you mentioned.

As the supply chain industry, we have to make contact with about five government departments. There is an assumption that it is always going to be transport. It is not. Very often we are involved in other departments as well. There is a lot of communication, a lot of toing and froing. Skills is really important for us. We are desperately short of resources in this industry. We are 76,000 drivers short at the moment to carry goods. There are big issues for us to resolve, so there is a lot of toing and froing. It is more at local level than the national level, though, and probably more effective at a local level.

Kate Nicholls: From what was said earlier, I have probably had the biggest involvement at a central level. We encourage our members to get involved at a local level and have not been as involved locally. Centrally, we have been involved with Cabinet Office and the Civil Contingencies Secretariat on that regular, steady drumbeat of looking through the risks when they update the risk register. We were also involved with the Home Office when we were looking at counterterrorism and terrorist threats in crowded public spaces.

As a really good example of excellent practice within government, I would pull out the food resilience work that Defra has done. It is probably partly my age and the length of time I have worked in the sector, but we have at all points worked very closely with Defra on food resilience and food supply, right the way back to 2002, when we looked at the petrol strike, the disruption to food supply chains in the country, the realisation that we only had three days' food supply in the country and building up resilience. Defra has a very strong food resilience team that stands up when it needs to. Throughout the Covid crisis, we have had weekly meetings. Sometimes there has been a food resilience call every day of the week, to make sure that we are managing the food supply. One of the benefits of having gone through the whole Brexit process is that that was in place and the links were made for preparedness planning in the case of food supply disruption.

That is one of the few examples I have had where we have been able to push through from industry to make the links for government and to say, "Look at what we did for the pandemic planning in 2012, or 2009 with swine flu, where we looked at what the disruption might be to the food supply chain". We drew that into the Brexit discussions about what contingency plans we might need to have if there was disruption at the ports. Then we drew on the Brexit work to feed into the Covid work. Over the course of the Covid crisis, Defra's food resilience work has been invaluable. The team has been fantastic in engaging with industry and making sure that that top-learning lesson is cascaded down to the local resilience forums, to make sure that food supply is seen as a critical part of the infrastructure and is protected.

That is an example of where it works really well. It needs to be replicated. My observation would be that, once we get out of a crisis,

everybody breathes a sigh of relief and that does not continue on an ongoing basis. We need to build it back into the system, to make sure that it is kept fresh and the lessons are learned from it. In answer to your specific question, I have never been contacted by Treasury or had a discussion with Treasury about the national risk register, civil contingency planning or emergency planning. That is the gap that has been highlighted. The talk about economic resilience does not come through.

Baroness McGregor-Smith: That is interesting. Thank you.

Q168 **The Chair:** Can I ask a question to Mr Pomlett arising out of that? On the issues of food supply, do you ever consider what might happen if the Suez Canal were blocked off?

Leigh Pomlett: Yes, and I get the relevance of the question following the events overnight. It is very unusual, though, that food would come via container ship. In fact, it is very rare. Food supply from container ships is less likely to impact the fresh food supply in particular through the Suez Canal than, say, the clothing industry, which would be impacted by it, or the automotive industry, which might be impacted by it. In my experience, it is less specifically food. That disruption would be for other industries, particularly the clothing industry.

Q169 **Lord Clement-Jones:** Looking to the future, how might the current pandemic impact on how your sectors will approach and manage risk? Are the interventions or adaptations, either by organisations or by government, that might have mitigated the impact of Covid-19, more or less likely to be implemented, in the light of what we have experienced? What we are really thinking about there are, precisely as was mentioned by Lord Thurso, Pool Re, insurance schemes by government or other forms of support. Kate Nicholls has partly answered what she would like to see in the future, so I am going to come to Adam Marshall first.

Dr Adam Marshall: Businesses across a wide range of sectors are now thinking much more about risk. As colleagues have said, it was not just the pandemic that prompted that. It was the trade changes resulting from Brexit for many that got them thinking a great deal more about it. They are thinking about a number of areas when they look to the future. First, risk of trade and travel disruption is very high on the list. The second risk is to employee health and well-being, which has been transformed over the last year. The third is taking a deeper dive on the risk of unforeseen events. Many businesses have previously considered international health, climate or terrorism-related events on their risk registers, but they gave them more of a surface consideration. Perhaps now they have deepened that rather significantly.

There has sometimes been a tendency to see some of these risks as things that affect utilities, manufacturers, food producers et cetera. We also see services firms becoming far more alive to many of these categories of risk than perhaps they would have been some years ago, so it is across the whole of the economy. They are all telling us now that they are more likely to invest in resilience than they were previously. To

your core question, mitigating actions that would in some way reduce the economic impact of a future pandemic or similar events are now far more likely in the business community than they would have been 12 to 15 months ago.

Lord Clement-Jones: Perhaps we could come to one of our investors. Would either Eoin or Jo have a view on this?

Joanne Holden: It might be useful for you if I headline the research we have undertaken, particularly during the pandemic. I will not go into the detail of it. Perhaps we could forward the reports to you. Every year, our parent company works with the World Economic Forum on the *Global Risks Report*. The 2020 version of that looked into the impact of the pandemic. It looked at how various challenges have been exacerbated and reshaped, and the need to address risk in a much more collaborative fashion.

A particular issue that they looked at last year that might be of interest was the disconnect between global and national pandemic preparedness, and essentially the reality of how you handle crises on the ground. It had a lot of lessons in there that might be useful to share. We will forward that to you.

Specifically to your question about looking to the future, we have done some other work with the World Economic Forum on what we call transformational investment. That is looking at systemic risks, including climate change, which I guess we might come on to talk about later in the session, but also low interest rates, pandemics, demographic issues and technological change. It is really thinking about how investors in particular might mitigate future risks by building strong, robust governance frameworks to try to integrate those risks into everyday life, as opposed to them sitting outside on a risk register or whatever it might be. Again, we will perhaps forward that to you, in case it would be useful to answer that forward-looking question.

Q170 **Lord Rees of Ludlow:** Kate Nicholls already mentioned the problem of ensuring that people do not forget about these risks when things get back to normal. I wonder if you could say a bit more about how one can ensure that, in particular, small businesses continue to take the precautions that are needed to minimise the impact of not just a Covid-like threat but a massive grid failure and all these others. Are there ways in which one can publicise things to small businesses or incentivise this through insurance premiums? I wonder if anything can be done on those fronts.

Kate Nicholls: We need to work harder to make risk more readily translatable down to small businesses. Small businesses tend to be preoccupied with day-to-day survival and will be looking at the issues that are most relevant to their immediate business, rather than looking at the longer-term risks. That is the role that trade bodies like ours can play in helping them understand the immediate threats and providing those templates for risk management in order to move forward.

There is one thing that we need to do collectively, particularly in our sector. The sector has been devastated by Covid, with 10 months of no trading without any revenue. That was probably the biggest risk that we did not factor in. In all our risk-management planning, we never anticipated full closure of the entire sector and entire businesses with no trade. It had always been assumed that you would have maybe six months of closure, rather than a full year. That needs factoring in.

These businesses are going to come out heavily indebted. Any of those that are still surviving—and we have lost far too many—have taken on massive levels of debt in order to get through this. That is one of the risk factors that we collectively, at a government level and at an industry level, need to work through. We will need to have a recapitalisation strategy to get the economy moving again. It is debt that is going to jeopardise these businesses and be the biggest risk to small businesses in the hospitality sector as they come out of the pandemic.

That is going to have a long shadow. It is going to be two to three years. Therefore, looking at recapitalisation is the key thing we can help them with, to build in resilience and make sure that they have more cash reserves. The average hospitality business has between 16 and 30 weeks of cash in good times, so they did not have very much resilience going into this. It is decimated coming out of it.

Leigh Pomlett: From a supply chain perspective, we have similarities. The industry is 194,000 enterprises and many of them are small. They face the same sorts of cash issues that Kate talked about. Where we can help, though, in the same way as hospitality, is in giving templates and tools we have developed by working with bigger companies, to spread the word, almost, of the way that you manage these risks going forward. As I mentioned in my earlier answers, this has altered the whole vocabulary, the way you manage risks, and has changed the way we view it.

Therefore, the toolbox we need to manage these risks has changed for ever as a consequence of Covid-19. It is incumbent upon us to help the industry with a set of tools it can use that will enable it, going forward, to be more resilient, using the word I used earlier on, because that is now the watchword in our industry. We can help.

Lord Rees of Ludlow: This has to apply to the kinds of threats that have not yet happened, as well as those that have.

Leigh Pomlett: The tools you use can apply to whichever threat comes along. Let us pose a scenario. If you asked me what threat I think will be the next to come along, I would probably say a global cyberattack. You can use these tools to mitigate whatever that might be. They are the same questions you have to ask your organisation and find answers to, almost irrespective of the size of the problem coming along. The reason I can say that is that Covid-19 has impacted the industry more than anything since World War II. I cannot think of anything, God willing, that

can be more damaging than that. Therefore, the tools we have developed to offset the consequences of Covid would be useful in any event.

Q171 **Baroness McGregor-Smith:** I have a follow-up question to Kate. Thinking about the indebtedness of businesses as we come out of this crisis reminds me of the challenges coming out of the financial crisis regarding the behaviour of the banks, their ability to take risk and their risk aversion. Do you think government needs to do anything more in supporting these organisations as we come out of it? Many of the schemes of support are coming to an end fairly soon in some way, shape or form. Because of the level of indebtedness some of these businesses have, do you think more will need to be done?

Kate Nicholls: Yes, undoubtedly more will need to be done to support the hardest-hit sectors. We need to move away from the whole-economy approach that all these schemes have. We now need to focus and provide more sector-specific support to those sectors that are going to have a longer-term impact. Government also needs to help banks manage and understand their own risks. You are right: post the financial crash, there was huge risk aversion. Banks scaled back their risk appetite. This is impacting now on what is happening in lending to hospitality.

There are the government-backed schemes: CBILs, bounce-backs, all those. Banks are very risk averse. They see the hospitality sector as a high-risk sector, a potentially toxic risk that they do not want to invest in or give maximum lending to. Although CBILs could have been given for six years and now can be extended to 10 years, we are seeing the level of risk appetite within the banking sector so limited in terms of hospitality that the maximum our members are getting is three to four years. There is certainly no appetite to extend it to 10. That is going to cause problems as we come out of the pandemic.

There is going to need to be greater government direction to tell banks to extend these loan periods to provide more breathing space. Then you will need to look again at the support that is available, maybe to allow these businesses in particularly hard-hit sectors to consolidate their debt. The culture recovery fund and the heritage recovery fund have provided valuable lifelines, 20-year loans at very low interest rates to businesses that are struggling to get finance in the heritage and culture spaces. Perhaps that needs to be extended as an approach to hospitality, where the commercial lenders are not willing to take on a greater risk appetite and extend a longer-term loan to allow these businesses the breathing space to recover.

Then you need to look at the business rates holidays that have been given and the breathing space there. Business rates bills will kick back in for these businesses in hospitality from July, at a reduced rate for some but at full rate for others. That is going to be a huge challenge as we come out of this. There is a need for longer-term thinking, ideally a 20-year breathing space and some more support over the next six to 18 months.

Leigh Pomlett: From the logistics industry's perspective, I echo everything that Kate has said. There are some very specific things. I mentioned earlier that we are short of 76,000 drivers in the industry at the moment. That is made worse by the fact that there is a backlog of 20,000 driver HGV licences. Rest assured, this is going to be a big problem as we rebuild the market and the whole country post Covid, if we do not solve those specific operational issues. I do not want to drag this into pure operational issues that concern my industry, but these problems will need addressing, along with the issues that Kate has talked about, which apply equally to my industry.

Q172 **Lord Browne of Ladyton:** I have an overtly operational question for Leigh Pomlett. It may be a bit redundant now, given what we have already heard, but I am going to ask it for no other reason than to reinforce the feeling of positive surprise that we have on this panel of witnesses. We have had evidence, including now from you, Mr Pomlett, that reliance on the resilience of the logistics sector is in itself a source of risk for this country. I am going to unleash you. In addition to what you have already told us, what needs to be done to bolster the resilience of the UK's logistics sector in particular?

Leigh Pomlett: Without getting too repetitive in my answers, I am going to have to be specific about this. The first and very important point is to recognise the sector's importance. If Covid has done nothing else, it has certainly done that, along with Brexit. Those two fundamentals have certainly altered the way that people would view the logistics industry. Having recognised the importance of it, what would bolster it is recognition of the fact that the industry is suffering badly from shortages of people across warehouses and in its transportation capabilities. That needs to be recognised.

I mentioned the HGV backlog for drivers in my last answer. Testing facilities in this country have got themselves into one hell of a mess, understandably, because of Covid-19. Unless that is sorted out, the risks to the supply chain industry that exist today will only be exacerbated as the country returns to some form of normality.

Dr Adam Marshall: I represent both customers of logistics companies and some logistics companies themselves. I declare an interest too, as the British Chambers of Commerce runs a growing business as customs agents ourselves, called ChamberCustoms. I do not think it is a secret that a lot of businesses have felt pretty badly let down, in some cases, by logistics providers over the past year. Businesses are very understanding of the immense operational challenges that many providers have faced. At the same time, a lot of them have been hit with really big cost increases and some fairly sharp business practices as well. The combination of that has reduced many of those businesses' own resilience and heightened their own risk very substantially.

My hope is that, as we look towards the future for the logistics sector, our consideration of resilience also includes the customer and user perspective, not just what works best for the freight operators or logistics

companies themselves. We have to have both perspectives in play when we look towards future resilience.

Lord Browne of Ladyton: Before we move on, may I ask a very particular question that I think affects all the sectors that are represented, just to see what the reaction to it is? We may be able to fit it in, within the time constraints. Last week, in the integrated review, there was a sentence that said, more or less, that the Government expect there will be a successful terrorist CBRN—that is, chemical, biological, radiological or nuclear attack—in the UK by 2030. Has there been any reaction in any of your businesses to that rather stunning sentence?

Leigh Pomlett: No. I had not heard that before as a particular threat, so I cannot give you an answer at this stage. Now you have said it, I probably will give it some thought.

Eoin Murray: No.

Dr Adam Marshall: We have had some engagement. In contrast to the wider government risk register, we have had a lot of engagement from the Home Office in recent years on business-related risks from terrorism. That is one of the brighter spots within this. Perhaps it could be better integrated with the other risk considerations we are talking about.

Kate Nicholls: Yes, you would expect that that does not come as a surprise. It is factored into many of our risk assessment plans, given what we have had with the Manchester Arena attack and the attacks in London Bridge, which focused on heavily crowded places and hospitality venues. Sadly, many of our teams lost their lives in those attacks. This has been front and centre of all our risk management in hospitality, even down to the smallest businesses, unfortunately. We have worked closely on counterterrorism, so that does not come as a surprise. We would have anticipated and had that in our risk register, that there would be a successful attack.

Q173 **Lord Triesman:** Good morning to all the witnesses. I am going to start this question with Eoin Murray and then move to Jo Holden, because I know that both of your businesses have been very heavily involved in the discussion of climate change and its impact. Let us start with you and, if others want to join in the discussion, please do. As investors, how do you manage climate change risk in itself? From your experience of advising clients to invest sustainably, what lessons can be learned about how to encourage further sustainable investment? Are there broader lessons that we can learn for a sustainable policy development?

I would just add one final sentence. I know that, from 2008, there was a lot of mismatch in duration between the kinds of investments that people wanted to make and when they expected to see returns from them. I saw this in investment banking, but this is an area in which the potential for duration mismatch might be a particularly acute problem.

Eoin Murray: Our approach to managing climate risk fits into our overall investment approach, where we are focused on two particular areas, the

obvious one being capital allocation. That involves thinking about the different ESG risks as we build portfolios and improving our awareness of those risks. The second aspect that we consider in investing is around engagement or stewardship, which is really about being a good owner of the assets that we own, lend to or, indeed, develop. As a responsible property manager, we engage with our tenants on the issues that are most material to our clients' ultimate outcomes.

We think there are two particular risks when it comes to climate change that are very relevant. First, there are the physical risks, so all the natural hazards we have been talking about to date. Secondly, there are the transition risks, which are about how we get to a point where carbon and greenhouse gas emissions are sufficiently reduced for the planet to continue on its way. I suspect that the pandemic has probably emphasised the importance of that second group of risks, the transition risks, and of looking after our human capital. We talk regularly to our investor companies about that.

We are also very aware that, in our understanding of climate risk, we have to work with all the different actors, whether that is government, regulators or the banking sector, but, probably most importantly, science. We are very reliant on academia for techniques such as integrated assessment modelling, whereby it can give us its estimates of climate impact from various scenarios. That can be quite complex, but it makes sense for us to think through how that will impact the different aspects of our portfolios.

Joanne Holden: Specifically with reference to your first question, how we are managing climate risk as investors, the background to my comments is research we have done on managing climate change risk. We did our first global report in 2011; we then did an update in 2015; and our most recent sequel was published in 2019. We did that in partnership with a number of large investors globally. The most recent document we published looked at climate scenario modelling, essentially assessing the effects of climate-related physical damages, the risks that were mentioned a second ago, but also transition risks. It looked at the impact of those risks on investment return expectations.

A key conclusion of that research was that investing for a two-degree temperature rise scenario was an imperative but also presented an opportunity for investors. We are encouraging clients to look at this from a risk and opportunity perspective. We have provided you with highlights in the summary document that we submitted to the committee. We have also given you our full report, so I will not go into too much detail. Climate change is driving the need to transition to a zero-carbon or zero-emission economy. Investor but also corporate awareness of that has increased greatly in the recent past.

Investors want to understand the downside risks, but they are searching out opportunities where they can allocate excess capital, for example, to companies generating sustainable, green revenues. We are seeing a lot of our clients setting net zero targets. Given that our clients tend to be

pension scheme investors, those are quite often aligned with the targets that have been set by their corporate sponsors. We are seeing an awful lot of collaboration in that respect. We are encouraging not just the goal setting but a very definite transition plan, as well as looking more broadly across portfolios.

It is very easy to think about transition or sustainable investment across equity portfolios. If you think about the positioning of many UK defined benefit pension schemes in particular, they have de-risked. They are invested in bonds—so looking for availability of green gilts, which government has started to talk about, and, more broadly, fixed-income investments, which to date have been scarce relative to the focus on equities.

You asked about lessons learned. If time permits, I do not know whether you would like me to make a couple of comments on those.

Lord Triesman: Can they be quick comments? I do not want to stop others asking their questions.

Joanne Holden: It sounds trite, but one lesson is about having an aligned definition of what sustainable investment actually is, perhaps combined with some sort of taxonomy from government that would set it out very clearly on a national level. What is sustainable investment? What are we trying to achieve and how do we measure impact? That would be incredibly helpful.

On policy development, which was the final part of the question, the UK pensions industry represents such a huge proportion of assets. It is probably an obvious point to make, but if we can get policies right, and engage and collaborate with those invested in thinking about the things they will practically need, we have a fairly easy way of making big changes, if all pension funds adopt a sustainable investment policy to a small degree. The weight of assets, in the low trillions, is so impactful in that respect.

Q174 **Lord Mair:** To follow up on the very point you have just been making, in relation to carbon-intensive assets—I am thinking of the energy, utilities and materials sectors—is there an increasing trend of disinvesting in such sectors? Are you saying that you are encouraging the adoption of lower-carbon alternatives and using your portfolios to influence transition plans to get towards net zero? What is the position with those kinds of sectors?

Joanne Holden: All investors take their own particular view on this. Without doubt, we have a group of clients for whom disinvestment is key to their own transition. We prefer a slightly more holistic approach. We have phraseology that looks at the grey, the green and the in-between, building in a plan for the future of those assets. You talk about stranded assets, for example. That is the obvious starting point. You might have to accept that a managed disinvestment over time is the only way to go. We then have the green assets, in which it is obvious that investing more heavily will reduce overall carbon footprint. Then we have the assets in

between, where we have to be a little more nuanced in how we deal with them. Much of that is around engagement, rather than simply disinvestment.

Eoin Murray: I would entirely agree with what Jo has said. We are, by nature, engagers rather than divestors. That is principally from the perspective that, if we feel that we can help companies achieve necessary change through engagement, we consider that to be a worthwhile activity that will ultimately improve sustainable wealth creation for our clients. Equally, we are reasonably pragmatic. As much as we know that oil and natural gas, to some extent, will still be part of the fuel mix under various IPCC pathways by 2050, there are certain fossil fuels that really should not be part of that portfolio by then, thermal coal being the most obvious of those.

There will be some industries, and in particular some companies, where, for cultural reasons, engagement is simply not achieving the kinds of changes we would like. That leaves us with no option but to disinvest, although we recognise that there are risks with that. That can drive some of those activities into the private sector, where the scrutiny and transparency is considerably less.

Q175 **Lord O'Shaughnessy:** Thank you to our guests for a fascinating session. The main lesson I would draw from this is that, while businesses could be better prepared for and ready to mitigate risks, the Government could be doing much, much more to support you in that process. This is your opportunity to pin down one main recommendation that you would make to the Government for how they could support you in that process.

Eoin Murray: I am going to steal a thought that Jo shared a second ago with respect to green bonds. I would love to see the Government offer incentives for the entirety of our debt issuance and lending, to be done on a performance-linked basis, where performance in outcomes is referenced to the sustainable development goals or some form of sustainable targets. Achievement of those targets is absolutely essential. Our own research tells us that debt issued under those constraints tends to be cheaper for the issuer, with a variable interest rate, and offers superior holistic returns to our investing clients.

Lord O'Shaughnessy: That is a very good answer. I will go to Jo to see if she wants to expand on that at all or say anything different.

Joanne Holden: My policy suggestion was around sustainability, so it might be worth a follow-on. Many of the regulatory moves that have been made around sustainability so far in our sector have been about reporting and data. They have been very compliance-focused. That is not a criticism per se, because it has meant that every single investor has had to think hard about what they are doing and start reporting on it. If we were trying to be more forward looking, having some sort of policy that is more applicable to how investors actually think about putting their money away might be useful, but also something that gave a roadmap to change.

You could mandate that all UK defined benefit pension schemes, and perhaps defined contribution as well, take a net-zero target. That might seem fine but, actually, you would have to complement that by having the associated taxonomy that I spoke about a few minutes ago, as well as a roadmap that took a really joined-up approach to implementation. That means making available sustainable infrastructure assets across the country, with the right incentives, as we have already spoken about, encouraging the asset management industry to think hard about high-quality investment products, but also including the DMO in that conversation about setting out a very clear pathway in relation to green gilts. We need policies with roadmaps.

Lord O'Shaughnessy: Climate change is perhaps the largest and most dominant risk, but it is not the only risk, so the same logic could be applied to other risk preparation.

Dr Adam Marshall: To change direction a little, my policy recommendation would be a massive increase in communication from government to business about risk awareness. Some colleagues have mentioned question-based templates, so that any business, whether it is doing this on a Saturday afternoon at the kitchen table, or in the boardroom of a multinational, could engage with some of those questions. That would be really helpful. Risk awareness could also be included as a core part of management and leadership initiatives. Help to Grow, which has been put in place recently, should have risk awareness as part of it.

The one warning I would give is that government must not alarm businesses or undermine their ability to be risk positive. In a country that has a pretty risk-averse political culture already, where a Prime Minister is held to account when someone falls into a pothole 300 miles away and business leaders face very high levels of public scrutiny, anything that helps businesses improve their risk awareness cannot be transformed into risk aversion in some way. It is communication, communication, communication.

Kate Nicholls: Building on Adam's point about helping businesses do their own risk assessment, in order to make that meaningful we need to improve government's risk assessment at the centre first. We need to have a broader approach to risk at a central government level, perhaps, therefore, to mirror the approach of many businesses, having a cross-governmental risk and audit committee, so you have not just the risk-owning departments feeding up in siloes but that broader cross-fertilisation that I talked about earlier. You could have a cross-governmental committee with industry input, not just looking at issues that cause a civil emergency and require an emergency response, as in our current risk register, but providing a wider awareness and a more frequent assessment of risk in the round, rather than just those very specific emergency interventions.

It could take account of the after-effects of an emergency intervention, the societal human capital issues we heard about earlier and issues

arising as part of the risk assessment at a government level. The Government need to assess the risks arising from their own interventions. The biggest thing that affects businesses is government regulation. There is very little assessment of the risks to the broader economy and society, or of our ability to deal with emergencies that come from government regulation and other interventions and actions. That would be my main policy recommendation.

That would then mean that we had an ability to keep that guidance fresh. It cannot be right that, in order to help businesses, the last guidance on how to build resilience and plan for risks is five years old. The committee structure would allow a two-way flow and cross-fertilisation.

Lord O'Shaughnessy: That is interesting. Thank you.

Leigh Pomlett: I would echo what Kate has just said about the cross-fertilisation of ideas and risks across all government departments. I am looking at my list here. We work across five. You would not think in the supply chain industry that we would, but we do. Managing your risk across four or five of them is important. The communications of the risk assessments the Government do, which we have had no visibility of until now, are extremely important.

On the engagement with us, I started the meeting by saying that we are pleased to be recognised as a critical part of the UK economy. It has taken a pandemic to get there. Once the pandemic is over, do not forget that. We are still here, and there will be another crisis we will be required to help manage going forward. Please engage with us as we go forward in the high-level resilience planning meetings, not just when we have a big problem we need to solve.

Lord O'Shaughnessy: Yes, indeed, in preparation rather than in response.

Leigh Pomlett: Yes, please, or both, in fact. We quite understand that, on occasion, we are going to be required to compress time and get the ventilators to hospitals, but it would help if we could know.

The Chair: I have loved this session this morning. You have been very disciplined. It is now 11.31, so we are a minute late. There have been excellent, really broad-ranging questions and answers. Feel free, as I say, to write to us with any further points you may wish to make.