

## Written evidence from Aviva (PSC0011)

1. Aviva provides life insurance, general insurance, health insurance and asset management to 18 million customers. We are the UK's leading insurer, serving one in every four households. We help more than five million people save for and live in retirement, and meet the pension needs of more than 20,000 companies, ranging from large multinationals to small start-ups.
2. We welcome the opportunity to respond to the Committee's inquiry on COP26 and Stewardship. This is a hugely important agenda for pension savers and we are pleased to have the opportunity to contribute our views.
3. As one of the UK's leading pensions providers, tackling climate change is a key Aviva priority. We have announced a goal to reach net-zero emissions by 2040. This is the most demanding target of any major insurance company in the world today. Our 2040 Net Zero plan means:
  - Net zero carbon emissions from our investments by 2040;
  - A 25% cut in the carbon intensity of our investments by 2025 and 60% by 2030.
  - Net zero carbon emissions from our own operations and supply chain by 2030.
  - Stopping insuring or investing in companies that make more than 5% of their revenue from coal unless they have signed up to Science-Based Targets aligned to the Paris Agreement.

The plan covers Aviva's scope 1, 2 and 3 emissions, the shareholder and policyholder assets where Aviva have control and data; and the main asset classes of Aviva's core markets (credit, equities, and direct real estate). Aviva will expand this further as new data and methodologies become available. More details can be found at [www.aviva.com/climate-goals](https://www.aviva.com/climate-goals)

As part of this, Aviva's default pension funds will become net-zero. This means that the pension savings of more than 3 million Aviva customers are on a path to net-zero. We are also aiming for our UK pension customers to choose to put more than 20% of new savings into sustainable impact funds or Net Zero aligned funds by the end of 2022.

4. We believe that climate change represents a material financial risk to people's pensions savings. The Economist Intelligence Unit estimate that climate change could wipe \$43tn off the global economy- that is 30% of all the world's manageable assets <sup>[1]</sup>. With pension returns dependent upon the performance of their investments, the hit to people's pension pots could be enormous.
5. At the same time, climate change presents huge investment opportunities for pension schemes. Mark Carney, former head of the Bank of England and now UN Special Advisor on Climate Action and Finance, described the net-zero transition as "the greatest commercial opportunity of our age."<sup>i</sup>
6. Faced with such risks and opportunities, pension trustees have a fiduciary duty to manage the financial impacts of climate change on behalf of members.
7. And members are increasingly demanding that their pensions help create a world that they want to retire into. Aviva research shows that concern about climate change is high, particularly young people. 77% of those due to retire in the 2050s (aged 25–34 today) are concerned and

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<sup>[1]</sup> [https://eiuperspectives.economist.com/sites/default/files/The%20cost%20of%20inaction\\_0.pdf](https://eiuperspectives.economist.com/sites/default/files/The%20cost%20of%20inaction_0.pdf)

66% believe pension schemes should target net-zero. Over half of all age groups (59%) think it's important that pension funds help tackle climate change.

8. With circa £3tn invested in UK pension schemes, pensions can have a transformative effect on efforts to tackle climate change. Pension scheme investments can support innovation in low carbon technologies. As shareholders, pension funds have significant influence over the companies they invest in and can use their influence to drive net-zero across the whole economy. If harnessed, pension funds could unleash a wave of low carbon investment, help support the UK's economic recovery, create green jobs, whilst protecting the long term interests of members.
9. The introduction of mandatory climate reporting for occupational pension schemes, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), is an important step that will help drive greater understanding of climate risks amongst trustees and beneficiaries. Its introduction in the Pensions Schemes Bill represented the first time that climate change had been included within a pensions-related Bill and is to be wholly welcomed.
10. Ultimately, disclosures won't in themselves be enough to address climate-related risks and opportunities or achieve the net-zero goal. TCFD in effect acts as a helpful thermometer – showing the level of risk in the system – but does not have the scope to turn the heat down. In short, it cannot be assumed that disclosure of climate risks and opportunities will result in real world action to reduce financed emissions.
11. Nor is a lack of information the sole barrier to the market addressing climate change. Climate change is fundamentally a failure of markets: those who damage others by emitting greenhouse gases generally do not pay.<sup>ii</sup> This means that the biggest financial risks from climate change are not from losses to firms or industry sectors, rather from the macroeconomic systemic risks against which one cannot hedge. This has potentially catastrophic impacts for the stability of the entire finance system and the wider society which it serves.<sup>iii</sup>
12. As the need to tackle climate change becomes ever more urgent, pension schemes and policymakers will need to move beyond climate risk disclosure and towards portfolio alignment with the net-zero and 1.5c goal.
13. We have seen a steady increase in the number of pension schemes and pension providers announcing net-zero targets. However, to date, many net-zero commitments have been short on detail, narrow in scope, and lacking in short term targets, making it difficult to assess their credibility or guard against greenwashing. To address this, further steps are needed to ensure that high level net-zero commitments result in the absolute emissions reductions that are required.
14. There is growing consensus that climate transition plans are the necessary next step. The Climate Change Committee, published an advisory report entitled *The Road to Net-Zero Finance*, which recommended “net-zero targets and plans be mandatory for financial institutions”. Similarly the COP26 Presidency stated that “companies, banks, insurers and investors all have to adjust their business models and develop credible plans for the transition to a net-zero economy and implement them.”<sup>iv</sup>
15. We believe that pension schemes and financial institutions should develop climate transition plans setting out the actions they will take to ensure their investments and stewardship activities

address their climate-related risks and opportunities and align with the net-zero and 1.5c goal. Aviva is planning to publish its own transition plan later this year.

16. We recommend that the Government brings together regulators, industry and civil society to produce guidance on the most appropriate metrics, methodologies and specifications for transition plans.<sup>1</sup> They should have clear and timebound objectives linked to the transition plan goal and coordinate with existing initiatives and frameworks, notably the ongoing work of the Glasgow Financial Alliance for Net Zero, TCFD and Science Based Targets Initiative.
17. Fundamentally, schemes' alignment with net-zero will be determined by the alignment of the real economy. The Government should develop a clear policy framework to drive net-zero across the real economy, signalling the steps and timescales by which they will be met. The policy measures contained in the Climate Change Committee's 6<sup>th</sup> Carbon Budget report provide a blueprint for this and the Government's upcoming Net-Zero Strategy provides an opportunity to take them forward.
18. In parallel, the UK should use its role in the G7, G20 and other multilateral platforms to encourage other major economies to introduce climate transition plans globally. As host of the G7 Presidency and COP26, the UK has a clear opportunity to progress this.

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Carney Calls Net-Zero Ambition Great Commercial Opportunity - Bloomberg.

<https://www.bloomberg.com/news/articles/2020-11-09/carney-calls-net-zero-ambition-greatest-commercial-opportunity>

<sup>ii</sup> Stern, N. (2008). The Economics of Climate Change. The American Economic Review, 98(2), 1-37. Retrieved June 6, 2021, from <http://www.jstor.org/stable/29729990>

<sup>iii</sup> Patrick, B. et al. (2020). The green swan Central banking and financial stability in the age of climate change. <https://www.bis.org/publ/othp31.htm>

<sup>iv</sup>

COP26 explained. <https://ukcop26.org/wp-content/uploads/2021/05/COP26-EXPLAINED-FINAL.pdf>

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