How responsible investment can improve member engagement

By Chris Inman, Aon

With so much focus in the DC market on member communications and experience, would you overlook an opportunity to further engage DC savers and engender pride in their pension scheme?

This is exactly what Aon believe the incorporation of Responsible Investment, or, if you prefer, Environmental, Social and Governance (ESG), policies and strategies has the potential to achieve. This view is supported by DC savers we have spoken to as part of our ongoing research, including Aon's 2018 DC pension and financial wellbeing member survey, which will be released this autumn, to better understand their attitudes towards saving, including pensions and investment strategies.

One consistent message that has emerged from our 2018 DC pension and financial wellbeing research is that members are surprised to find out that, unless they had specified otherwise, their pension money could be invested in companies and sectors that they oppose. These findings are consistent with those published by the DC Investment Forum (Navigating ESG: A Practical Guide) ,and NEST (building new norms), whereby DC savers wanted, and expected, their pension savings to be invested responsibly. Both pieces of research found that when this was the case and tangible 'good news' stories about their investments were shared, most members' impression of, and confidence and pride in, their DC scheme was improved.

Schemes may want to ask themselves a couple of very simple questions before they progress further:

1. Is it desirable to increase member engagement and savings?

2. Will our DC members be more engaged and potentially save more if their money is doing some good?

If you have answered "yes" to both, then the next step is to better understand the current regulatory landscape, and to devise a practical framework to move responsible investing forward for your DC members.

If you answered "no" to either question, then it is still worthwhile understanding more about the regulations and practicalities.

Regulatory Landscape

In recent years there has been growing interest in responsible investment for pension funds and in ESG considerations. A number of consultations and reports have been released, including a June 2017 report by the Law Commission, which concluded that there are no legal or regulatory barriers to pension schemes making social investments. Final regulations have now been released by the DWP, which aim to dispel trustee confusion and to give institutional investors renewed confidence, if they so choose, to begin allocating, or increase the allocation of capital to investment opportunities such as unlisted firms, green finance, and social impact investment.

Whilst all pension schemes will need to provide information within their Statement of Investment Principles (SIP), setting out how they take account of financially material considerations, including climate change, there are a number of additional requirements for DC schemes. From 1st October 2020, DC trustees will, in addition, be required to produce an implementation report for the year setting out how they acted on the principles set out in the SIP, as well as explaining any changes made to the SIP. In addition, the DC scheme's SIP and implementation report must be published on a publicly accessible website so they can be found by scheme members and interested members of the public.

Whilst perhaps some people breathed a sigh of relief as the proposal for a 'statement on members' views' was removed from the final regulations, engaging with members to better understand their views on such topics may in fact be a valuable exercise.

Indeed, in the Ministerial foreword to the Government's Response Guy Opperman states that ***"...in line with the conclusions reached by the Law Commission, I do believe it is possible and appropriate for trustees to take account of members' views in certain circumstances."*** Pension or wider benefits focus groups can be a great way to do this.

Framework

Aon believes that the spirit of the DWP regulation is to encourage trustees to develop their own views as to what Responsible Investment means for that scheme. In Aon's experience, the conclusions and resulting policies can differ greatly based on a combination of various inputs including:

- the views of their member base;
- time horizon of the scheme;
- investment beliefs;
- preferences to align with the global initiatives such as the Sustainable Development Goals or the Task Force on Climate Related Financial Disclosures, and so on.

Whilst a process of discussion is potentially uncomfortable, there is a worthwhile benefit in reaching a position where one can be clear on exactly what the scheme's policy is on ESG factors such as climate change, and why it takes that stance. So how can pension schemes do this? **To facilitate this, we have constructed the below six step framework that we have successfully used with a number of our pension schemes to walk them through an initial education session all the way to the implementation of responsible investment policies and investment strategies.**

		Stage	What is it?
Discover	1.	Raise awareness	> Education amongst stakeholders and members to understand issues and relevance
	2.	Define beliefs	> Survey stakeholders' views and beliefs, including members > Discuss and reach consensus on core objectives
Develop	3.	Agree policies	> Consider regulation, best practice, stakeholder policies, views and beliefs > Define policies and procedures
	4.	Assess risks	> Review asset allocation against systemic risks (e.g. climate change), and portfolio level ESG risks
Deliver & review	5.	Engage with managers	> Review policies and actions of managers > Engage and seek to improve, or take action
	6.	Reporting and reviewing	> Report and further engage with members, stakeholders and relevant industry bodies

Summary

The capacity for responsible investment strategies to engage DC savers and engender pride in their pension scheme is an opportunity that should not be missed. Through a considered process of discovering stakeholder beliefs (i.e. those of trustees, companies and members), and developing appropriate policies, a successful and engaging responsible investment strategy can be delivered!

To discuss any of the issues raised in this article or to request a copy of Aon's DC pension and financial wellbeing member survey 2018, please email **talktous@aon.com** or call **0800 279 5588**.