

Integrating climate risks and opportunities

Major utilities company



Who are they?

A major utilities company, with a large UK DB scheme advised by Willis Towers Watson.

What are their concerns around climate?

- With a sponsor involved in energy production and supply, the scheme is acutely aware of the impact of climate change as countries and economies look to transition the energy mix to low carbon and renewable sources.
- Regulatory and reputational risks, both to sponsor and scheme, have been high on the Trustee agenda.
- The Trustee has therefore been increasingly looking to quantify and analyse exposure to climate risks and opportunities, to understand what actions they might take.

What actions have they taken?

- Climate risk has been assessed through an integrated risk management approach, covering analysis of impact to assets, liabilities, members and sponsor covenant.

- This analysis follows extensive beliefs work that culminated in the decision to call out climate as “a systemic (perhaps existential) risk meriting specific attention” (thereby acting as a prompt to action).
- The Trustee has looked at how the strength of covenant might be compromised through sponsor business impacts.
- Over early 2020, asset and liability impacts have been modelled both as a shock to funding levels as well through steady haircuts to funding projections.
- The three scenarios used have also been modelled in such a way that asset impact can be isolated, or combined with liability impact.

What has been the outcome of this analysis?

- Results show clear downside risks from inaction, with more negative and sudden shocks a particular risk to journey plan stability.
- Interestingly the financial impact has been more significant when considering liabilities alongside assets, with a strong case for longevity hedging being made.

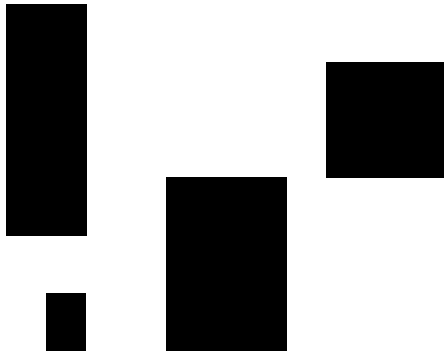


For more information

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