Resource and Environment Group

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NEWSLETTER

INSIDE THIS ISSUE:

Please contact us:

- If you have any suggestions for articles for future newsletters or would like to comment on this one
- If you would like to offer to help
- If you have any comments on any matter related to resource and environment

RESOURCE AND ENVIRONMENT GROUP — IN THE REAL WORLD

This issue contains reports on some environmental initiatives in which REG members are involved, and which have been publically supported by Government

We are listing below email addresses for the REG managing committee. It would be great to hear your views and suggestions. You can also contact Craig Ajimuda (craig.ajimuda@actuaries.org.uk) who is communities leader for the Profession. Many thanks to Simon Brimblecombe who has stood down from the committee.

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REG NEWS

Unburnable Carbon

We mentioned in the last newsletter the report from the Carbon Tracker initiative entitled, "Unburnable Carbon – Are the world's financial markets carrying a carbon bubble?". (In summary: if the world meets carbon reduction targets, much of the oil and coal assets presently included in balance sheets, and corresponding debt, will have questionable value.) This issue was taken up by a consortium, including academics, environmental NGOs and investment managers, who wrote in January 2012 to Sir Mervyn King at the Bank of England urging the Financial Policy Committee, which he chairs, to investigate this systemic risk. The Governor, whilst yet to be fully convinced, confirms in his response that the issue has been taken on board in their analysis and is subject to continued discussion.

Capital Markets Climate Initiative ("CMCI")

Some REG members may have come across this Government initiative (see: http://www.decc.gov.uk/en/content/cms/tackling/international/cmci/cmci.aspx), which aims to mobilise investment in developing countries for climate adaption and mitigation. A number of actuaries are involved, including Nick Silver and Trevor Maynard from REG. They were instrumental in arranging a successful workshop at Staple Inn in November, attended by Greg Barker, Minister for Energy and Climate Change, civil servants and various senior members of the Profession. CMCI needs to work as developed country governments committed (Copenhagen 2009) to mobilising $100 billion *a year* in climate solutions for developing nations by 2020, taking public and private investment together.

The Climate Bonds Initiative

Nick Silver is also involved as one of the leaders of this private initiative (see: http://climatebonds.net/), which is a not-for-profit organisation aiming to mobilise massive investment in climate solutions, especially through bonds. The Climate Bonds Initiative has three lines of work:

- Market Promotion – thought leadership and advocacy on how to encourage investment
- Market Facilitation – proposals for investment standards, government incentives and other actions to encourage investment growth
- Market Templates – examples of bond investment in projects such as renewable energy, energy efficiency, forestry and other sectors.

Nick makes the point that renewable energy and energy efficiency projects are particularly suited to bond finance. They typically require high initial capital and should generate a long term rising income from the energy generated or saved. Provision for debt repayment is also of course required to be made from the income stream.

The Climate Bonds Initiative is not a ratings agency like Standard & Poor's. Climate bonds will still need to meet existing standards, and be credit rated, in order for a vibrant, liquid market to develop. The standards developed by the Climate Bonds Initiative are designed to ensure that the finance generated by such bonds is indeed applied to climate solutions. This may facilitate investment by institutions who wish to devote a portion of their funds to such a category, subject to their fiduciary responsibilities. It may also lead to the development of specialist mutual climate funds aimed at individual investors.

The Climate Bonds standards certification may also be important where governments in the future provide incentives for investors in such projects. Certification may be a prerequisite to qualify for incentives. Greg Barker showed his support for these standards when speaking at their presentation in November last, which was concerned with wind energy projects.

The Climate Bonds Initiative is concerned with the supply of finance for climate solution projects. It is also involved in trying to encourage such projects and their "packaging" into investable propositions. However, it is typically governments who determine the framework for investment in energy generation and saving, and adaption to climate, and hence the investment demand. Private investors need to understand what regime will apply and have confidence that it will be maintained.

In our last edition we briefly surveyed the trend towards sustainable investment by institutions. This provides a favourable background for the Climate Bonds Initiative but it will also be the availability of suitable climate solution projects which will determine its success.

Sustainable Investment Survey

On the same theme, and continuing the series of investment surveys conducted by consultants Mercer, they reported this month (see: http://uk.mercer.com/articles/1210735) that most participants are increasing their engagement on climate change with companies and policymakers, and have begun or are planning to allocate more to "climate sensitive assets" (identified in the report as real estate, infrastructure, private equity, sustainable equities, efficiency/renewables and commodities, including agricultural land and timberland). It asserted that institutional investors could otherwise lose trillions of dollars over the coming decades as a result of "continued delay in climate change policy action and lack of international coordination".

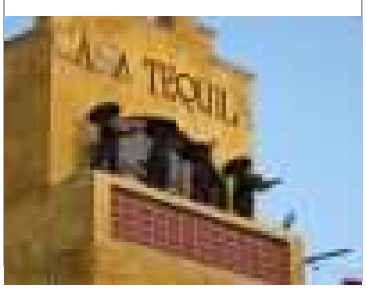
UK Climate Change Risk Assessment (CCRA)

This was published by DEFRA last month as the first of what will be regular five yearly reviews (there is a summary at: http://randd.defra.gov.uk/Document.aspx?Document=Summary_of_Key_Findings.pdf). It includes a mass of research material. However, it does not appear to bring out the potential financial impact of the main risks identified, for example in relation to water shortages, adaption costs or health changes. Nor does it appear to cover the cost of mitigation, for example in terms of carbon reduction policies. It is designed to be a baseline risk assessment before taking account of policies to mitigate those risks and, as such, seems to have received little publicity. Nevertheless, there is extensive consideration of various risks which will no doubt be of interest to general insurance actuaries in particular.

REG Googlegroup

REG has created this group so all members can exchange information as it emerges. In deference to our "Inbox", it is not intended as a discussion forum as such! We plan to set up a discussion forum shortly.

To join, email: resenv+subscribe@googlegroups.com



ASTIN

Would any REG member intending to go to Mexico City in October for the ASTIN colloquia please make contact. We would like you to present our 2011 Literature Review "Climate Change and Resource Depletion: the Challenges for Actuaries". A full briefing will be supplied!

Visit the webpage (if you log in you will have access to a more complete list of REG documents):
http://www.actuaries.org.uk/members/pages/resource-and-environment-member-interest-group