



Institute
and Faculty
of Actuaries

ECC priorities for holding Government to account

IFoA response to the Energy and Climate Change
Committee

13 August 2015

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.



The Energy and Climate Change Committee
House of Commons
London
SW1A 0AA

13 August 2015

Dear Energy and Climate Change Committee

The Energy and Climate Change Committee Priorities for Holding Government to Account

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the Energy and Climate Change Committee's inquiry to gather views on which Department of Energy and Climate Change (DECC) policy areas require scrutiny over the next five years. This response has been prepared by members of IFoA's Resource and Environment Board who have expertise in climate change and investment.

Which DECC policy areas do you think require particular scrutiny over the next five years?

We urge the Committee to scrutinise the following policy priorities over the next five years:

- The UK's contribution to international climate change negotiations
- Setting and implementing policies designed to achieve the UK's carbon budgets, in line with the Committee on Climate Change's (CCC) advice in this area
- Long-term policies to support investment in the UK's energy infrastructure.

The outcomes of international climate change negotiations, and their effectiveness in meeting the international target of limiting temperature rises to 2 degrees Celsius, will have an important bearing on insurers and pension funds, and hence the work of actuaries. Evidence from insurers and asset managers suggests that meeting the 2 degrees target is expected to result in better financial outcomes compared to scenarios with a higher temperature increase.

Policies that provide long-term certainty will be important to ensure the UK remains on track to meet its emission targets resulting from the Climate Change Act 2008 and provide investors with confidence to support a viable low carbon economy. The CCC's 2015 Progress Report notes the lack of policies beyond 2020. Furthermore, recent announcements such as withdrawing the Green Deal without announcing a replacement have introduced policy gaps and uncertainty in the shorter term.

In the UK there is a widespread recognition that substantial investment will be required, including in infrastructure, to transition to a low carbon economy and to assist with adaptation and resilience to climate change. This is not only to meet greenhouse gas emission targets, but also to address many of the more severe effects of climate change we might experience in the coming decades. The nature of infrastructure means that the choices made now will have a substantial impact on whether, and if so when, a transition to a low carbon, sustainable development path is achieved.

What should be the Committee's scrutiny priorities over the next twelve months?

As a priority the Committee should scrutinise the following areas over the next twelve months:

- The actual and proposed changes to the Renewables Obligation
- The UK's role in international climate change negotiations in Paris (COP21)
- The Government's response to the CCC's 2015 Progress Report and recommendations for the Fifth Carbon Budget.

The changes to the Renewables Obligation could have an important signalling effect to investors in energy infrastructure. Investments in energy infrastructure offer investors an avenue to diversify their portfolios and can provide stable cash flows for many years allowing them to match long-term liabilities with long-term income streams. Given the long-term nature of energy infrastructure investment, investors require policy and regulatory certainty when making decisions.

Recent announcements to end public subsidies for onshore wind farms are an example of policy changes that are likely to impact on future investments that could deliver stable long-term cash flows. The perception of abrupt changes in policy and lack of transparency in the decision process has increased uncertainty for investors. There is a case for reviewing the impact on investment of such changes, whether the incentives are or were at an appropriate level and the basis on which such decisions are made.

Finally, the outcomes of COP21 and the Government's response to the CCC's Fifth Carbon Budget will provide an important signal to investors regarding a long-term commitment to the UK's emission targets and the international 2 degrees target.

The IFOA would also like to express our interest in attending the stakeholder forum in Westminster on the morning of Tuesday 8 September.

Should you wish to discuss any of the points raised in further detail please contact Morgan Slebos, Policy Manager (Morgan.Slebos@actuaries.org.uk / 020 7632 1473) in the first instance.

Yours sincerely



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