Institute and Faculty of Actuaries

22 April 2020

My BEIS inquiry

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

Key points

The IFoA welcomes the Committee's call for evidence. The Committee's remit touches on a number of areas relevant to the work of actuaries and the sectors they work in – including investment and Green Finance. We have outlined below two key areas where we believe additional focus could be provided to ensure progress on Government policy is made.

The key two themes highlighted in this response include:

Financing the National Infrastructure Strategy
There is a need to address longer term under-investment in infrastructure and the soon to be published National Infrastructure Strategy presents an opportunity for the Committee to look at how far it goes in addressing the institutional investment gap. Barriers to investment need to be removed if the UK is to meet the shortfall in infrastructure. The Strategy should seek to do this by giving greater focus on sustainability considerations and providing greater resilience in infrastructure assets, to mitigate risks such as climate change, extreme weather events, and obsolescence due to rapid technological and social progress.

A Green Industrial Strategy
Every sector has a role to play in helping the UK reach net zero by 2050. Green Finance will play an essential role in funding the transition to a net zero economy and to bring the ambition of the Industrial Strategy to life. The Committee should consider how it can work in collaboration with other committees in the Green Finance area. This would have the added effect of providing consistency in the recommendations provided to Government, in a strong, collective voice.

Should you want to discuss any of the points raised please contact Katy Little, Policy and Public Affairs Assistant (Katy.Little@actuaries.org.uk) in the first instance.

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Financing the National Infrastructure Strategy

1. In his first Budget statement last month, the Chancellor Rishi Sunak announced the biggest programme of public investment in infrastructure for many years, with £600bn to be spent over this Parliament on housing, transport and broadband. This decision reflected the removal of some of the uncertainty around Brexit, but more importantly a recognition of the need to address longer term under-investment in infrastructure.

2. More detail will be provided in the coming months when the Government unveils its National Infrastructure Strategy. The launch of the Strategy, delayed because of the coronavirus outbreak, will present an opportunity for the Committee to assess its position on addressing the barriers to the development of the UK's infrastructure needs, with a particular focus on identifying reasons why such projects have failed in the past, and what can be reasonably done to help them succeed in the future.

3. One of the biggest barriers to infrastructure is the insufficient allocation of capital from business. Insufficient private investment is being committed to support priorities for new projects or for improvements to existing infrastructure. UK institutional investors face challenges if they wish to invest in infrastructure. Pension funds often lack the resources to research projects in depth, and defined contribution funds must also meet requirements for daily liquidity. Insurance companies need to reassure regulators that investments meet stringent solvency requirements.

4. In the long-term, a greater focus on sustainability considerations could change investment priorities and help to reduce the infrastructure investment shortfall. The UK has made domestic and international commitments to achieve environmental and sustainability targets, such as the Paris Agreement limiting carbon emissions, and the UN Sustainable Development Goals. To meet these targets, a considerable amount of new and resilient infrastructure will be needed, requiring significant capital investment. We have noted that if the externalities of all investments were incorporated into the risk assessment, this could level the playing field and bolster the fundamentally strong case for investment in infrastructure. In addition, a lifecycle approach should be used to value projects from inception to decommissioning. As these kind of approaches focusing on sustainability become more integrated into mainstream investment thinking, this could help to increase the overall allocation of investment to infrastructure projects with the right characteristics.

5. Part of solving the funding gap also lies in providing greater resilience in infrastructure assets, to mitigate risks such as climate change, extreme weather events, and obsolescence due to rapid technological and social progress. In a recent policy briefing we have argued that:
    - The Government or the National Infrastructure Commission (NIC) should issue guidance on how resilience options should be identified, how to analyse them, and how the work should be aligned with the procurement process to ensure that 'best value' is obtained
    - In developing solutions, there should be a focus on balancing 'quality of life' impacts against costs
    - The NIC has observed that resilience analysis is only currently used for larger public sector projects, but one reason for extending resilience analysis to smaller projects is the trend towards increasingly interconnected infrastructure
    - If the resilience analysis is fully disclosed to the investors, they will be better able to decide whether the degree of resilience adopted is sufficient for investment purposes.

A Green Industrial Strategy

6. The Government's Industrial Strategy will be essential in creating jobs, boosting productivity and encouraging investment across the UK. Green Finance will play an essential role in funding the transition to a net zero economy and to bring the ambition of the Industrial Strategy to life. Actuaries' expertise allows them to identify and manage long-term risk. They play an important role in promoting the understanding of climate risk, providing advice on investment portfolios, to promote stewardship and to allocate capital.

7. There are a number of barriers that exist to growing Green Finance in the UK. Failure on the part of decision makers within firms to recognise responding to climate risk as a shared responsibility is perhaps one of the greatest barriers. A shift is required to align the objectives of the financial system with net zero commitments. This will require a collaborative effort from policy makers, regulators and industry to create incentives to organise and direct capital towards green products.

8. Effective and thoughtful disclosure is essential to understanding the financial risks of climate change and for the purpose of enabling investors to make adequately informed decisions. The Government has recently taken steps to articulate that Green Finance is an important priority, particularly through the publication of the Green Finance Strategy in July last year. We welcomed the Strategy's expectation for all listed companies and large asset owners to disclose in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations by 2022. Actuaries can use their unique skills to play a vital role in driving the TCFD's recommendations by conducting scenarios analyses that identify risk exposure and the potential effects of various mitigation measures.

9. We also welcomed the Strategy's commitment to establish a joint taskforce with UK regulators, chaired by Government, which will examine the most effective way to approach disclosure, including exploring the appropriateness of mandatory reporting. We would encourage the Committee to take forward this exploration if it is not progressed by a joint taskforce.

10. A focus on this topic is timely given the commitments made in the recent Budget announcement around the Government's promise to 'deliver green growth and protect the environment', in particular the commitment of £10 m to support the design and delivery of net zero policies and programmes. This inquiry could support the Government in making decisions about where this funding goes and then provide this clarity to investors.

11. Finally, the Committee should consider how it can work in collaboration with other committees in the Green Finance area. This would have the added effect of providing consistency in the recommendations provided to Government, in a strong, collective voice. We note it would naturally fit with the Environmental Audit Committee's prior Green Finance inquiry, and the Treasury Committee's current inquiry into decarbonisation of the UK economy and Green Finance.

The Independent Review of the Financial Reporting Council

12. In 2018, Sir John Kingman conducted an independent review of the Financial Reporting Council (FRC), the regulator for auditors, accountants and actuaries. This followed a number of high profile corporate collapses, notably Carillion, which subsequently led to a joint inquiry by the Work and Pensions and the Business, Energy and Industrial Strategy Select Committees.

13. The Review recommends the replacement of the FRC with a new, independent regulator focused on the interests of consumers of financial information and with significantly expanded powers and objectives. It is suggested this new regulator be named the Audit, Reporting and Governance Authority (ARGA).

14. Since the review was published, some progress has been made by Government in implementing the review's recommendations. Most notably, this includes the Government's intention as per the December 2019 Queen's Speech to develop proposals on company audit and corporate reporting, including a stronger regulator with all the powers necessary to reform the sector (under the Employment Bill which is yet to be introduced to the House).

15. The IFoA has been engaging with HM Treasury and BEIS officials on the recommendations relevant to the regulation and oversight of actuaries. The IFoA believes that the model of professional self-regulation, subject to effective independent oversight, remains the most appropriate arrangement for the regulation of actuaries in the UK.

16. We understand that a government consultation, led by BEIS, is due shortly, which will set out potential regulatory frameworks for the sector to comment on. With this in mind, we do not believe this issue warrants a committee inquiry at this stage, however we would welcome the opportunity to brief the Committee on the actuarial aspects of the review – something we are uniquely placed to provide.