Bandwagon

The BWCI Group Newsletter

Issue 2
2021

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BWCI

Welcome to the summer edition of Bandwagon.

We now have confirmation that Guernsey's secondary pension arrangements will be phased in from January 2023 and this edition includes a summary of the key features of the new arrangements. Although this seems a long way off, many employers are already planning for it and setting up pension arrangements now.

Action to combat climate change is gathering pace. With Guernsey's Financial Services Commission having just announced changes to its Finance Sector Code of Corporate Governance, to highlight the need for boards to consider the impact of climate change on a firm's business strategy and risk profile, we take a look at how asset owners can start to consider climate change using climate metrics.

2021 *Bursary* Student

We are pleased to announce that Jordan Guillou has been awarded BWCI's 2021 Bursary.

Jordan has just completed his A Levels in English Literature, French and Maths at Guernsey's Elizabeth College and hopes to take up his place later this year at the University of Durham to study for a degree in English Literature.

Jordan is an accomplished musician, playing both the euphonium and trombone. He recently took part in the Guernsey Music Service's summer concert where he delighted the audience with a euphonium solo.

Our bursary programme is designed to provide both financial support and practical work experience for local students during their undergraduate studies. We aim to provide a wide range of experience in different departments. Jordan will be working with us during his university summer breaks and his first placement is in our pensions administration team.

BWCI *joins the* Guernsey Green Forum

BWCI is proud to be one of the founding members of the Guernsey Green Forum. Launched in 2021, this is a new organisation of Guernsey businesses committed to working together towards creating a more sustainable future. Its vision is to:

> *"champion by example that being sustainable is not just good for the environment, it makes good business sense."*

Each member of the Forum has pledged to collaborate and share knowledge that benefits our local environment and the global community. BWCI's Senior Partner, Stephen Ainsworth, is a member of the Forum's executive committee and is also leading a working group on Pensions, Rewards and Compensation.

Forum members have created a number of open-source fact sheets to share ideas and best practice. These cover a wide range of areas of business life, from suggestions on travel and how to make corporate events more sustainable to the areas to consider when reviewing the environmental impact of remuneration packages.

The factsheets can be downloaded from the Forum's website www.guernseygreenforum.gg.

Asbestos Working Party

One of our insurance actuaries, Michael Jones, has recently joined the Institute & Faculty of Actuaries' Asbestos Working Party. This specialist group investigates asbestos-related claims emerging in the UK insurance market to identify trends emerging in market data. The results of their research contributes back to the wider actuarial community.

Michael, who qualified as an actuary in 2018, is a manager in BWCI's insurance actuarial team. BWCI uses the output from the Asbestos Working Party to support some of our captive insurance clients that insure the historical asbestos exposures of their parent companies.

Michael said:

> *"This is a fantastic opportunity to give something back to the actuarial world and contribute to ongoing, high quality research coming out of the actuarial community."*

Secondary Pensions *coming in 2023*

Erin Bisson
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> *"BWCI offers a range of services to help employers meet their legal requirements under secondary pensions."*

What we know so far

It has been confirmed that the implementation date for secondary pensions has been delayed a year. Consequently, this significant change to Guernsey's pension landscape will now be phased in from 1 January 2023. Employees will be enrolled in phases over 15 months, depending on the size of their employer (in terms of number of employees), starting with the largest employers first.

This means that, at some point between January 2023 and March 2024, all Guernsey employers will need to automatically enrol "eligible employees" into a "qualifying pension scheme". This could be either the employer's own scheme, a pension product (such as BWCI's Blue Riband range), or the new default States' scheme "Your Island Pension".

Employers will be required to contribute towards their employees' retirement savings, unless an employee has chosen to opt out. The long-term joint employer/employee contribution rate is 10% of earnings[1], with a minimum rate of 3.5% of earnings from the employer.

The structure of secondary pensions is expected to be the same as that approved by the States of Guernsey in February 2020. The table provides a brief summary.

Next steps

BWCI offers a range of services to help employers meet their legal requirements under secondary pensions.

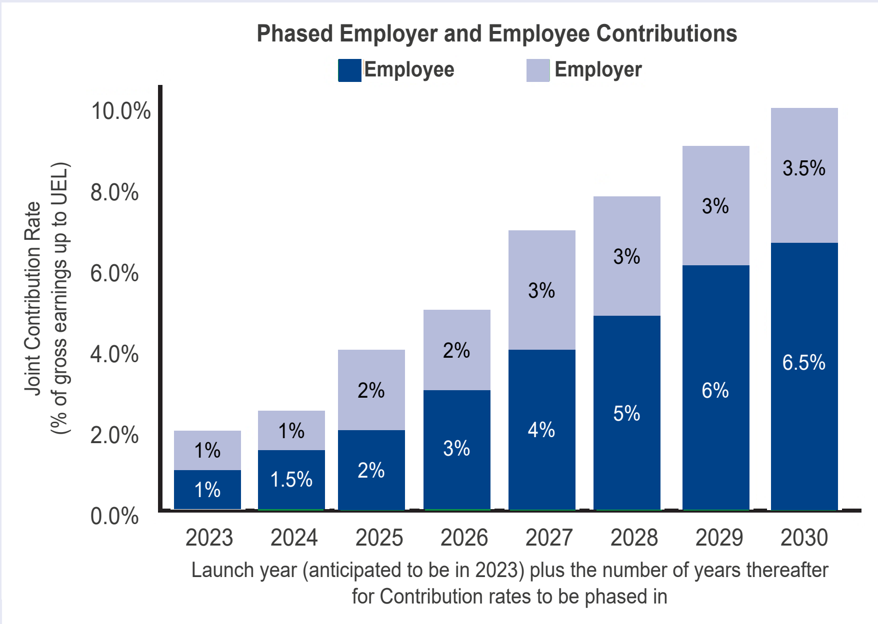
Employers with pension arrangements
Some employers are already well-advanced in reviewing their existing pension arrangements and considering if they need to make any changes. However, others will have been waiting to have the commencement date confirmed or for the full legislation to be available, before taking any action.

Employers without pension arrangements
We have seen a large number of employers who do not currently provide a pension scheme, or who pay cash in lieu of pension contributions, now setting up a corporate scheme. Often this is in conjunction with their annual pay review, or when setting next year's budget. There is also now a greater focus on the level of pension provision from prospective employees in the recruitment process.

Help from BWCI
If you require any assistance in the lead up to the implementation of Secondary Pensions, BWCI can offer a range of services tailored to the individual requirements of different employers:

- A complete local pension solution through one of our existing qualifying pension products.
- Flexible solutions for all companies; large, small, commercial and finance sector.
- Bespoke solutions for companies with complex needs.
- Advice on how to make your existing pension arrangements meet secondary pensions requirements.

If you have any questions, or would like to discuss any of the above, please contact us.

	Key Features of Guernsey's Secondary Pensions
Who will be affected?	All employees aged between 16 and State Pension Age who earn enough to pay Social Security contributions, unless they are covered by an exemption.
Who will be enrolled first?	Largest employers will be enrolled first. These are those with 25+ employees; smaller employees will be phased in over the following 15 months.
What flexibility is there to help with the administrative burden?	• Option to defer auto enrolment for up to 3 months • Students in full time education who are also working will be exempted • It will be possible to auto enrol employees in "batches"
What are the minimum contributions?	Initially the joint employee/employer contribution rate will be 2% of earnings (split 1% employee and 1% employer), rising gradually to 10% (6.5% employee and 3.5% employer) in 2030. Employers can opt to pay more than the minimum contribution rate, in which case the employee is able to pay less, provided the combined rate is not less than the minimum total contributions required.
How will the contributions be phased?	Contributions will be phased in over 7 years, as illustrated in the chart. 
What is expected to be a qualifying scheme?	• A scheme will need to be approved by the Revenue Service under section 150 or 157A of the Income Tax (Guernsey) Law, 1975. • Schemes would need to be based in one of Guernsey, Jersey, the Isle of Man or the UK • Qualifying Guernsey schemes will need to be regulated by the Guernsey Financial Services Commission

[1] The same earnings as those on which Social Security contributions are based

Net Zero
Climate Metrics

Carl Stanford
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> *"The first stage to understanding climate risk"*

Introduction

The race to Net Zero has begun!

At a global level many nations are implementing policies and legislation to facilitate the transition to "Net Zero" by 2050 or earlier - the goal of balancing carbon emissions produced with those absorbed from the atmosphere. However, it is not just at a government level that action is required; all asset owners need to consider what steps to take to mitigate climate change risk in their portfolios.

Impact on Pension Schemes

There are various aspects to climate change risk that pension scheme trustees need to consider, from the potential impact on the sponsoring employer's business to the scheme's portfolio of investments. With many defined benefit schemes already being closed and becoming increasingly mature, looking ahead, defined contribution ("DC") schemes will have an increasingly important role to play in supporting the decarbonisation transition. Many pension scheme trustees are recognising that a rapid move to Net Zero is likely to be the most cost effective action to take to mitigate the financial effects of climate change risk.

Drivers for change

New pensions regulations in the UK, the desire to align pension schemes with corporate Net Zero policies and increased public concern and awareness of the impact of climate change are all accelerating the adoption of Net Zero policy objectives. There are also a number of industry-led initiatives, including the Paris Aligned Investment Initiative and the Net-Zero Asset Owner Alliance, to assist asset owners with the transition.

Pressure for change is also coming from the pension scheme membership, who are being asked to "Make My Money Matter" and challenge pension scheme trustees to adopt more sustainable investment options and become "Net Zero Heroes".

Recognising that failing to incorporate climate change into DC investment options and, in particular, the default investment option, risks poorer outcomes for members. In the future there could even be the potential for legal action against those governing pension schemes who fail to take appropriate and timely action. Consequently DC scheme trustees are increasingly reviewing their investment options, with a view to aligning them with Net Zero by 2050 or sooner.

Where do you start?

The first stage to understanding climate risk in an investment portfolio is to determine the level of Green House Gas (GHG) emissions within the portfolio. This then provides a baseline for future actions and monitoring against a Net Zero objective.

With some investment managers being accused of over promoting their ESG[1] credentials and the number of different climate metrics being used, this is not always straightforward. We thought it would be useful to take a closer look at the rapidly developing area of climate metrics and how they can assist in tracking progress towards reaching the Net Zero objective.

Carbon Metrics

There are several different measures available. However, each one is looking at things from a different perspective.

Total Carbon Emissions

Carbon dioxide equivalent (CO_2e) is a standard unit to compare the emissions of different greenhouse gases (GHG). Total carbon emissions is a measure of the absolute tons of CO_2e for which an investor is responsible. Under this approach, for each equity held, a company's total emissions are apportioned to the investor based on the proportion of the company's shares they hold. These emissions are classified depending on whether they arise directly or indirectly from an organisation's operations.

Scope of Green House Gas (GHG) Emissions

Classification	Description
Scope 1	All direct GHG emissions from sources owned or controlled by a company. For example, emissions from company-owned cars, or heating.
Scope 2	Indirect GHG emissions from consumption of purchased or acquired energy, such as electricity.
Scope 3	Indirect emissions from sources not owned or controlled by the company. For example, emissions as a result of transportation and the use of sold products.

As corporate supply chains can be complex, Scope 3 emissions are harder to quantify and less data may be reported.

Carbon Emissions

Total carbon emissions are directly linked to the size of the portfolio. To make it easier to compare portfolios of different sizes, carbon emissions can be normalised by expressing them as carbon emissions per $1m invested. While enabling easier comparison between portfolios, this does make this metric sensitive to changes in the market value of the portfolio.

Carbon Intensity

Rather than express carbon emissions per $1m invested, carbon intensity measures the carbon emissions per £1m of sales generated by the portfolio measured over the same period (tCO_2e/$m). This is a more accurate measurement of the efficiency of output, rather than a portfolio's absolute footprint.

Weighted Average Carbon Intensity (WACI)

WACI measures a portfolio's exposure to carbon intensive companies. Instead of carbon intensity being calculated at a portfolio level, it is assessed at a company level. The carbon intensity of each company within the portfolio is then multiplied by its portfolio weight, to arrive at the weighted average carbon intensity for the portfolio. Unlike the previous metrics, carbon intensity is apportioned based on portfolio weights rather than the portfolio's share of market capitalisation. It is simple to calculate and can be used across all asset classes - not just equities. In addition, WACI is the metric preferred by the Task Force on Climate-related Financial Disclosures (TCFD).

Data Limitations

The level of reporting and quality of carbon data available for different entities varies, but it is continually improving. Where data is not yet available directly, ESG research and rating companies can be used to provide estimates of the emissions.

continued...

[1] Environmental, Social and Governance

Other Analysis

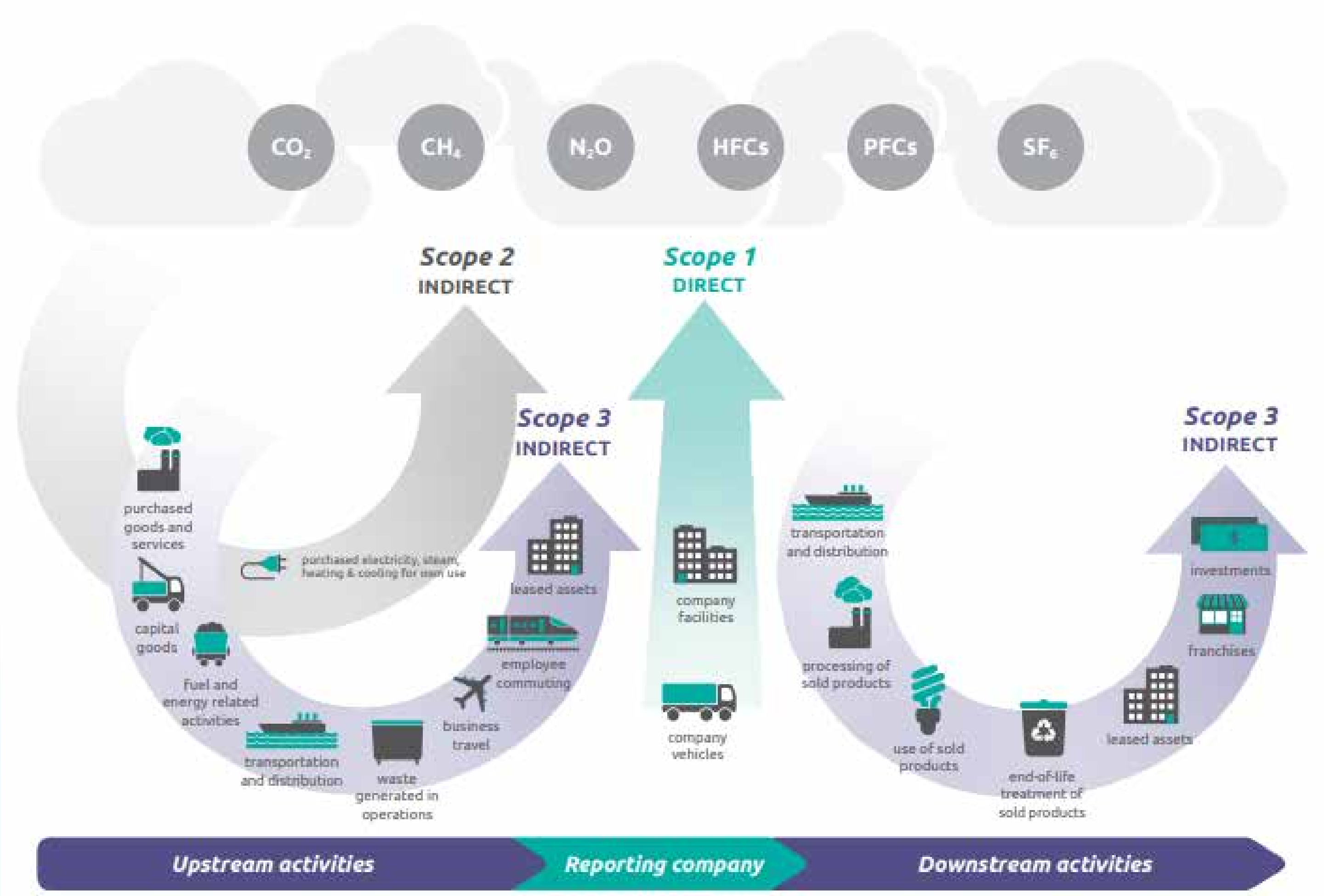
While all of these carbon metrics provide a useful snapshot of the overall carbon exposure of a portfolio, further analysis and metrics are needed to manage climate risk and alignment with Net Zero. A key step would be to set targets for the carbon metrics and then monitor progress towards them over time.

Care needs to be taken when considering how to use the data. This is because two companies with the same level of carbon emissions could still have very different policies for carbon reduction in the future and so may be exposed to very different levels of climate-related risk. Considering metrics on Fossil Fuel Reserves and the alignment of company policies with Net Zero for example, could further assist in reducing a portfolio's climate risk.

Future Developments

New regulations will require UK pension schemes to produce climate reporting in line with the TCFD recommendations. This includes obtaining GHG data (Scope 1, 2 and 3) as far as trustees are able and calculating at least three climate change metrics, including a carbon intensity one. Trustees must then select and monitor a metric against their chosen target. Initially this has been introduced for the largest schemes, with reporting starting for scheme years ending after 1 October 2021 for schemes with assets greater than £5bn; from 1 October 2022 schemes in the £1bn-5bn bracket will also be included. A further review of these requirements is scheduled in 2023, with the expectation that climate change reporting will be further extended to smaller schemes.

Overview of GHG Protocol scopes and emissions across the value chain



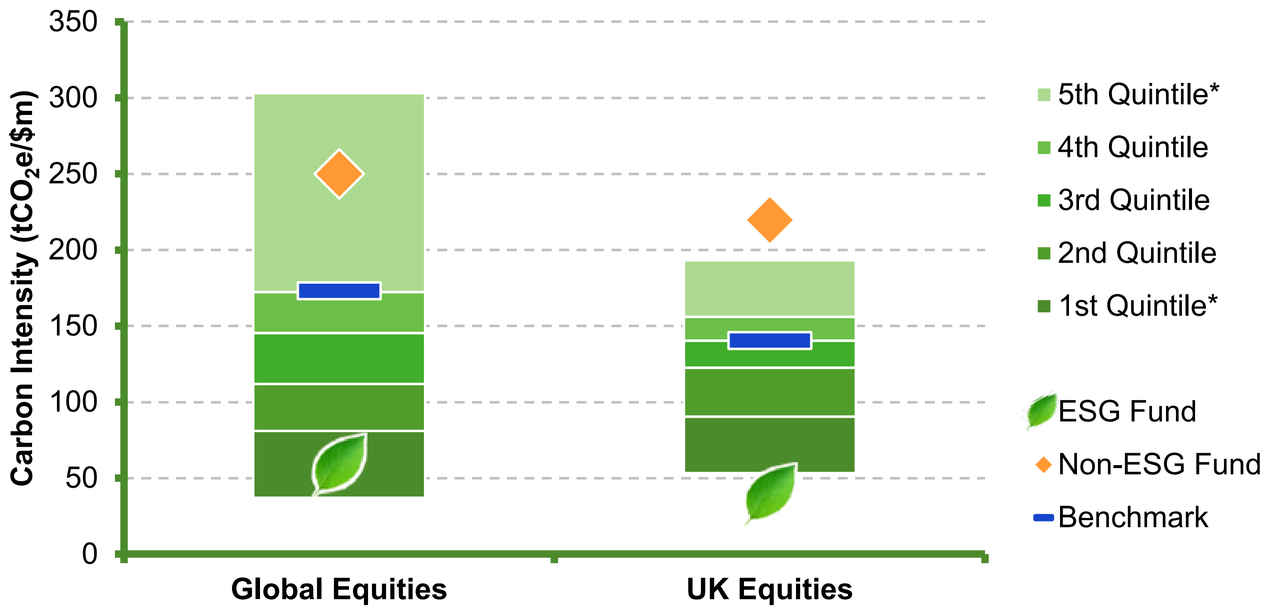
Source: Figure 1.1 from the 'Corporate Value Chain (Scope 3) Accounting and Reporting Standard' report - Greenhouse Gas Protocol

How can we help?

BWCI is already assisting clients with the reporting of climate metrics and monitoring these against targets. In addition, a number of our clients have carried out a review of their own DC scheme investment options. As a first step, some have decided to ensure that sustainable investment options, including lifestyle options, are available to members and future reviews are also planned. Other schemes' trustees have already gone further and are incorporating sustainable funds into the default investment option.

We have recently subscribed to Morningstar Direct which is an investment analysis platform. This has enabled us to expand our regular unit fund performance monitoring reporting to include climate metrics for unit funds.

The peer comparison graph below illustrates an example of the type of climate change metrics analysis we are now able to provide.



* top and bottom 5% are excluded

New ORSA Requirements:

Climate Change Risk Scenarios

Clair Le Poidevin
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"the wide-ranging indirect impacts need to be considered"

What's changing?

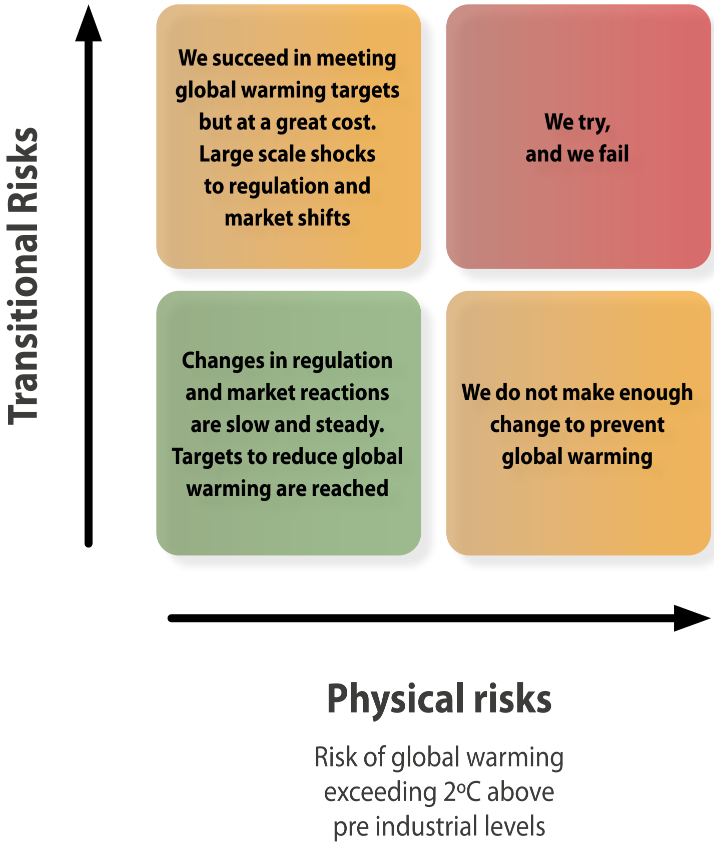
New EIOPA[1] guidance is being introduced which specifically requires (re)insurers to include climate change risk scenarios as part of their long term risk assessment and own risk solvency assessment (ORSA). Consequently (re)insurers will need to consider how to assess their business critically, to identify and measure material risks related to climate change.

What are climate change risk scenarios?

Risks related to climate change are typically classified as physical or transitional:

- Physical risks relate directly to the environmental impact of climate change, such as increased flood exposure.
- Transitional risks reflect the uncertainty and the potential for 'step-changes' which are experienced in the insurance industry and wider financial markets. These could arise due to policy and legislative changes as governments around the world take action to limit the impact of climate change.

Climate change scenario analysis is an evolving area; one method of choosing appropriate scenarios could be to consider the extent of physical and transitional risks as two ranges as shown in the chart. Different scenarios could then be generated by considering multiple positions on this two dimensional space.



For example, a scenario which considers high transitional risk / low physical risks (top left of the chart) might be:

- Transitional Risk (HIGH) A significant reduction in the market value of assets held in any investment which is not classified as green and/or sustainable, and
- Physical Risk (LOW) A moderate increase in flood risk exposure for property insurance.

(Re) insurers also need to reflect on the time horizon for climate change risk scenarios, as the timeframe may well need to be longer than that used in their current projections.

Are these risks already covered in the current Solvency II framework?

The short answer is "No".

The regulatory Solvency II assessment does prescribe stressing risks, such as market decline and natural catastrophe events. Individually these stresses could represent some of the impacts of climate change. However, combined scenarios specific to climate change are currently not prescribed.

Under current guidance, ORSA's should contain stress scenarios specific to each business. From a recent survey[2] by EIOPA only 13% of businesses had made reference to climate change risk scenarios in their ORSA.

What's the impact?

The risks caused by climate change will impact all (re)insurers, even if they are not writing risk which could be impacted directly by the extreme weather events. This is because the wide-ranging indirect impacts need to be considered as well. For example:

- Increased default risk on their reinsurance contracts based on their own reinsurer's direct exposure to climate change.
- Significant market changes caused by new technology or legislative changes which drastically reduce worldwide oil consumption.
- Increased operational risk from non-compliance with climate change-related legislation.

Timescale

The new ORSA requirements come into effect from April 2023. While this is nearly two years away, (re)insurers are encouraged to start work, as soon as possible, to ensure that their scenarios are as relevant as possible for their business.

When considering future risk, irrespective of jurisdiction, the EIOPA guidance provides a framework for considering climate change risk scenarios in ORSAs.

Please contact insurance@bwcigroup.com for further information on how we can help your business in designing climate change risk ORSA scenarios.

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[1] European Insurance and Occupational Pensions Authority

[2] Research conducted by EIOPA

Thirst Music School's Battle of the School Bands 2021

BWCI were proud to sponsor the Thirst Music School annual event, Battle of the School Bands 2021.

Congratulations to 'Far from Nothing' from Elizabeth College who were this year's winners.

All the bands who took part were incredible and gave the 400-strong audience a brilliant evening of music.

BWCI Bandits

Our Touch Rugby Team

The BWCI Bandits are back in action in the KPMG Touch Summer League.

BWCI Bucanneers

Our Rowing Team

The BWCI Bucanneers after completing the 5.9km sprint from Guernsey to Herm.

Diary *of* Events *2021*

(Provisional dates, subject to Covid restrictions)

24/25 JUL — ***Guernsey Alzheimer's Association Garden Party***

14 AUG — ***BWCI Open Castle Charity Swim***

22 AUG — ***Guernsey Alzheimer's Association Tower to Tower Walk and Run***

20/21 NOV — ***BWCI Camerata Weekend***

The BWCI *Festival* of *Football*

Due to the Covid 19 travel isolation requirements, we once again reverted to a purely local format for the 2021 Festival of Football. We were delighted that 47 individual teams across four school year groups signed up to play in an action packed weekend of football. The weekend culminated with the Year 5 tournament for the BWCI Shield and BWCI Plate.

We would like to thank the Guernsey Football Association for their hard work in putting this festival together.

Winners/ Final Scores

BWCI Shield
Guernsey Rangers Rapcats 2 – 0 Rihoy North

BWCI Plate
Guernsey Rovers 0 – 1 Bodyline St. Martins

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