



What are the key risks?

1. Policy & Legal

- Higher costs due to more taxes, carbon pricing and higher insurance costs
- Regulation of existing products or services
- Increased exposure to litigation



Transition risks

2. Technology

- The substitution of existing products and services with lower emission options
- Unsuccessful 'green' investment programmes
- Cash required to invest in technology

3. Market

- Changing consumer behaviour
- Increased costs (eg raw materials, energy)
- Challenges associated with sourcing finance

4. Reputation

- Shifting consumer preferences
- Increased stakeholder concern / negative feedback
- Stigmatisation of a business / sector



Given the long duration of many defined benefit liabilities, climate change outcomes can have a much greater adverse impact on pension schemes when compared to other shorter-term creditors.

Jonathan Wolff, Partner & Head of Covenant Services



Physical risks

1. Acute risks

The increased likelihood of extreme weather (eg droughts, floods, wildfires), increasing operating costs, capital expenditure requirements and higher insurance costs.

2. Chronic risks

Longer term systemic changes to weather patterns, which could result in significant operational impacts (eg mass migration, relocation requirements, supply chain).

Climate change is an immediate risk. Sponsors not adapting to stakeholder expectations are at risk of reputational damage and losing competitiveness. Successfully transitioning towards greener solutions will be a key determinant for future success.

John Parnis England, Senior Consultant



In practice, it is possible that a scheme's covenant is impacted at the same time that macroeconomic risks materialise, impacting a scheme's funding position. The most effective approach to understanding and managing climate risks over a scheme's journey plan is through collaboration across trustees, sponsors and advisors.

Francesca Bailey, Partner

How we can help you

Assessing the covenant exposure to climate risks and opportunities

Assessing the implications of our conclusions in the context of a scheme's journey plan

Incorporating climate considerations into covenant monitoring

Engaging with scheme sponsors on climate issues (eg with the sponsor's finance team or sustainability representative)

Suggest and implement a suitable method to monitor and reassess the covenant's exposure to climate risks and opportunities

Supporting with TCFD disclosures (with other advisors) and climate scenario analysis.

At LCP, we have a number of dedicated experts to ensure that our clients are adhering to the most recent regulations in relation to managing climate risks and opportunities.

Simon Coomber, Partner & Scenario Analyst

An overview of our climate experts



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Recent recognition
of LCP's Covenant
Services team



At LCP, our experts provide clear, concise advice focused on your needs. We use innovative technology to give you real time insight & control. Our experts work in pensions, investment, insurance, energy, financial wellbeing and business analytics.

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