Retail Finance and a Green and Fair Recovery:

An Agenda for sustainable and responsible investment options for UK savers and investors

Introduction

The EIRIS Foundation aims to help strengthen both the green and ethical investment options available for individuals and the information available about these options to ensure that people are fully aware of their choices when it comes to ethical finance.

Many people in the UK are unlikely to see themselves as investors. However, particularly with the introduction of auto-enrolment employer pension schemes, the majority of working-age people invest in some way through their pension or personal savings. In the same way that people use their power as consumers to choose what products to buy; they can use their power as investors to choose who manages their bank accounts, savings and pension pots, in order to make a difference. Moreover, individuals can engage with their banks and pension providers to encourage them to increase their ethical investment offering and to be more transparent about what they offer. There is a growing awareness among individuals and organisations that our financial system needs to shift urgently to one that best serves people and planet. Part of this shift means that we need to know which financial institutions are the most serious, and active, with regards to addressing the need for a green and fair recovery post-Covid and in the midst of our current social and environmental emergencies.

How can individuals tell which financial institutions/products are doing more than others, and so make better-informed decisions about who manages their money? The EIRIS Foundation has conducted research on three types of organisations that individuals might interact with when planning for their financial future: pension funds, banks and fund managers. The organisations and funds have been measured against a set of six ethical themes, which were based upon current events, including reactions to COVID-19 and the Black Lives Matter movement, as well as longer term strategies such as Net Zero Portfolios, the Task Force on Climate-related Financial Disclosures and the Sustainable Development Goals. In addition, the organisations and funds were judged on how easy to find and understand the information was likely to be for an individual. The research was combined to form an extensive data set.

The idea for this project was developed in partnership with the UK Sustainable Investment and Financial Association (UKSIF). UKSIF host Good Money Week every year; a campaign to help grow and raise awareness of sustainable, responsible and ethical finance. UKSIF had advised that they would like to use the data to help inform consumers about which retail products and providers can best support and facilitate a ‘Green and Fair’ recovery post-COVID. They subsequently used the data set in a Good Money Week guide for consumers: Clean Slate Green Slate: A beginners Guide to Clean, Green and Kind Money.

Research and Methodology

Choosing criteria

Given the current socio-economic, political and cultural upheavals taking place across the world, we attempted to focus our methodology within the context of a green and fair recovery. We have attempted to help individuals answer the question of how the organisations which are managing their money are using it to ‘build back better’ and address current environmental and social issues we currently face. With this in mind, we developed our ‘Green and Fair Recovery’ criteria based on the following themes:

- Covid-specific response
- Equality & Diversity initiatives including responsiveness to the Black Lives Matter movement in particular
- Climate Change initiatives and solutions
- UN Sustainable Development Goals (SDGs) inclusion
- Investing in a better future: Lending support for creative solutions including for Small and Medium-Sized Enterprises, Low-Carbon focus, and SDGs focus
- Working with other organisations in the sector through impactful and collaborative commitments

Over the last decade, responsible investment has grown in popularity. Whereas it was previously considered more of a niche area within financial institutions even a decade ago, we now see numerous campaigns and commitments striving to bring about more ethical financial options. Collaborative commitments are thus becoming increasingly important, as without them, the responsible investing industry can be prone to ‘reinventing the wheel’ instead of benefitting from collective action.

Choosing the organisations & funds

In selecting the universe of organisations, we tried to cover as much of the UK market as possible in terms of size, scope, number of individuals and business models. The following considerations were made when choosing which organisations and funds to include:

- 21 banks were chosen. The baseline criterion for banks was whether a current account is offered in the UK. The 10 largest UK retail banks were included and an additional 10 were chosen based on the largest building societies, number of customers and/or varied business models. Triodos Bank was also included as a bank who markets themselves as ethical.
- 48 pension funds were chosen. 25 of the largest were included, measured by Assets under Management (AuM). A further 8 Local Government Pension Scheme pools and 14 Master Trusts based on number of members were also included.
- 148 Retail investment funds (and their relevant fund managers) were chosen. 137 Open-ended Investment Company funds and the largest 11 (over £100m) Life and Pension funds were included as provided by SRIServices.

Conducting the Research

All the organisations included in the research were initially contacted and asked to provide a range of the publicly available information they had relating to their organisation and financial products. In total, 48.6% of the organisations responded. A team of researchers then collated this information, alongside their own research which considered public information, particularly of those organisations that did not reply to the request for information or that only provided a partial response. All organisations were then sent the information that was collected on their organisation, to give them the chance to highlight any potential inaccuracies or to provide additional relevant information.

The team of researchers then worked under a tight deadline to analyse the large amount of data.

As part of the research, the track record of banks and fund managers as good employers was analysed. This includes any actions they've taken related to diversity and inclusion, and responses relating to the covid-pandemic. It was felt that this wouldn't be as relevant for pension funds whose workforce often consist of a very small number of employees.

As individual investors often have less say in who their pension provider is relative to their other investments, we wanted to make sure the research included the largest pension providers so as to cover as many individual investors as possible. We hope that this will help people better engage with their existing pension fund, rather than necessarily switching schemes.

Findings

Transparency

Whilst overall findings were broad and varied, what really stood out was how difficult the information was both to find and to understand. It should be noted that where there were disclosure requirements as a result of regulation, for example on pay gaps, it was far easier to gather and compare data.

Lack of standardisation: Companies report on topics in a variety of different ways, which makes it difficult for an 'apples to apples' comparison of the data. There were very few cases of data being standardised.

Use of Audience filtering: Companies often ask users to filter themselves based on the type of investor they are when visiting their site. This meant users would receive different information depending on whether they are an individual investor, a charity, a financial advisor etc. However very little of this information needs to be filtered and should be accessible to all users. The filtering systems make it a lot more difficult for consumers to get the information they need.

Use of Jargon: It would be incredibly difficult to make sense of the data without knowledge of the lingo and jargon used by these industries.

Time constraints: To put the project into context for the individual, if a single researcher was to do this project it would have taken approximately 3 months of their time to conduct the research and outreach needed to compile the data. This does not then include interpreting the data. Individuals are therefore unlikely to have the time or ability to conduct the necessary research to make an informed choice.

Responsiveness

Fund managers were the most responsive group, with 80.4% of managers responding to our communications. This did not however necessarily correlate with the fund managers' scores against the criteria. Banks were more forthcoming with information about current events in particular, perhaps due to the public facing aspect of banks, which generally employ more people and have a retail presence.

Conversely, it was very difficult to find information reported by pension funds and only 23.4% responded directly to our questionnaire and company profile summary. Some pension funds argued that as their fund was not directly available to individual investors as the investing was done via their employer and therefore their participation in the survey would be irrelevant. However as for many people their pension fund is their largest investment, it is likely that many individuals want to know how their pension funds are contributing to a green and fairer economy and may also want to engage with their pension fund regarding this.

Black Lives Matter and Equality & Diversity initiatives

Banks had a good response on Black Lives Matter (BLM), with two-thirds of entities having some sort of positive statement and action related to BLM. Two-thirds of fund managers and nearly all pension funds however made no positive statement or action on BLM.

From all of the banks and fund managers we researched, only two banks and four fund managers have disclosed the number of self-identified BAME Board members or have targets to increase the number of BAME board members.

Covid-specific response

Banks and fund managers had poor showing on the Covid-related criteria, with only five banks providing an employee-specific response that supported work/life balance, particularly with respect to childcare and family sharing duties.

Climate change

Action on climate change and related issues were mixed, but generally most organisations had engaged with the topic in some way. Two-thirds of banks have a statement related to the support of the Task Force on Climate-related Financial Disclosure (TCFD). Most of the larger banks however continue to have stakes in fossil fuel investments, though some of them are beginning to focus on renewables.

We found that Pension funds had some good showings on climate change and TCFD-related criteria, with many being members of UKSIF. However, they showed no strong commitments to Net Zero Portfolio reporting.

Sustainable Development Goals (SDGs)

Whilst the other organisations have some mention of Sustainable Development Goals (SDGs) targets, Pension funds had poor communication on SDGs.

It must be noted that whilst these organisations seem to recognise the importance of highlighting the UK SDGs, when looking more deeply into how organisations applied SDGs to their operations, we found that many refenced consideration of the 17 goals without substantial evidence that this had translated into action around investment decisions or business operations. Some companies cherry picked specific goals that they felt most relevant to them, which misses the aim of the goals, which are interconnected and intended to be thought of collectively. This experience emphasises the real need for more guidance and coordination on SDG reporting.

Market comparison

Whilst researching the retail investment funds, we analysed the fund portfolios and compared this to market averages. Reassuringly, the carbon footprint of funds in aggregate was significantly less than the carbon footprint of the market in aggregate. 20% of the funds covered had two times the market exposure to sustainable goods and services. The funds were similar to the market on energy transition to low carbon, but some funds did perform better than the market. Quite a few fund managers had net-zero strategies that covered all their funds.

The funds were noticeably better on SDGs compared with the market more broadly.

Call to Action

It is clear first and foremost from this research that the lack of accessible disclosure from these organisations is a real shortcoming which impairs the ability for individuals to engage with or choose between providers.

In light of this, we are making the following recommendations to enable a more transparent sector which starts to empower individuals:

We ask that the financial sector **provides better disclosure** by making the substance of products concise, clear and tested for understanding with customers, so individuals feel empowered to engage with or choose between providers. Providers should test their literature on focus groups to make sure people understand it.

For Fund Managers

- Fund managers should have a clear statement of any engagement objectives and an evidence-based discussion of their successes and challenges.
- If Fund managers are signatories of the Stewardship Code, this should be easy to find and in language easy for investors to understand.

For Funds

- Wherever possible, information on funds should be available outside filters or paywalls
- Funds should ensure their full portfolio is readily available.
- Funds should have a straightforward statement of their investment selection criteria, including in relation to the EU or UK taxonomies, pathways to net zero and the SDGs.
- Funds should publish what collaborative initiatives they have joined, including what contribution they have made to the success of those initiatives.
- Funds should provide clarity on any fund-specific engagements.
- Funds should publish a statement of the extent to which their firm as a whole is pursuing the issues that form part of their fund criteria.
- Negative screens should be clearly stated, and attention drawn to any limitations on their scope (for example indirect holdings, or large involvement that forms a small % of their business, or a ban or production, but not sale). The aim should be "no surprises" if a client were to take the time to fully understand what they excluded and what they did not.

For Pension Funds

- Pension Funds should disclose their portfolio holdings.
- Pension Funds should provide clarity on who is responsible for their ESG approach (and responses to members on ESG questions).
- Pension Funds should provide clarity on any available ethical options.
- The ESG approach of any pension fund should be explained in sufficient details so consumers can grasp what difference it might make. It should also be made clear how managers are implementing this policy.
- Pension Funds should ensure they are following the recommendations of the Task Force on Climate-related Financial Disclosures.

Banks

- Banks should provide a statement of purpose to help consumers understand the extent to which ESG considerations are integral to their operations.
- Banks should state how they assist or encourage their clients to give more weight to ESG considerations.
- Banks should provide impact reporting in line with the Principles for Responsible Banking. This involves a) analysing current impact on people and planet, b) setting targets where you

have the most significant impact and implementing them, and c) publicly reporting on progress.
- Banks should align best practice on reporting on tax, diversity and support for SMEs.

We ask that the financial sector **combats greenwashing and works to reinforce integrity.** Greenwashing occurs when providers deliberately aim to mislead consumers to suggest that a product or action has higher ESG credentials than it does. This could occur for example when a fund provider does not explain to a consumer who wants to completely divest from a particular industry (e.g. fossil fuels), that their screen does not apply to indirect holdings.

- At a minimum, claims should be compliant (and checked for compliance with) the Advertising Standards Authority' Legal, Decent, Honest, Truthful formula and their green claims principle.
- Providers need to have clear disclosure of their approach and holdings or loans.
- There should be clarity and accuracy about what sort of ESG impact you are offering to deliver (with due modesty, but clarity about how you are different).
- There needs to be independent scrutiny (including through suitably empowered boards), labels, genuine dialogue with client and those with experience/standing in relation to your ESG objectives. Reporting should happen against externally determined KPIs/benchmarks.
- Contribution to goals and transformations should be genuinely ambitious rather than overselling 'small steps'.
- Forums should exist for investors to ask questions, get answers and engage with decision-makers. The industry could create a prize for the provider that provides them most clarity.

We ask that the financial sector **better considers and implements ESG issues and best practice.**

- Provide clarity on how they can take a lead on emerging issues (including Diversity and Inclusion, NetZero movement, and Building Back Better)
- Fund managers need to ensure their retail products reflect the leading edge on industry initiatives.
- Increasing innovation (what unsolved problems can you address) around sustainable finance and support for SMEs in particular.
- Fund managers need to catch up with banks on issues such as diversity and tax reporting, and both need a clearer stance on supporting the economy and building back better.

Conclusion

While we are long way from a truly sustainable financial system, there are leaders contributing to a Green & Fair recovery. No one company stood out as the ultimate scorer across all the criteria, but there were specific company practices, processes and systems that can be highlighted and refined. We will work in the coming months to draw out these practices that are clearly contributing to a Green & Fair recovery. We can draw lessons and use collaborative initiatives to share best practices. What is imperative is that the sector becomes more transparent and works to enable individuals to become active consumers who have the information they need to decide who manages their money.