



UK Social Investment Forum

Holywell Centre, 1 Phipp St, London EC2A 4PS
Email: info@uksif.org

Tel: 020 7749 9950
Web: www.uksif.org

20 March 2007

Personal Accounts White Paper Team
Department for Work and Pensions
4th Floor, The Adelphi
1-11 John Adam Street
London WC2N 6HT
Email: personalaccounts-wp@dpw.gsi.gov.uk

Dear Personal Accounts White Paper Team

Response of the UK Social Investment Forum (UKSIF) to the Consultation on the Personal Accounts White Paper

Thank you for the opportunity to comment on the Personal Accounts White Paper. This submission addresses Chapters 3 and 5 of the White Paper. It has been informed by our earlier response to the Pensions White Paper and by a consultation seminar with our members in early March at which DWP officials kindly outlined the White Paper's proposals.

Summary

In relation to **Chapter 3** on the governance and delivery of the system, we have highlighted that the personal accounts system must act as a responsible long-term asset owner on behalf of its members and beneficiaries, paying due account to sustainable development and to standards for good governance and responsible ownership such as the Myners principles. It is essential that the governance, transparency and reporting arrangements for the system should support and encourage this and should require and enable the system to follow emerging international best practice in sustainable procurement of pension investment.

In relation to **Chapter 5** on the investment of pension contributions, and specifically its proposals on Social, Environmental and Ethical (SEE) Investment, we welcome the government's continuing support for SEE investment options although we are concerned that the proposal in the Pensions White Paper to "ensure" that SEE investment options are available has been downgraded in this white paper merely to an expectation that this will occur. We have made proposals for strengthening this commitment.

Introduction

Within a short length of time, **the personal accounts system will be a globally significant institutional investor with assets held on behalf of members having power and hence responsibilities in relation to capital allocation and ownership of companies and other economic assets.** In particular, the default fund will be a "universal investor" with its success dependent not only on successful stock picking but also on the sustained performance of the underlying economies in which it invests.

Led by HM Treasury's support for initiatives such as the Myners Principles, **the government has rightly taken a lead over many years in calling for significant institutional investors to recognise their responsibilities as asset owners. The personal accounts system should similarly be required and encouraged to be a long term responsible investor.** This should be written in to legislation.

As part of this, the system should support the Prime Minister's aim of the government leading by example in sustainable procurement (UK Sustainable Development Strategy 2005), with the new scheme matching or

exceeding mainstream international best practice in responsible and sustainable investment by national pension funds.

A test of whether or not this is being achieved might be, for example, whether the Personal Accounts Delivery Authority / Personal Accounts Board decides to become a signatory of the UN Principles for Responsible Investment (see appendix) and sets itself a target of achieving and exceeding worldwide best practice in implementing the Principles and practicing responsible investment.

Chapter 3: Governance and Accountability for Responsible Investment

We are concerned that **there is no mention within the white paper of the adoption of a responsible investment approach for the personal accounts system as a whole** including the default fund. We welcome the government's proposals in Chapter 5 for personal choice of Social, Environmental and Ethical (SEE) Investment (see below) but we believe that this is complementary to rather than an alternative to a long term responsible investment approach for the system as a whole.

Commitment to a responsible investment approach is becoming the norm for public pension funds and pension buffer funds internationally. In April 2007, in partnership with the UN Environment Programme Finance Initiative Asset Management Working Group, UKSIF plans to publish a set of examples of good practice in responsible investment by major pension funds worldwide. Other information about international practice from our February 2006 paper 'Next Steps towards Sustainable & Responsible Investment' for the then Minister for Pensions Reform were included in the appendix to our Pensions White Paper response.

The governance and accountability mechanisms for the Personal Accounts Delivery Authority (PADA) and the Personal Accounts Board (PAB) are central to ensuring that the personal accounts system acts as a long-term responsible investor without being inappropriately prescriptive as to the mechanisms to be employed.

We believe that the PADA/PAB should take account of sustainable development and incorporate the views of stakeholders representing civil society, the environment and the wider quality of life interests of current members and future generations as well as those representing financial services and members' savings interests. In addition, **the competencies available on the PADA/PAB's governance bodies should include sufficient knowledge and understanding of best practice in long-term responsible investment, of sustainable development and of sustainable consumption.**

There should be a requirement for the PADA/PAB to **report annually to members and other stakeholders about how responsible investment has been implemented.**

We see the following elements as vital:

- **Clause 3.12** – the statement of investment principles (SIP) should, as for occupational and stakeholder pensions currently, include the degree to which, if any, SEE issues are taken into account and the use made of ownership rights including voting rights.
- **Clause 3.17** – there should be an additional objective for the scheme with phrasing such as “ensuring that funds are managed with due regard to best practice in long term responsible investment and after taking account of sustainable development”.
- **Clause 3.25** – the board should include stakeholder representatives and competencies as described above.
- **Clause 3.29** – the information conveyed to members and published to other stakeholders should include both what is included in the SIP on SEE issues and ownership rights and how this has been implemented in practice. This information should be communicated at least annually.

Chapter 5: Personal Choice of Social, Environmental and Ethical (SEE) Investment

We **welcome the proposals within the white paper** (Chapter 5, particularly Pages 104-105) which expand on the government's earlier commitment to offer socially responsible investment options. However, we are concerned that the proposal in the Pensions White Paper to “ensure” that SEE investment options are available has been downgraded in this white paper merely to an expectation that this will occur. We would like to see the commitment to SEE investment written into legislation – preferably as an explicit commitment to offer such funds or, failing that, as a legally binding requirement on the PADA/PAB to consider the issue.

SEE investment is becoming of increasing interest to the public. Three times as many consumers sought advice on SRI investments in January 2007 compared with two years previously according to IFA Promotion¹. And Friends Provident's 2006 Lasting Lifestyles report found growing numbers of consumers seeking to live in a more authentic or socially responsible way with one in six (16%) wanting both ethical values and financial returns from their savings against one in four (23%) wanting the best return possible without minding how it was achieved.²

Recent evidence of the performance of SEE funds has reinforced the white paper statement that SEE funds can deliver excellent investment performance. For example, the Co-operative Insurance Sustainable Leaders Trust was the best performer of the 324 unit trusts in the UK All Companies sector for the year to 31 Jan 2007.

In the light of this, we believe that **further consideration should be given to including at least one SEE fund in the range of bulk-bought funds.**

It is important that, during the implementation of the new system, **sufficient publicity is given to the SEE investment options and that sufficient information and generic advice is available on them.** It is also important, to support the government's commitment to sustainable consumption and informed choice, that SEE investment options should be available via the personal accounts system **across a sufficient range of asset classes and at a suitable cost.** We believe that SEE investments can be provided at acceptable cost so long as there is sufficient publicity to attract a critical mass of assets. In the retail market, independent financial advisers report that there is no premium charged by product providers for SEE funds compared with equivalent non-screened funds while 63%³ of the stakeholder pension providers listed in 'Moneyfacts Investment Life and Pensions' in March 2007 included at least one SEE option within the funds provided in spite of the stakeholder cap on charges.

Finally, we believe that it is important that the government and regulators recognises that there will be a small minority of individuals whose ethical views are so strong that, even with some SEE options available, they will prefer not to use the personal accounts system if options suitable for their particular values are not provided. Regulators should not assume that, for such individuals, enrollment in the personal accounts system is necessarily the most suitable approach. **Regulators should make it clear that financial advisers may assist the remaining small minority of 'conscientious objector' clients without putting their regulatory status at risk.** We would be delighted to discuss practical ways to address this issue with regulators and others as the personal accounts system is implemented.

UK Social Investment Forum

The UK Social Investment Forum (UKSIF) is the UK's membership network for socially responsible investment (SRI). UKSIF's primary purpose is to promote and encourage the development and positive impact of SRI amongst UK based investors. UKSIF believes that all material social, environmental and ethical (SEE) issues should be integrated into standard investment practice and that individual investors should be able to reflect their values in their investments.

The Forum was launched in 1991 to bring together the different strands of SRI nationally and to act as a focus and a voice for the industry. UKSIF's 200+ members and affiliates include retail and institutional fund managers, financial advisers, SRI research providers, consultants, trade unions, banks, building societies, community development finance institutions, NGOs and individuals interested in SRI. Information on the UK Social Investment Forum is available at www.uksif.org.

With best wishes



Penny Shepherd MBE
Chief Executive

¹ Information provided by Karen Barrett, Marketing Director, IFA Promotion.

² See 22 July 2006 press release at www.friendsprovident.com.

³ 12 out of the 19 providers of individual stakeholder pensions listed.

Appendix: UN Principles for Responsible Investment

The UN Principles for Responsible Investment, launched in 2006, have been signed by asset owners (ie. pension funds, etc.) and asset managers (professional firms managing assets for their owners) representing over three trillion dollars of assets. Details are available at www.unpri.org. The first report of actions undertaken to implement the Principles will be published later in 2007.

The UN Principles for Responsible Investment state

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- 1 *We will incorporate ESG issues into investment analysis and decision-making processes.*
- 2 *We will be active owners and incorporate ESG issues into our ownership policies and practices.*
- 3 *We will seek appropriate disclosure on ESG issues by the entities in which we invest.*
- 4 *We will promote acceptance and implementation of the Principles within the investment industry.*
- 5 *We will work together to enhance our effectiveness in implementing the Principles.*
- 6 *We will each report on our activities and progress towards implementing the Principles.*

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles.