# Most people in the UK want their pensions to be sustainable and reflect their values

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The Good Economy

The level of interest from the pension community to explore impact investing was clearly demonstrated at last year's Investing with Impact Summit. Pension funds together manage almost half of the global investment market and the decisions they make have profound implications[1]. Pension fund capital has the potential to contribute towards a better world and still deliver strong investment returns.

More and more pension funds are taking environmental, social and governance (ESG) considerations into account. This is supported by new regulations introduced by the Department for Work and Pensions (DWP), requiring pension trustees of schemes with over 100 members to update their Statement of Investment Principles (SIP) to cover policies in relation to financially material ESG considerations, the extent to which non-financial matters are taken into account (e.g. views of members, quality of life considerations), the exercising of rights attached to investments (including voting rights), and undertaking engagement activities in respect of the investments. However, the entry of sustainably invested default funds into this market is just a starting point for responding to what people and their employers are increasingly looking for.

The UK Department for International Development (DFID), the Government's aid agency which leads the UK's work to end extreme poverty and deliver the Sustainable Development Goals (SDGs), set out to have a "national conversation" with the UK public to understand what people want from their investments and savings products. In particular, DFID wanted to test whether people would use their savings and investments to help plug the funding gap in achieving the SDGs if they could.

A nationally representative survey of over 5,000 people was conducted, supplemented with an additional survey of over 1,000 people who hold at least £25,000 of investable assets as well as engagement with over 2,000 people online and through public events. Over 100 stakeholders and members of the investment industry were consulted through five round tables and 44 interviews to contextualise the public outreach findings. The results are published in the *Investing in a Better World* report.

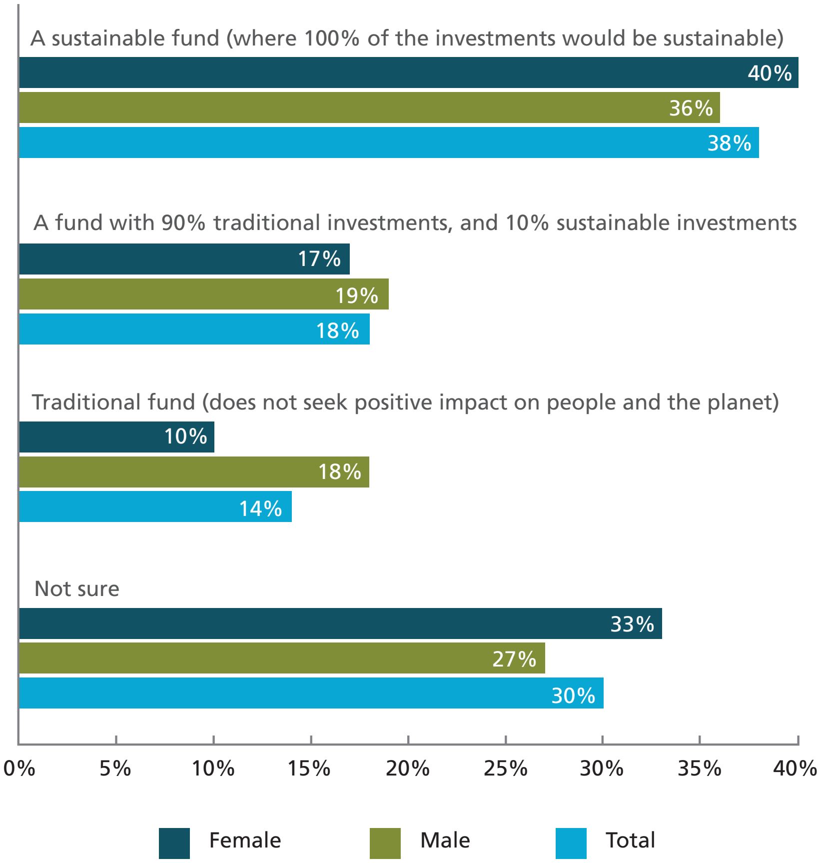
The research found that over 70% of people say they want their own investments to avoid harm and achieve good for people and the planet. When it comes to people's pensions, there are low levels of confidence in explaining how their pension money is invested (44% of people do not feel confident explaining what their pension scheme does with their money) but 57% of people say that they are interested in learning about what impact their pension has on the world. This demonstrates significant interest for people to understand what happens to the money in their pension.

The survey also showed that, if people are given the option, 56% say they would opt for a fully or partially sustainable pension. Only 14% would choose a traditional pension fund that does not consider sustainability. More young people (43%) and women (40%) say they would be likely to choose the fully sustainable pension option, compared to 38% of the general population. 47% of people would want their pension switched if they found out that it was invested in a way that went against their values, rising to 52% for those with assets over £25,000.

When people are made aware of the impact that their savings and investments can have, they are very likely to want their investments to be made sustainable and have a positive impact on people and the planet. And they are even likely to save more if they know that their investments are doing good: 52% of people said that they would be motivated to save more if they knew their money was having a positive impact, rising to 67% for millennials.

However, the market is behind consumer demand and needs to better respond to the future generation of investors who want more from their investments. Currently only 13% of people report that they hold a sustainable investment of any kind, which demonstrates that there is a significant gap between people's interest

**Figure 1: Preferred pension scheme option for survey respondents[2]**




Source: *Investing in a Better World,* Department for International Development, 2019

in and take up of sustainable investments.

The *Investing in a Better World* report sets out five key changes that the UK public identify would enable them to make more sustainable investments. These are:

1. Increase the availability of sustainable investment products
2. Improve accessibility through key investment channels
3. Raise standards and develop common approaches to sustainability
4. Provide risk and return information across the spectrum of capital
5. Share information about sustainable investing

The report outlines industry good practice that could be implemented more widely to scale and raise the quality of sustainable finance, responding to these five change areas. The report highlights:

### Increasing availability

There are several examples of pension funds leading the way in incorporating sustainability considerations into their portfolios, such as the Merseyside Pension Fund and Brunel Pension Partnership Limited. Pension providers such as Legal and General Investment Management and Aviva are also noted as playing a key role in making sustainable investment options available to pension savers. Major auto-enrolment pension scheme providers are also taking sustainable investing seriously, including the National Employment Savings Trust (NEST) and The People's Pension. However, the survey results demonstrate that people want their investments to go further in helping to build a more sustainable planet, beyond simply screening out harmful activities.

There is an opportunity to develop the sustainable pension fund offering further with the inclusion of more innovative and impactful solutions to help achieve the SDGs. This could include consideration of examples of pension models where members can opt for a portion of funds to be ring fenced specifically for investments with domestic impact, such as the French Solidarity model.[3] Or this could involve opportunities for retail investors to invest directly into developing countries, which are most affected by climate change and poverty, such as through platforms like DFID-supported Energise Africa or Alquity's Africa Fund, both highlighted in the report. And while the pipeline of investable opportunities in developing countries is currently small, over the next few decades high growth rates across Africa and South Asia will offer new opportunities for investors looking for both returns and impact to help achieve the SDGs.

### Improving accessibility

Pension funds represent the largest pool of discretionary capital in the UK. 95% of defined contribution schemes members are invested in the scheme's default

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strategy. Behavioural economics suggests that once people are enrolled in a pension option, they are unlikely to switch. In short, unless a sustainably-invested fund is the default choice, or one of a limited choice range, members are unlikely to find and enrol in a different sustainable option, even if they say they want to. The HSBC Bank (UK) Pension Scheme is an example of a workplace pension scheme that has already defaulted its members into a sustainable investment fund.

### Raising standards and developing common approaches to sustainability

Increasing transparency and trust are underlined as key drivers of this, which require asset managers to provide clear information on the sustainability profile of investments. The Impact Management Project (IMP) is cited as leading a community of practitioners to establish norms and share best practice in impact measurement and management, and there is useful work underway by the BSI and Investment Association to agree common terminology across the industry to help the industry to understand and communicate more clearly the impact that investments might have. Enhancing impact through effective stewardship, voting and engagement will also enable investors to have greater say over how their money is invested.

### Risk and return information

The report signposts a body of evidence that suggests investing with sustainability considerations in mind reduces long-term risk and protects returns. Long-term climate risk is increasingly crucial for pension funds looking to protect and grow investors' savings into the future. Continuing to grow the evidence base for this will help unlock more sustainable investing.

### Sharing information about sustainable investing

Providing better information that makes it easy for people to understand and engage with their savings and investments is critical. Short videos are championed in the report.

People in the UK want to use their investments to help drive positive change in the world. This view is widespread and shared by people across the country, with different demographic characteristics, including the current and future customers of the financial services industry. As the wealth share of millennials and women continues to grow, the demand for sustainable investing opportunities is expected to grow still further. This requires a radical change in culture and behaviour among mainstream financial institutions as to how they engage with customers on their approaches to sustainability.

Mobilising more investment could make a material difference to the $2.5 trillion annual financing gap to achieve the SDGs in developing countries. DFID is working with the financial industry to develop new products that can help meet this demand, and the Africa Investment Summit in January 2020 aims to provide a platform to strengthen connections between the City of London and opportunities to invest for impact across the continent. DFID has also recently established a new Impact Investing Institute, together with the City of London and DCMS, that will focus on addressing the barriers identified in the report, cultivate further market growth, and help make it easier for people in the UK to invest in line with their values.

The results of this research represent a call to arms for the financial sector. People want to invest in a better world. If the UK public and those who advise them and invest on their behalf make sustainable investments in line with the appetite demonstrated in the survey results, a powerful force for change could be unleashed to achieve the SDGs and shared economic growth.

1. 'Time to retire unsustainable pensions', United National Environment Programme, 2018.
2. People were asked "Imagine you start a new role at a new company and you have the following three fund options for your pension scheme, which would you be most likely to choose?"
3. Designing a Social Investment Fund for UK Pensions: A Technical Paper, Big Society Capital, 2016, p.5.