

Beyond Compliance in the Finance Sector

Brief for Pension Funds | May 2021

Given that there were [over 16 million people in forced labour in the private economy](#) on any given day in 2016, it is likely that UK pension holders are exposed to modern slavery risk through their savings. The presence of modern slavery represents a [tragic market failure](#), where some companies maintain competitive advantage and large profits through unethical and unsustainable business practises that rely on the exploitation of workers.

Why read this briefing?

Pension funds are exposed to modern slavery, but do not have adequate policies and processes in place to address this risk in their operations and investment portfolios. Although the finance sector has not been subject to the same level of scrutiny as sectors that are high-risk for labour exploitation, financial actors, including asset managers and pension funds, have the responsibility and leverage, to push for better human rights practices by companies within their portfolios. The responsibility to respect human rights is established in the [UN Guiding Principles on Business and Human Rights](#) and [OECD](#) Guidelines.

Regulations such as the forthcoming [EU mandatory corporate environmental and human rights due diligence legislation](#) confirm the fiduciary duty of investors to consider the materiality of social factors, such as modern slavery risks, in their activities and [include civil liability for any harms caused](#). More specifically to pension funds, in 2018, the UK Government introduced new requirements linked to social considerations and non-financial matters to the [Pension Protection Fund and Occupational Pension Schemes Regulations](#) with implications for Statements of Investment Principles.

What can you do?

Institutional investors play an important role in building a more sustainable and resilient global economy through promoting respect for human rights and labour standards.

Asset managers and pension funds should:

- Publish your modern slavery statement, on the homepage of your website, and ensure it covers all your suppliers, both in the UK and overseas, and voluntary areas of reporting.
- Update your investment policy and mandate to commit to ending modern slavery.
- Require your investment managers (or your in-house investment team) to identify companies with modern slavery risks in their supply chains as part of their due diligence. Request, review and assess reporting on modern slavery in the companies in which you invest.
- Use stewardship rights to encourage companies to take further action, such as proactively engaging with companies to raise awareness as well as filing shareholder resolutions, to address modern slavery in their supply chains.
- Participate in industry collaborations on modern slavery and human trafficking, such as [PRI](#), CCLA's [Find it, Fix it, Prevent it](#), and the [Finance Against Slavery and Trafficking and Investors Against Slavery and Trafficking \(FAST\) initiative](#).
- Read our report [Beyond Compliance In the Finance Sector](#).

Key findings

In partnership with WikiRate and the Business & Human Rights Resource Centre, Walk Free's [Beyond Compliance In the Finance Sector](#) report aims to support, strengthen, improve and drive better practice in supply chain transparency in the financial sector. This is timely given the [UK Government's recent announcement of plans](#) to introduce penalties for businesses that do not comply with mandatory reporting under the UK Modern Slavery Act (MSA).

The study assessed the statements of 79 companies from a group of 91 asset managers identified as in scope of the MSA. Given that asset managers are guided by asset owners' (such as pension funds) strategy, policy, and asset allocation, it is important to understand their current performance when reporting against the MSA. Our study found that asset managers need to take more action to address risk in direct operations and supply chains:

- **53%** did not meet all minimum requirements of the MSA.
- **28%** did not disclose policies to address modern slavery in direct operations or supply chains.
- **54%** did not disclose due diligence to address modern slavery risks in their own supply chains.

We encourage pension funds to demand more action of asset managers and other institutional investors in effectively assessing and addressing modern slavery risk in operations and supply chains

Mandatory reporting for pension funds

The report also highlighted challenges in identifying investors in scope of mandatory reporting such as the MSA:

1. No publicly available government list of entities required to report under the Act.
2. Lack of transparency within the sector to determine whether an investor's revenue meets the threshold given that investment income cannot be used to calculate this figure.
3. Opaqueness in ownership structures and business relationships makes it difficult to determine which entities within a group are required to report and therefore hinders the ability to monitor compliance by in-scope companies. This also leads to perceived underreporting, since parent companies do not disclose all eligible subsidiaries, such as pension funds.

Despite the report's focus on asset managers, in early stages of the research, 44 pension funds were identified as being in scope of the MSA, in which:

- 7 had a modern slavery statement — two of which were group statements.
- 37 did not have a modern slavery statement, yet the parent companies of 28 of these funds had published a statement but these did not explicitly cover the pension funds in question.

Given the leverage and responsibility of asset managers and pension funds in promoting human rights in their own operations and investment portfolios, it is key to not only comply with mandatory transparency legislation such as the MSA, but to lead with best practice in disclosing and assessing modern slavery risk.

For further information, you can find the **full report** here: [Beyond Compliance in the Finance Sector: A review of statements produced by asset managers under the UK Modern Slavery Act](#)

For any questions, please contact **Katharine Bryant**, Lead of European Engagement at Walk Free: kbryant@walkfree.org