The Stewardship Lottery

The governance gap in contract-based pensions
About FairPensions

FairPensions is a registered charity established to promote responsible investment practices by pension providers and fund managers. FairPensions champions greater transparency and accountability to the millions of people whose long-term savings are managed by institutional investors and other professional agents. FairPensions believes that responsible investment helps to safeguard investments as well as securing environmental and social benefits.

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Insurance companies are increasingly dominant in the UK pensions market. The introduction of auto-enrolment later this year is likely to further increase the reliance of the British public on large insurance companies for their financial well-being in retirement. The pension products offered by insurance companies are governed by contractual arrangements. It is essential that the products offered to consumers are well-governed, responsibly invested and operate in the long-term best interests of pension savers.

In this context of an evolving pensions landscape, FairPensions undertook a research study of the responsible investment and stewardship practices of the UK’s ten largest contract-based pension providers. The findings in this report are based on information publicly available on company websites and a survey which 5 of the 10 firms completed.

**UK’s ten largest contract-based pension providers**

- Aegon N.V.
- Aviva plc
- Friends Life Group plc
- Legal & General Group plc
- Prudential plc
- Scottish Life
- Scottish Widows plc
- Skandia Group
- Standard Life plc
- Zurich Insurance plc

*Source: Based on ABI data*

Responsible investment focuses on the integration into investment decisions of those environmental, social and governance (“ESG”) issues that can be material to long term shareholder value. The corporate fall-out from the Gulf of Mexico oil spill and the hacking scandal at News International should have removed all doubt about the financial relevance of ESG issues. It is now also widely recognised that the voting and engagement (stewardship) activities of institutional shareholders are key to reducing risk and adding value for pension savers by ensuring the highest standards of corporate behaviour.

Our research finds that most of the insurance companies do not have a publicly available responsible investment policy in their own right. Instead these firms refer to the policy of their asset management arm or they provide some limited information in the context of SRI funds only. Ongoing monitoring of fund managers’ stewardship activities is overwhelmingly restricted to the voting activity of their internal asset management arms although customers will often have their pension savings in a mix of internal and externally managed funds. A minority of the companies who completed the survey have indicated they are reviewing their current oversight practices.

There is a sense that insurance companies do not view themselves as having a responsibility to regularly monitor fund managers on their stewardship of investee companies to ensure that they are well-governed and deliver sustainable returns. This stands in contrast to the continuing improvement in the responsible investment policies and practices of the UK’s largest trust-based funds. In trust-based pension funds the trustees, with their fiduciary duties to protect the best interests of the members, are clearly the appropriate persons to monitor voting, engagement and ESG integration activity carried out on behalf of the fund. The unwillingness of insurance companies to fulfil this role leaves contract-based pension holders ill-served and poorly protected compared to fund members in the best governed trust-based pension schemes.

This report makes a number of recommendations to insurance companies themselves, regulators and policy makers, as well as employers who will be choosing an auto-enrolment provider.

**Executive Summary**

Insurance companies are increasingly dominant in the UK pensions market. The introduction of auto-enrolment later this year is likely to further increase the reliance of the British public on large insurance companies for their financial well-being in retirement. The pension products offered by insurance companies are governed by contractual arrangements. It is essential that the products offered to consumers are well-governed, responsibly invested and operate in the long-term best interests of pension savers.

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This report makes a number of recommendations to insurance companies themselves, regulators and policy makers, as well as employers who will be choosing an auto-enrolment provider.
Key Findings

Insurance companies lag behind other pension providers on responsible investment
AEGON is the only company of the ten surveyed to publicly disclose a written responsible investment policy separate from the policy of its asset management arm. This policy applies to the funds held on the balance sheet of AEGON for its own account but it also states that in respect of other funds managed by the company, AEGON will apply those elements of the policy consistent with fiduciary responsibility and the mandate provided by its customers. However, no reference is made in the policy to the applicability of the policy to customer’s monies managed by external managers.

Some other companies we surveyed do provide some general information on responsible investment on their websites but this is usually either within the context of SRI funds or contained in the company’s corporate social responsibility report. In other cases insurance companies rely on the responsible investment policy of their asset management arm which does not take account of the different role played by the insurance company as pension product provider and provides no comfort to customers with respect to externally managed funds.

Only 1 of the top 10 insurance companies is a signatory to the UK Stewardship Code
The UK Stewardship Code is primarily aimed at asset managers but stresses that asset owners also have a role in mandating and monitoring their asset managers’ stewardship activities. However only one (Aviva) of the 10 companies in our survey has issued a statement of compliance in its capacity as an asset owner.

Monitoring of voting and engagement activities is primarily restricted to internal fund managers
Four companies who completed our survey offer customers funds managed by their own internal asset management arm and funds managed by external asset managers. Only one of those four companies (Legal & General) confirmed that they request reports from external managers on voting. In contrast, all four request quarterly voting reports from their internal asset management arm.

None of the five companies who completed our survey request reports from external managers on their engagement activity with companies. Three companies (Aviva, Standard Life and Scottish Widows) request engagement reports from internal managers.

If a company considers it relevant to receive such reports from internal managers it is difficult to understand the logic of not doing so in respect of external managers.

Disappointing levels of reporting on voting and engagement
Of the 10 companies only Standard Life makes available publicly (on its global company website) any information with respect to voting and engagement activities of fund managers.

When asked in the survey whether information on fund managers’ voting and engagement activities would be disclosed to clients on request, only Legal & General confirmed that voting records would be disclosed to clients saying “LGIM are obligated to provide this detail to customers on request”.

It is particularly interesting that insurance companies do not make voting and engagement information available to clients in light of the fact that many of the internal asset management arms publish voting and/or engagement reports.
on their company websites. This information is effectively only available for institutional clients and not individual pension savers.

With respect to disclosure to members of workplace group pension plans, only Standard Life and Friends Life confirmed that they would provide information on request about voting and engagement activities to GPP members. Aviva did state that it was “open to considering requests from employers and advisers in terms of tailoring member communications.”

Lack of transparency in SRI Funds
In the case of all ten companies only the top 10 holdings in SRI funds are publicly disclosed on the retail website. Standard Life confirmed that all holdings would be made available to customers or the general public on written request or via an IFA. Aviva confirmed that underlying holdings are not disclosed to clients but instead to a number of data providers used by IFAs and investment advisors. Legal & General confirmed that holdings would be disclosed to clients on demand and on signing of a non disclosure agreement. In the case of Scottish Widows, full holdings are listed only for their OEIC (Open-ended Investment Company) fund range.

Given that consumers choose to invest in SRI funds specifically to ensure their investments reflect their ethical preferences it would seem to be important that retail investors are able to determine the companies included in any SRI fund subject to complying with any confidentiality requirements.

Hope for the future
We are encouraged by Scottish Widows’ statements that they are considering becoming a member of the UN Principles for Responsible Investment (UN PRI) and that in making this decision are benchmarking themselves against defined benefit pension fund signatories to the UN PRI. This recognition of the different roles of each of Scottish Widows and its asset management arm, SWIP, is welcome. We hope it will translate into other issues such as disclosing voting records on Scottish Widows’ retail website and the monitoring of external fund managers.

Friends Life did confirm that “as part of our due diligence process, we actively engage with external fund managers to understand their approach to RI and stewardship.” Friends Life in its survey response indicated that fund manager oversight is under review and we hope that any new policies will ensure that scrutiny and public disclosure of fund managers’ voting and engagement activities extends beyond due diligence at fund selection to ongoing monitoring.
## Scorecard

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Aegon</th>
<th>Aviva</th>
<th>Friends Life</th>
<th>Legal &amp; General</th>
<th>Prudential</th>
<th>Scottish Life</th>
<th>Scottish Widows</th>
<th>Skandia</th>
<th>Standard Life</th>
<th>Zurich</th>
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<tbody>
<tr>
<td>Publicly discloses a responsible investment policy separate from that of its asset management arm</td>
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<td>Signatory to the UK Stewardship Code</td>
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<td>Monitors the voting activities of external asset managers</td>
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<tr>
<td>Monitors the voting activities of internal asset managers</td>
<td>N/A</td>
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<td>Monitors the engagement activities of internal asset managers</td>
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<td>9</td>
</tr>
<tr>
<td>Discloses ALL holdings in SRI funds</td>
<td>10</td>
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- **Fulfils the criterion**
- **Fulfils the criterion in part**
- **Does not fulfil the criterion**
- **Did not complete the survey and no information available on retail or global website**

### Notes:
1. The survey was completed by a member of staff of Legal & General Investment Management and stated that the answers provided relate only to unit-linked investments and ISA wrappers available to retail investors. Legal & General plc’s websites were reviewed for the purpose of assessing public disclosures.
2. Aviva stated that a general policy document on responsible investment is available on request but we did not receive a copy.
3. Standard Life indicated that a detailed responsible investment policy was available on request. However, the document we received was branded Standard Life Investments.
4. Friends Life does not have an internal asset management arm.
5. LGIM provides this information to clients on request.
6. Votes are disclosed on SWIP’s website but there is no link provided from Scottish Widows’ retail website.
7. Publicly discloses voting records of Standard Life Investments only.
8. Friends Life does not have an internal asset management arm.
9. Limited information on the engagement activities of Standard Life Investments is disclosed on the company’s global website.
10. All underlying holdings are disclosed to a number of data providers allowing IFAs and other investment advisers who use certain research and analysis tools to access the information.
11. Full holdings are listed for Scottish Widows’ Open Ended Investment Company range.
Introduction

With the decline of defined benefit and trust-based pension schemes, insurance companies are increasingly dominating UK pension provision. In 2009 almost half of all members of workplace pension schemes were members of contract-based pensions - some three million individuals. These arrangements are governed by the contractual relationship with those companies. There is no equivalent of the board of trustees as in trust-based occupational schemes.

The Pensions Regulator estimates that 5-8 million people will be newly saving or saving more as a result of the introduction of auto-enrolment later this year. Many of the new savers will be low-paid workers. Most will have little or no choice of pension provider as their employer has the power to decide on the provider. It is vital to ensure that these people’s savings are responsibly stewarded and deliver a decent retirement income. One way of achieving this is to ensure that fiduciary standards of care are applied across the pensions market. It is essential that the vehicles into which people are auto-enrolled are well-governed and operate in the long-term best interests of pension savers.

In FairPensions’ 2011 report, Protecting our Best Interests: Rediscovering Fiduciary Obligation, we highlighted the danger that the absence of trustees in contract-based pensions may lead to an accountability gap or ‘governance vacuum’ with no-one having power to hold the pension provider and underlying asset managers to account on an ongoing basis. While there are governance committees for some workplace contract-based schemes, they do not have the legal status or powers of boards of trustees.

There are also millions of people saving for their retirement as individuals rather than through their workplace, by purchasing contract-based pension products directly from insurance companies. And while individual personal pension holders may exercise consumer choice over their provider and product, the absence of any structures through which their interests are represented and defended in ongoing decision-making has the potential to make them vulnerable.

Most pension savers are unaware of the legal differences between different types of pension. From a consumer point of view the purpose of the pension is the same: handing their money to someone whom they entrust to look after it with the goal of providing them with a pension in old age. It is therefore logical that the structural frameworks and industry practices in place to ensure consumers’ interests are protected should be equally robust for all types of pension provision.

It is now widely recognised that the voting and engagement (stewardship) activities of institutional shareholders are key to reducing risk and adding value for pension savers by ensuring the highest standards of corporate behaviour. In trust-based pension funds the trustees, with their fiduciary duties to protect the best interests of the members, are clearly the appropriate persons to monitor the voting and engagement activity carried out on behalf of the fund. But the position is not so clear with contract-based pensions. It is hardly realistic to expect millions of pension savers to seek or understand how to individually monitor the stewardship activities of fund managers. This report looks at whether insurance companies perform this monitoring role or whether in practice there is an accountability gap.

"The basic relationship at work is the same for all forms of pension saving, whether trust - or contract - based: one person’s assets are entrusted to another for the purpose of providing them an income in retirement."
Responsible investment focuses on the integration into investment decisions of those environmental, social and governance ("ESG") issues that can be material to long term shareholder value. The corporate fall-out from the Gulf of Mexico oil spill and the hacking scandal at News International should have removed all doubt about the financial relevance of ESG issues. FairPensions’ own surveys show that growing numbers of the UK’s largest trust-based pension schemes acknowledge the importance of responsible investment to long-term fund performance. With the growth of contract-based pensions it is vital to understand whether insurance companies are also committed to responsible investment.

This project set out to understand whether there is evidence to support the presence of an accountability gap on the contract side of the pensions market by analysing the extent to which insurance companies monitor the voting and engagement activities of the managers of funds offered to consumers. The research looks at their transparency and accountability to customers and the general public. This project also set out to investigate insurance companies’ commitment to responsible investment.
Methodology

This report covers the 10 largest contract-based pension providers in the UK based on data provided by the Association of British Insurers of total UK gross premiums in 2010. Excluding reinsurers and taking account of the establishment of Friends Life the 10 pension providers chosen for this research report are:

- Aegon N.V.
- Aviva plc
- Friends Life Group plc
- Legal & General Group plc
- Prudential plc
- Scottish Life
- Scottish Widows plc
- Skandia Group
- Standard Life plc
- Zurich Insurance plc

Research for this report was conducted in two stages. In the preliminary stage, FairPensions completed a review of the information publicly available on the UK retail websites of the 10 pension providers to obtain a comprehensive picture of the information and literature made available to the public and (prospective) clients directly. All of the retail websites offer client only areas accessible with passwords as well as an intranet for advisors. These website pages are not accessible by the general public and were not reviewed for the purposes of this report. Following a review of the UK retail website of each company, FairPensions reviewed each company’s global website. In cases where an asset management firm forms part of the same corporate group as the pension provider, the UK website of that asset management firm was also reviewed.
Taking account of the findings of this web-based research a survey (set out in the Appendix on page 19) was designed and distributed by email and post to the ten companies. Each company was invited to complete the survey online or to request an electronic copy for completion.

Of the ten companies, only 5 (Aviva, Friends Life, Legal & General, Scottish Widows and Standard Life) completed the online survey. In the case of Legal & General, the survey was completed by a member of staff of Legal & General Investment Management and the answers provided relate only to unit-linked investment and ISA Wrappers. Each of AEGON and Prudential contacted us to say they did not wish to complete the survey. Scottish Life, Zurich and Skandia did not respond at all to our correspondence.

To allow comparison with a trust-based pension provider that will also be a major player in the post auto-enrolment pensions landscape, NEST was invited to complete the same survey. NEST was chosen as its anticipated growth makes it the trust-based scheme most suitable for comparison with the large insurance companies.

All information relating to the retail and global website of a company is correct as at 13th February 2012 while information relating to asset managers’ websites is correct as at 28th October 2011. It is possible that additional disclosures have been made without notification to FairPensions since the completion of our review of the asset managers’ websites and/or since the return of the completed surveys.
The Current System

Workplace pensions
As the recent report of the Workplace Retirement Income Commission noted, "the UK’s workplace pensions landscape is highly fragmented." Different forms of pension provision are subject to different laws and regulations – with the most important distinction being that between ‘trust-based’ and ‘contract-based’ providers.

* Trust-based pension schemes are overseen by a board of trustees who have a strict ‘fiduciary duty’ to act in the best interests of scheme members. Trustees are often not investment experts and most delegate day-to-day investment decisions to external asset managers. Such schemes represent a dwindling proportion of the workplace pensions market: from 1997 to 2010, workplace contract-based pensions rose from 1% to 14% of all private pension saving.

* Contract-based workplace pension providers (insurance firms such as those covered in this report) are subject to a separate legal regime. There is no equivalent of the board of trustees and the providers do not have the same fiduciary duties as trustees. However, they are subject to FSA rules which do not apply to pension fund trustees.

In 2009, while 3.3 million people were active members of trust-based occupational pension schemes, 3 million were members of contract based workplace pension arrangements such as group personal pensions. With auto-enrolment commencing later this year an additional 5-8 million people will become reliant on the behaviour of professional investment agents for their wellbeing in retirement. It is expected that insurance companies will secure a significant portion of this new market.

Most pension savers will be unaware of the legal differences between different types of pension. Moreover, many will have little or no choice over what type of arrangement they join: under auto-enrolment, the decision on what type of pension to make available to employees is up to the employer. There is a danger that the split between trust-based and contract-based provision creates a more or less arbitrary distinction between the protection enjoyed by one pension saver and the next.

Individual personal pensions
There are millions of people saving for their retirement as individuals rather than through their workplace, by purchasing pension products directly from insurance companies (individual personal pensions). On the one hand, it could be argued that since these individuals exercise consumer choice over their provider and product, they are less vulnerable than members of workplace arrangements to a poor choice made by their employer and therefore less deserving of strong protections. On the other hand, the absence of any structures through which their interests are represented and defended in decision-making has the potential to make them more vulnerable, particularly given the information imbalances between consumers of complex financial products and their providers.

14 The Pensions Regulator, 2011, ‘Enabling good member outcomes in work-based pension provision’, p12
Regulatory Issues

The split between the legal duties of trust and contract-based pension providers is more or less matched by a split in regulatory supervision. Trust-based occupational pension schemes are overseen by The Pensions Regulator (TPR), which focuses on ensuring good governance and protecting members’ benefits. TPR also has some responsibility for workplace contract-based pensions, shared with the FSA. Individual personal pensions, and the insurance companies which provide them, are regulated solely by the FSA. Neither regulator has demonstrated a willingness to include the exercise of ownership rights by pension providers or responsible investment within their regulatory purview.

Despite the current proposals for the establishment of the Financial Conduct Authority (FCA) we continue to be concerned that investment governance and responsible ownership may fall between the cracks of the new regulatory architecture, despite its importance both to outcomes for consumers and to preventing the build-up of systemic risk in the financial system. It is also disappointing that the recently-published FSA rule requiring disclosure of a firm’s commitment to the UK Stewardship Code did not extend to firms acting for individual retail clients, on the basis that these customers had “limited potential … to direct the stewardship practices of asset managers.” There is a danger that individual retail clients have neither a fiduciary champion within the governance structure of their pension provider, nor a regulatory champion outside that structure.

contract-based DC plans and personal pension arrangements are not usually run by a governing board that caters exclusively to the interest of members and beneficiaries.15

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Trust-based Occupational Schemes
- Run by? Board of Trustees
- Regulated by? TPR
- Eligible for auto-enrolment? Yes

Group Personal Pensions
- Run by? Insurance company
- Regulated by? TPR and FSA
- Eligible for auto-enrolment? Yes

Individual Personal Pensions
- Run by? Insurance company
- Regulated by? FSA
- Eligible for auto-enrolment? No

The Pensions Regulator (oversees all workplace schemes, both trust- and contract-based)

Financial Services Authority (oversees all contract-based providers, both workplace and individual)

The FRC is the regulator with official oversight of the stewardship agenda. The FRC has done well since the introduction of the UK Stewardship Code to encourage compliance by asset owners, asset managers and insurance companies. However, if the FRC is to succeed in its efforts, it is vital that both the FSA and the TPR provide support by placing stewardship and responsible investment on their regulatory agendas.

In this context, FairPensions undertook research to understand what role contract-based pension providers actually play in overseeing sound stewardship of invested pension savings. Do they act simply as a pension fund supermarket offering a point of sale service or do they play an active role in the ongoing stewardship of the companies in which their customers’ money is invested and of the fund managers who manage it? Our findings support the suggestion of a governance gap. The focus of contract-based pension providers appears to be solely on fund and manager selection rather than including the ongoing stewardship activities of fund managers despite the obvious importance of the latter to consumers’ long-term interests and to preventing systemic risk. The disclosures of such companies to consumers fall significantly short of those made by their asset management arms to institutional clients.

### The UK Stewardship Code

The UK Stewardship Code was published in July 2010. It aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities by setting out good practice on engagement with investee companies to which the FRC believes institutional investors should aspire.

Institutional investors should:

1. Publicly disclose their policy on discharging their stewardship responsibilities
2. Have a robust, publicly disclosed policy on managing conflicts of interest
3. Monitor their investee companies
4. Establish clear guidelines on when and how they will escalate these activities
5. Be willing to act collectively with other investors where appropriate
6. Have a clear policy on voting and public disclosure of voting activity
7. Report periodically to clients on their stewardship and voting activities.

*Source: the UK Stewardship Code*
Key findings

Insurance companies lag behind other pension providers on responsible investment

Responsible investment focuses on the integration into investment decisions of those environmental, social and governance (“ESG”) issues that can be material to long term shareholder value. The corporate fall-out from the Gulf of Mexico oil spill and the hacking scandal at News International should have removed all doubt about the financial relevance of ESG issues. Indeed governance failures within banks are widely regarded as one of the critical elements of the financial crisis. Yet our findings suggest that many insurance companies still view ESG issues as being relevant only to specialist ‘SRI’ funds.

UK law currently requires occupational and stakeholder pension schemes to state in their Statements of Investment Principles “the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments” and to state their policy on the exercise of voting rights. These requirements do not extend to non-stakeholder personal pensions and therefore holders of such pensions are dependent on voluntary disclosures by pension providers to understand their approach to responsible investment.

AEGON is the only surveyed company to publicly disclose a written policy on responsible investment separate from the policy of its asset management arm. This policy applies to the funds held on the balance sheet of AEGON for its own account but it also states that in respect of other funds managed by the company AEGON will apply those elements of the policy consistent with fiduciary responsibility and the mandate provided by its customers. No reference is made in the policy to the applicability of the policy to customer’s monies managed by external managers.

Aviva stated in its survey response that a general policy document on responsible investment is available on request but admits “our focus to date in relation to ESG issues has centred more around ‘SRI’ funds.”

Friends Life stated in their survey response that they do not have a written policy on responsible investment. The company’s retail website’s homepage under the tab ‘Responsibility’ includes a reference to Responsible Investment which recognises the importance of the company as a “life and pensions provider” exerting influence “through the investments we hold on behalf of our policyholders.” However, the only information provided on the exercise of such influence is that the company offers a range of ethically-screened investment funds and products. The retail site also includes a link to the company’s 2010 Corporate Responsibility Report which also includes a section entitled ‘Responsible Investment’ and sets out in general detail how fund managers can integrate ESG issues into investment decisions through voting, analysis and dialogue. Likewise Legal & General’s global website in its CSR section provides a link to their 2010 CSR Report. This report provides some general information on the importance of good governance and LGIM’s engagement with the companies in which they invest. The inclusion of this information in a company’s CSR report is far from ideal.

Skandia does include some general information on responsible investment on their websites but this is within the context of SRI funds.

In other cases companies rely on the responsible investment policy of their asset management arm which does not take account of the different role played by the insurance company as a pension provider and provides no comfort to customers.

16 Aviva goes on to state: “However, we are happy to consider any ideas or requests for transparency of non-confidential information that will help our Customers (and potential Customers) and/or Advisers make more informed decisions about any of our funds.”
with respect to externally managed funds. Indeed in writing to decline to participate in the survey Prudential sent us the responsible investment policy of M & G Investments - its asset management arm. Scottish Widows states: “our policy is operated by SWIP our asset management business. We fully endorse the SWIP policy.” However, Scottish Widows is reviewing its approach and considering joining SWIP as a signatory to the UN PRI in its own right. Scottish Widows states: “In exploring this question, we are benchmarking our approach against that adopted by many defined benefit pension fund signatories to the UN PRI.”

Only 1 of the top 10 contract-based pension providers is a signatory to the UK Stewardship Code

The UK Stewardship Code, published in July 2010, makes it clear that asset owners have a role in monitoring company performance either directly or indirectly through the mandates given to fund managers. It is disappointing that of the ten companies covered in this report only one (Aviva) has issued a statement of compliance as an asset owner (separate from the statement issued by Aviva Investors as an asset manager). Given insurance companies’ increasing dominance when it comes to pension provision, active efforts should be made to bring these providers into the stewardship debate.

While the publication of Aviva’s statement is welcome, it is published on the website of Aviva Investors and is not linked to from Aviva’s own website meaning retail customers are probably unaware of its existence. Furthermore, the statement deals only with funds managed by Aviva Investors rather than all funds offered to Aviva’s customers. When asked why this was the case, Aviva stated that the oversight and governance of external funds is the responsibility of the funds’ Authorised Corporate Directors. However, Aviva did confirm that commitment to the UK Stewardship Code was part of Aviva’s research and due diligence for new funds and managers on its pension platform.

Monitoring of voting and engagement activities is primarily restricted to internal fund managers

Four companies (Aviva, Legal & General, Standard Life and Scottish Widows) who completed our survey offer customers both funds managed by their own internal asset management arm and funds managed by external fund managers. Only one of those companies (Legal & General) confirmed that they request reports from external managers on voting. In contrast all four companies request quarterly voting reports from their internal asset management arm on voting.

None of the five companies who completed our survey request reports from external managers on their engagement activity with companies. Of the four with an internal asset management arm, three (Aviva, Scottish Widows and Standard Life) request quarterly reports on engagement from their asset management arm.

If a company considers it relevant to receive such reports from internal managers it is difficult to understand the logic of not doing so in respect of external managers.

In the case of Scottish Widows a quarterly report on governance matters is requested from SWIP but it states that it is “in the process of investigating a more rounded assessment approach based on SWIP’s annual UN Principles for Responsible Investment Response”.

In trying to understand what role the companies believe they should play we asked each company whether it believed it had an obligation to monitor the voting and engagement activities of both internal and external managers. Some of the answers highlight a gap between aspiration and application.

17 This firm is known as the ‘Authorised Corporate Director’ or ‘ACD’. A corporate body and an authorised person given powers and duties under FSA regulations to manage an open ended investment company (OEIC).
The recognition by some companies that more needs to be done is a step in the right direction but must now be followed by concrete action. On the other hand, Aviva’s answer to the same question: “Yes, for those funds managed by Aviva Investors. For other funds, we believe the primary responsibility for monitoring has to sit with the relevant ACD [Authorised Corporate Director]” suggests that there may be some way to go in convincing all insurance companies of the need for action on their part.

### Disappointing levels of disclosure of voting and engagement reports

Of the 10 companies only Standard Life makes publicly available (on its global website) any information with respect to voting and engagement activities of fund managers (this information relates only to the activities of its internal asset management arm Standard Life Investments). However, it is notable that the information is in summary form and not as detailed as the voting and engagement information provided by Standard Life Investments on its own institutional clients website.

When asked whether information on fund managers’ voting and engagement activities is disclosed to clients on request, only Legal & General confirmed that voting records would be disclosed to clients saying “LGIM are obligated to provide this detail to customers on request”.

This lack of disclosure by the insurance companies is puzzling given that the voting and/or engagement records of many fund managers are often available on the managers’ institutional client websites. The objection to wider disclosure is unlikely therefore to be one of principle. The oft-cited reason for non-disclosure of prohibitive cost is also irrelevant as the information has already been collated and need only be copied. It is often argued that there is no client demand for voting disclosure. However, FairPensions knows that many of its supporters have asked for information on their pension providers’ voting activity and received unsatisfactory responses. If voting records were publicly available such data could be used by consumer organisations to present consumers with meaningful comparative information on which to base their choice of pension provider.

With respect to disclosure to members of workplace group personal pension plans, only Standard Life and Friends Life confirmed that they provide information on request about responsible investment and voting and engagement activities to Group Personal Pension members.

<table>
<thead>
<tr>
<th>Firm</th>
<th>Aspiration</th>
<th>Application</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scottish Widows</td>
<td>“Given the increasing materiality of ESG issues, the growing interest of our customers in this area, and our commitment to supporting the Stewardship Code, we do believe it is important to monitor the activities of managers in this area.”</td>
<td>Requires quarterly voting and engagement reports from its internal managers only</td>
</tr>
<tr>
<td>Friends Life</td>
<td>“Yes – we actively encourage managers to devote appropriate resource to this aspect of fund management…. this will form part of our future developments in fund manager oversight.”</td>
<td>Does not currently require voting or engagement reports</td>
</tr>
</tbody>
</table>

The Stewardship Lottery
Lack of transparency of holdings in SRI Funds

In the case of all ten companies only the top 10 holdings in SRI funds are publicly disclosed on the company’s retail website. **Standard Life** confirmed that all holdings would be made available to customers or the general public on written request or via an IFA. **Aviva** confirmed that underlying holdings are not disclosed to clients but instead to a number of data providers used by IFAs and investment advisors. **Legal & General** confirmed that holdings would be disclosed to clients on demand and on signing of a non-disclosure agreement. In the case of **Scottish Widows**, full holdings are listed for their OEIC fund range only.

Given that consumers choose to invest in SRI funds specifically to ensure their investments reflect their ethical preferences it is important that retail investors are able to determine the companies included in any SRI fund subject to complying with any confidentiality requirements.

It is often argued that customers who are unhappy with their retail pension provider can ‘vote with their feet’. However, in the absence of transparent and relevant information, it is difficult for them to exercise this ability in a well-informed way. This adds to the case for greater public disclosure on the part of these providers on issues including costs and fees, the investee companies held, and the exercise of shareholder rights. Such data could be used by consumer organisations to present consumers and employers selecting an auto-enrolment provider with meaningful comparative information on which to base their decisions.

**NEST**

NEST (National Employment Savings Trust) is a trust-based workplace pension provider established to help employers comply with their obligations under auto-enrolment. It is anticipated that it will become the biggest pension fund in the UK. It is the only scheme with a public service obligation to accept any employer that wants to use it to meet their auto-enrolment duties. It will be available alongside schemes from insurance companies covered in this report. As a trust-based scheme, it has a board of trustees who have a fiduciary duty to act in the best interests of the pension fund beneficiaries. We asked NEST to complete the survey to see how it views its role on RI and stewardship and what approach it will take to monitoring and disclosure of asset managers’ stewardship activities. NEST was chosen as its anticipated growth makes it the trust-based scheme most suitable for comparison with the large insurance companies.

NEST’s answers reflect its stated position as an asset owner committed to responsible investment with fiduciary obligations.

In response to the question: “In your opinion, what is NEST’s role in ensuring the implementation of RI policies applicable to funds offered by NEST” it states: “Nest has a responsibility to ensure that its members’ assets are invested in their long-term best interests... With regards to equity assets for example Nest expects its fund managers to be prudent investors by exercising their ownership rights in a considered way that will benefit the interests of its members in the long-term.” Similarly NEST states that it believes it has an obligation to monitor the voting and engagement activities of fund managers. Detailed voting and engagement reports are required from all fund managers. NEST has also asked for “oversight of its managers’ voting intentions so if there are important deviations between Nest’s policy and the fund manager Nest will flag concerns and express its views to the fund manager.” NEST confirmed that voting and engagement reports will be publicly available on its website.

NEST has issued a statement of compliance with the UK Stewardship Code which is available on its website.

At the moment only the top ten holdings in SRI funds offered by NEST are disclosed.
Conclusion and Recommendations

In previous years FairPensions has published research reports on the responsible investment and stewardship policies and practices of the UK’s largest trust-based occupational pension schemes and asset managers. While our research has shown some improvement in responsible investment, there is clearly more to be done in ensuring high quality stewardship, transparency and integration of ESG issues among trust-based pension providers. Nonetheless, the presence of a board of trustees with fiduciary duties to protect pension holders’ best interests provides a level of protection and accountability to pension holders. It is the absence of a party specifically charged with acting solely in the best interests of the pension holder that raises concerns about the level of protection and accountability provided to holders of contract-based pensions. Our findings support the suggestion of a governance gap. Analysis by insurance companies of an asset manager’s responsible investment and stewardship activities is, in some cases, considered at the time of manager selection. However ongoing monitoring of fund managers is overwhelmingly restricted to internal managers’ voting activities. There is no sense that insurance companies view themselves as having a responsibility to regularly monitor fund managers on their ‘stewardship’ of investee companies to ensure that they are well-governed and deliver sustainable returns for customers. The unwillingness of insurance companies to fulfil this role leaves contract-based pension holders ill-served and poorly protected compared to fund members in the best governed trust-based pension schemes. With the introduction of auto-enrolment there is an urgent need to ensure consistent standards of care and accountability mechanisms across the pensions market.

This report is intended to facilitate a comparison of practices between leading UK pension providers. We hope this report will benefit their customers and be useful to the insurance companies themselves, to regulators and to employers selecting an auto-enrolment provider. This report should enable all parties to identify areas for improvement and reform. We have set out below recommendations addressed to each of the key audiences.

**Insurance companies**

- Insurance companies should:
  - demonstrate a commitment to responsible investment by publicly disclosing a policy setting how it deals with environmental, social and governance issues;
  - issue a statement of compliance with the UK Stewardship Code separate from any statement issued by an internal asset management arm;
  - monitor the voting and engagement activities of both internal and external asset managers and publicly disclose voting and engagement records on their retail websites (or at least provide hyperlinks to the relevant asset managers’ disclosures);
  - become signatories to the UN PRI; and
  - devote more attention to outreach, communication and accountability to policyholders.
Consumers
Lack of consumer demand is often cited by industry participants for their failure to consider ESG issues and their lack of transparency. Consumers therefore can play an important role in improving responsible investment practices and industry transparency.

- Consumers should request:
  - their pension provider to disclose on their website fund managers’ voting and engagement activity.
  - their IFA to include an insurance company’s responsible investment policies and practices in their analysis and research.

Policy Makers/Regulators
This report supports concerns about a governance vacuum in contract-based pension provision. Policy makers should seek to address these concerns to ensure a level playing field for all pensions savers particularly in the context of auto-enrolment. We have set out below a number of specific recommendations for policy makers.

- DWP should investigate the implications for pension savers of differing governance regimes in trust- and contract-based pension provision, and should explore ways of ensuring that consumers are equally well protected and well served regardless of the form of their pension provision.
- DWP should review the qualifying criteria for schemes eligible for auto-enrolment to ensure they are sufficiently robust. In particular, the qualifying criteria should be amended to require eligible providers to be signatories to the UK Stewardship Code and the UN PRI, and to publicly disclose their voting records. Although the DWP has published guidance on default funds for auto-enrolment, it is extremely high-level and makes no mention of stewardship or responsible ownership.
- HM Treasury should amend the Financial Services Bill to require the Financial Conduct Authority to have regard to the principle that firms exercising discretion over clients’ assets will usually owe a fiduciary duty to those clients.
- The FSA/FCA should take an active interest in investor stewardship and should work with the FRC to encourage best practice amongst all pension providers and asset managers, regardless of whether their clients are retail or institutional investors.
- The FRC should make active efforts to bring insurance companies into the stewardship debate and to encourage compliance with the UK Stewardship Code.

Employers
Employers have the power to select an auto-enrolment pension provider for their employees. They have an important role to play in encouraging improved stewardship, responsible investment and greater transparency.

- Employers should include the following as criteria in the selection of an auto-enrolment pension provider:
  - compliance with the UK Stewardship Code independent of any internal asset management arm;
  - evidence of the assessment and ongoing monitoring of all fund managers’ voting and engagement activities; and
  - evidence of the ongoing monitoring of all fund managers’ integration of ESG issues into investment activities.
**GENERAL**

<table>
<thead>
<tr>
<th>Question</th>
<th>Response</th>
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</thead>
<tbody>
<tr>
<td>As a pension provider, does [Company] have a written Responsible Investment (RI) policy on environmental, social and governance (ESG) issues that applies to all funds (not only ‘SRI’ funds) offered by [Company]?</td>
<td>A detailed policy addressing environmental, social and governance issues</td>
</tr>
<tr>
<td>A general policy document on RI</td>
<td>No written policy</td>
</tr>
<tr>
<td>Other (please specify)</td>
<td></td>
</tr>
<tr>
<td>To whom do you make this policy available? Do you make it available on request or automatically?</td>
<td>The general public</td>
</tr>
<tr>
<td>The general public</td>
<td></td>
</tr>
<tr>
<td>Clients only</td>
<td></td>
</tr>
<tr>
<td>If applicable, please indicate how (e.g. via an IFA, through your website, through the [Company] Customer website, etc)</td>
<td></td>
</tr>
<tr>
<td>Please comment on your approach to disclosing or not disclosing this policy.</td>
<td></td>
</tr>
<tr>
<td>Has [Company] issued a statement of compliance of the FRC’s Stewardship Code (as opposed to [internal asset management arm], who issues a statement as an asset manager)?</td>
<td>If not, please comment if you intend to do so, and if not, why not.</td>
</tr>
<tr>
<td>In your opinion, what is [Company’s] role in ensuring the implementation of RI policies applicable to funds offered by [Company]?</td>
<td></td>
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</table>

**INTEGRATION AND DISCLOSURE OF RESPONSIBLE INVESTMENT**

<table>
<thead>
<tr>
<th>Question</th>
<th>Response</th>
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<tbody>
<tr>
<td>Does [Company] assess internal and/or external fund managers’ RI policies and voting and engagement activities (V&amp;E activities)?</td>
<td>Internal Fund managers</td>
</tr>
<tr>
<td>External fund managers</td>
<td></td>
</tr>
<tr>
<td>Please comment on [Company’s] approach to assessing internal and external fund managers’ RI policies and V&amp;E activities</td>
<td></td>
</tr>
<tr>
<td>If applicable, how does [Company] assess internal and/or external fund managers’ RI policies and V&amp;E activities? Please provide details in the box below.</td>
<td></td>
</tr>
<tr>
<td>Do you believe that [Company] has an obligation to monitor the V&amp;E activities of the managers of funds that you offer (both internally and externally managed funds)? Please provide details for your answer.</td>
<td></td>
</tr>
</tbody>
</table>
### VOTING

<table>
<thead>
<tr>
<th>What information on voting activities do you request from internal and/or external fund managers (e.g. summary statistics, list of votes, rationale for voting decisions, etc)?</th>
<th>Internal fund managers</th>
<th>External fund managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>If you do request information, please provide details of which information you require for both internal and external fund managers.</td>
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<td></td>
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</tbody>
</table>

Please comment on your approach to requiring reporting on voting activity by internal and/or external fund managers.

<table>
<thead>
<tr>
<th>Do you disclose all or some of this information to clients or the public?</th>
<th>To clients only</th>
<th>To the public</th>
</tr>
</thead>
<tbody>
<tr>
<td>If applicable: What information on voting do you disclose (e.g. the same information as it is reported to you, or summary statistics, a list of votes, voting rationale for abstentions and votes against, etc)? How do you make this information available (e.g. via IFA, via external fund manager, via [Company’s] website, etc).</td>
<td></td>
<td></td>
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</tbody>
</table>

### ENGAGEMENT

<table>
<thead>
<tr>
<th>What information do you request from internal and/or external fund managers in relation to their engagement activities (e.g. list of companies met, list of issues covered, etc)?</th>
<th>Internal fund managers</th>
<th>External fund managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Please provide details for both internal and external fund managers)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Please comment on why you do or do not request information on engagement from internal and/or external fund managers.

<table>
<thead>
<tr>
<th>Do you disclose all or some of this information to clients or the public?</th>
<th>To clients only</th>
<th>To the public</th>
</tr>
</thead>
<tbody>
<tr>
<td>If applicable: What information on engagement do you disclose (e.g. the same information as it is reported to you, or a sample of engagement activities, a list of issues discussed, etc)? How do you make this information available (e.g. via IFA, via external fund manager, via [Company’s] website, etc).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Please comment on your approach to disclosure of engagement activity.
### ETHICAL/SOCIAL/ENVIRONMENTAL FUNDS

<table>
<thead>
<tr>
<th>Question</th>
<th>To the public</th>
<th>To our clients</th>
<th>If you do disclose all holdings, please specify how you make them available (website link, in writing, through IFA, etc)</th>
</tr>
</thead>
<tbody>
<tr>
<td>[Company] publicly discloses the top 10 holdings in each ethical fund factsheet. Does [Company] disclose all fund holdings to the public or to your clients?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does [Company] make the screening criteria for all its ethical/social/environmental funds available (both for your internally branded and your externally managed ethical funds)?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you periodically review the composition of the holdings in the ethical/social/environmental funds (both for your internally branded and your externally managed ethical/social/environmental funds)?</td>
<td></td>
<td></td>
<td>If yes, please specify how often (e.g. yearly) and/or provide further comment</td>
</tr>
<tr>
<td>When selecting ethical/social/environmental funds, do you seek the views of NGOs and other stakeholders?</td>
<td></td>
<td>Further comments</td>
<td></td>
</tr>
</tbody>
</table>
**GROUP PERSONAL PENSION PLANS**

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you ensure that the members of a GPP are informed about the RI policies and V&amp;E activities set out in sections 2 and 3 applicable to their plan?</td>
<td>Please comment on your approach to information disclosure on RI policies and V&amp;E activities</td>
</tr>
</tbody>
</table>
| How does [Company] ensure that the members of a GPP are informed about [Company’s] RI policies and activities as listed in Sections 2 and 3? | We inform their employers  
We inform all members or a members’ committee directly  
We communicate through IFAs |
| How does [Company] interact with employees enrolled in group personal pension plans? | [Company] communicates with all members of a GPP by holding regular meetings  
[Company] communicates with a policy holder committee made up of members of a GPP  
[Company] communicates with members of a GPP through their employers  
Other (please specify) |
| Please comment on your approach to interaction with GPP members           |                                                                       |
| How often does [Company] hold these meetings (e.g. quarterly, twice a year, etc)? |                                                                       |
| Do you adapt your level of interaction with GPP members according to the wishes of the members and/or the employer? |                                                                       |

**CONCLUDING REMARKS**

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you have any further questions or comments in relation to this questionnaire?</td>
<td></td>
</tr>
</tbody>
</table>
| We will offer you the opportunity to comment further on your answers once we have analysed your responses. To be able to do so, we would be grateful if you could provide us with your name, email address and your job title. If you would like an electronic copy of your survey answers, we will require an email address. Many thanks. | Name  
Job Title  
Email |
| Would you like an electronic copy of your completed survey?               |                                                                       |