

# Corporate responsibility

The ABI's guidelines on socially responsible investment will help smooth the way for firms in this complex and confusing area, says the ABI's Peter Montagnon.

It was not easy to get hold of the folks at Friends of the Earth earlier last month. They were busy attending the annual meeting of a large construction firm. That such organisations should bother with annual meetings is a sign of changing times to which both firms and investing institutions have to respond.

The Association of British Insurers (ABI) began to examine the issue last year after new legislation came into force requiring pension fund trustees to state their policy on socially responsible investment (SRI) in their annual Statement of Investment Principles. Coupled with growing retail demand for ethical savings products, the move drove us to recognise the need for a clear policy.

## SRI guidelines

Our board has therefore agreed that we launch a set of SRI guidelines later in the year. These will set out what mainstream investing institutions can reasonably expect to see in the annual reports of companies in which they invest. This will help us exercise the responsibilities our customers and the public increasingly demand in the social, ethical and environmental area. We are not seeking to add unnecessarily to the disclosure burden, but to help everybody by setting a basic and simple benchmark in an area beset by complex and sometimes conflicting standards.

We have favoured an approach that focuses on alignment of interest between firms, their owners and stakeholders, placing the emphasis on transparency and constructive engagement, rather than confrontation and exclusion.

First, let's consider the background a little more closely. At the highest level, governments have now bought in to the concept of corporate social responsibility (CSR). For example, the Guidelines for Multinational Enterprises published last year by the Organisation for Economic Co-Operation and Development (OECD) draw specific attention to the responsibilities of

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companies in the area of environment. On labour rights, they endorse the International Labour Organisation's declarations on child labour. The OECD calls on firms to disclose information on social, ethical and environmental policies. Parliamentary opinion in the UK also favours greater effort.

According to a recent poll by PricewaterhouseCoopers, 90% of MPs think it is important for companies to be socially responsible, while 80% believe current CSR practice fails to meet society's demands. It also found 70% of MPs were in favour of firms being required to produce verified reports on their social and environmental performance.

We believe the new ABI guidelines will help address this need in ways that will also benefit companies themselves. We have no wish to prescribe exactly how much pollution individual companies can cause, or to make precise and absolute judgments on ethics. Instead, we have chosen an approach that meshes in with the thinking on the importance of risk and risk management that underlies the Turnbull Report.

The guidelines will be closely modelled on a set already elaborated by the SRI Forum<sup>1</sup> and will essentially ask companies to disclose whether their boards have considered the significant short- and long-term risks to the value of their business from social, environmental and ethical matters. Firms are also

enjoined to state that systems are in place to manage those risks and that those systems are being properly monitored. That such risks do exist is clearly shown by the collapse in Union Carbide's share price after the 1984 Bhopal disaster in India.

## Risk focus

By focusing on risk, this approach is based on a concept that is already familiar to management and financial markets. There is a strong emphasis on alignment of interest. The questions are couched in a way that captures a wide spectrum of risk. Yet they home in only on risks that are genuinely significant, which may be environmental in one company, labour standards at suppliers in another. The guidelines are intended to focus on things that really matter, not on what a small minority of outsiders claim is important.

We believe their adoption will add to the awareness of corporate responsibility and lead to behavioural change that will help protect the future of businesses and employment, as well as safeguarding the investments our members make on behalf of their customers.

The ABI will start monitoring disclosures under its guidelines from the next reporting year through its Institutional Voting Information Service (IVIS).

This could form the basis for engagement by institutions with those companies where they believe significant risks are being ignored. Thus our members hope they, too, will be setting an appropriate standard of responsibility in the way they themselves manage their own business. ■

*Peter Montagnon is Head of Investment Affairs at the ABI.*

*'For more details on the SRI Forum and a copy of its draft guidelines, please contact John Hale of the ABI secretariat (john.hale@abi.org.uk) stating whether you wish to be kept further informed of the ABI guideline project.*