# Using the FFGI Methodology to assess pension providers

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## Introduction

The Fair Finance Guide International (FFGI) initiative examines and evaluates financial actors' work on sustainability issues. Behind the initiative is a network of about 40 civil society organizations in thirteen countries, led by Oxfam Novib in the Netherlands. Since its launch in 2014, the FFGI network has been stimulating actors in the financial sector, mainly banking and insurance groups, to rethink their role in society.

Responsible financial institutions are much needed to face all social and environmental challenges the global community is confronted with. Developing clear and ambitious investment and finance policies on environmental, social and governance issues, is a necessary first step in that direction. Therefore, the *FFGI Methodology for the assessment of responsible investment and finance policies of financial institutions* (FFGI Methodology) is used to analyse and rank selected banking and insurance groups, publish the results online in so-called Fair Bank Guides or Fair Insurance Guides and involve consumers when engaging these financial institutions to improve their responsible business conduct.

Some coalitions within the network wish to extend its work to the pension sector and launch Fair Pension Guides. This note describes the few adaptations that appeared to be needed when applying the FFGI Methodology to the pension sector. Apart from these deviations, the FFGI Methodology will be applied as described in detail in the full methodology document, which is available on the site of FFGI. This document is an add-on to this complete methodology document.

The decisions that are described in the sections below may affect the comparability between pension providers in different countries slightly, but, more importantly, gives the coalitions the possibility to capture what is most relevant in engaging with the pension providers of their country. The comparability between the Fair Bank Guides and Fair Insurance Guides on the one hand and the Fair Pension Guide on the other is affected due to changes in the scope of the assessment, which is necessary because of the different nature of the selected financial institutions. Hence the overall comparability of scores is slightly lower, but not to the extent that makes it necessary to speak of different methodologies.

## Pension related activities

While in some countries the pension market is dominated by autonomous pension funds, in other countries the assets of the pension schemes are managed by large independent asset managers or asset management subsidiaries of banks and insurance companies. In order to cover a large part of the market, the coalitions may need to select different types of pension providers. In such cases it could happen that an asset manager who is offering pension products and managing pension schemes and is of particular interest for a Fair Pension Guide, is also part of a banking or insurance group that has been selected for the Fair Bank or Insurance Guide of that coalition.

To accommodate this situation and to make a meaningful assessment in both guides, FFGI has decided to focus the assessment of pension providers on their so-called *pension related activities*. This means that when a coalition selects a banking or insurance group for its Fair Pension Guide, the banking or insurance activities within the group will not be taken into account. Consequently, the policies applied and dedicated exclusively to those activities will not be used for scoring this financial institution's pension related activities.

## Scope categories

Besides the content of an investment or finance policy, FFGI also considers its scope in the score. Not all scope categories that are defined for assessing banking group policies on cross-cutting and sector themes are equally relevant for pension providers. When assessing a pension provider's investment policies, also when the pension provider is a banking group, **the following categories are outside the scope of the assessment:**

- *Corporate credits* - loans, mortgages, trade finance, and underwriting services provided to companies
- *Project finance* - project finance transactions and project-related corporate loans
- *Mortgages* - mortgages provided directly to private clients

**The following FFGI categories are considered relevant for a pension providers' policy assessment**:

- *Asset management for own account*
- *Asset management for the account of clients*

These categories cover investments in shares, bonds, and other types of securities that are invested in, by purchasing them directly or holding them in mutual funds. The assets are managed by an internal department or an asset management subsidiary of the pension provider or by an external asset manager. The difference between these categories lies in the question on whose behalf the assets are managed. The investments that are listed on the financial institutions' balance sheet are called *asset management for own account*, while the *assets managed for clients* refer to the investments made for institutional investors (like other pension funds, charities, churches, insurance companies) and private customers (also called consumers individuals or private clients).

As a matter of opinion, FFGI expects all subsidiaries within a group of companies to work according to the same investment beliefs when investing in and financing companies, also when they manage assets that are not on their own balance sheet. Just like the asset manager subsidiaries within banking or insurance groups, FFGI expects asset managers within pension providers to work with the responsible investment policy of the whole group. This means that when the asset manager has its own policy, it should not deviate from or contradict the policy of the group it is part of, be it a pension fund, insurance company or bank.

Under certain circumstances, the category *asset management for clients* may not be part of the policy research, specifically when autonomous pension funds have an in-house asset manager that also manages the assets of other pension funds, who are then considered the clients of the asset manager. Previous research by FFGI shows that the latter pension funds have their own responsible investment policies. Because the coalition then assumes that all these pension funds have their own responsible investment policies it is less relevant to consider the client asset management activities of these asset managers in the research. That becomes even more apparent when only part of the selected pension providers has asset manager subsidiaries working for other clients and most of these clients are subject of FFGI research themselves.

Depending on the situation in the country, the selection of financial institutions for the guide, the relevant activities of the selected entities and the priorities and strategies of the coalition setting up the guide, the coalition may decide not to assess the policies of these asset managers. The research then only includes the FFGI scope category *asset management for own account*.

## Documents

According to FFGI Methodology, the policy assessment is based on the public documents[i] of the assessed financial institution. Information provided by third parties, such as the external asset managers hired by pension providers, is not taken into account.

Previous research showed that pension providers, especially the smaller pension funds, tend to rely on the external asset managers and their detailed policies. As per exception, the documents of external managers may be used for the assessment in case the pension provider has published a commitment declaring that it aims to invest responsible, outsources the asset management to one or more external parties and refers to their policies as being applicable to the assets of the pension provider. Moreover, the documents from the external parties mentioned in the commitment must be available on the website of the pension provider. In case a pension provider refers to policies of various asset managers, the policy that covers most assets will be taken into consideration.

## Themes

All cross-cutting and sector themes are considered relevant for pension providers. The operational theme Transparency and Accountability will reflect the relevant scope categories. This means that the assessment elements dedicated to the categories *corporate credits* and *project finance* are removed when assessing pension providers.

The themes Consumer protection and Financial inclusion are developed for assessing policies regarding personal banking and insurance products and will be left out the assessment of pension providers. Furthermore, the theme Remuneration is expected to be not or hardly relevant for pension providers, especially not for pension funds. As the theme is not mandatory, coalitions may decide to leave it out of the assessment.

## Elements regarding internal operations

FFGI distinguishes assessment elements that are crucial for a policy regarding the companies a financial institution invests in or finances, and elements that are crucial for a policy regarding the financial institution's internal operations (also called operational elements). The first type of elements is deemed relevant for any financial institution as these elements concern the companies it can invest in.

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i For example, commitments and statements on websites, responsible investment or finance policies, environmental and social risk management frameworks, positions papers, engagement reports, voting records, annual reports and sustainability reports.

The latter type of elements can be divided into expectations regarding a financial institution's social responsibility (CSR) and expectations regarding its investment and finance strategies (including often observed loopholes and exceptions in the policies). For the pension providers' assessment not all of those elements are relevant. Because the focus of the assessment is on pension related activities, only the investing decision making process is relevant. Elements that are crucial for the financing decision making process and for products and advisory services of banking groups are removed from the FFGI Methodology when it is applied to pension providers.[i]

In a few instances at the theme Gender equality[ii], the size and structure of pension providers (no staff or less than 100 persons and no or few senior management positions) can be a reason for coalitions to decide that the element is not applicable for the assessed entity. All other elements in this theme will be assessed in the same manner as done for other financial institutions.

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i This concerns Corruption 2, 3, 4 and 5; Tax 4, 5, 7, and 8; Transparency and Accountability 5 and 6.

ii This concerns Gender equality 2, 3, 4, 5 and 6.