



SRI AND PENSIONS IN ASIA SUMMARY

Asia's demographic time-bomb is ticking. While Asia accounted for 28% of the world's population aged 60 and older in 1985, that proportion will more than double to 58% in 2050¹. The rate of aging in the region will be the fastest in the world, and in absolute numbers, the "global challenges facing social security systems" will be largely Asian².

At the same time the region's environmental problems are "pervasive, accelerating and unabated"³. The pollution problems facing the region are familiar to the residents of any of Asia's major cities. But there are also the more invisible problems which must be addressed such as depletion of fresh water sources, over-consumption of other resources such as timber, fish and minerals and the pervasive, but potentially highly destructive phenomenon of climate change.

These trends suggest a bleak future for many Asians. This report reveals why the solution to the first problem could also be a large part of the answer to the second. We looked at the social security and environmental crises in Asia, with special attention to 10 countries of the Asia Pacific Rim: Japan, China, South Korea, Taiwan, Hong Kong SAR, Philippines, Malaysia, Thailand, Singapore and Indonesia. We also examined the role of socially responsible investment (SRI) in helping to solve these problems. The key findings from the report are:

- **The majority of SRI funds are not asking about the adequacy of pensions provision as part of their due diligence on workplace standards⁴. While this issue may be less relevant in other markets, it should be considered a priority issue for Asia**
- **SRI is not yet an investment option for pensions management in Asia**

The following actions are therefore recommended:

1. Raising the Pensions Question

We recommend that responsible investors and SRI Research Groups ask these questions:

- ★ **What retirement schemes does the company run?**
- ★ **Does the company take any measures to improve pensions provision beyond what is required by law?**
- ★ **Does the company scheme benefit all employees? If not, which categories are excluded? Do part-time employees benefit?**
- ★ **Has the company discontinued any of its pension plans?**
- ★ **Is there evidence of malpractice regarding its management or the allocation of funds?**
- ★ **Are the company's pension plan(s) fully funded? Is this verified by the company's auditors and confirmed publicly?**
- ★ **Has the company moved from a defined benefit DB plan to a defined contribution DC plan? If so, have employees benefited from educational programmes so they understand the implications of such a move?**

2. Investing for Sustainability

SRI pension options foster investment with a long-term interest in corporate performance and development. Helping to resolve the present social security crisis through SRI will also reinforce other measures which aim to build strong institutional support for Asia's financial markets and corporations. We recommend these actions:

- ★ **Asian governments, especially those with the more developed pensions systems, to make Statements of Investment Principle (SIPs) which embrace the SRI dimension, a legal requirement of occupational and private pension schemes**
- ★ **Pension officers, trustees and their advisers to familiarise themselves further with SRI and to consider the long-term responsibilities of their investment strategy in relation to national and global environmental constraints**
- ★ **Pension trustees to request information on SRI policies appropriate for pension funds and to select options appropriate for the fund**
- ★ **DC plan sponsors to offer an SRI option and to consider making this the default equity option when no selection is made**
- ★ **Plan sponsors to consider surveying the views of plan beneficiaries with regard to their long-term investment objectives and views of SRI**
- ★ **Plan sponsors to provide information for beneficiaries on the fund's corporate governance and SRI policies and practices**
- ★ **Plan sponsors to collaborate with other like-minded pension funds to build understanding and best practice**

SRI, a Global Industry

SRI is now a mainstream investment product in the west and SRI products are now available in more than 21 countries. Almost US\$2.4 tn is invested with some regard to environmental, social and/or ethical concern as well as financial returns. In the Asia region, Australia is the largest market with A\$13.9 billion (approx. US\$7.7 billion) invested in funds with SRI policies (as at June 30, 2002). The industry is growing fast, up 32% in 12 months, whilst overall managed funds have declined 0.1% in a weak market. In Japan there is approximately US\$0.7 billion at current market valuations invested in eleven fund options. Elsewhere in Asia, a number of fund options have become available in the last year and more are planned.

SRI: Making Sure Pension Funds deliver Sustainable Growth

The smart way to grow economies is to build in renewal. This is the point of sustainable investment. Pension funds with SRI policies can play a crucial role in financing sustainable enterprises and encouraging corporate best practice in strategy, eco-efficiency and human betterment. Section Three of the report highlights some of the ways pension funds are helping to finance sustainable economic growth.

Are Asians interested in SRI?

SRI is an attractive pensions option for many Asians and DC plans and State schemes should include an SRI option. SRI worldwide has attracted many first time investors who are often middle income earners, female, make donations to charity or are part of an environmental or religious network. In Asia many women work and control the family finances, people are becoming more and more environmentally aware and there are active religious groups. Japanese eco funds have attracted these types of investors, other Asian markets have substantial numbers of people with similar characteristics.

Pension Funds and Poverty

Two billion people in Asia still live on less than 2 USdollars a day. A robust pensions industry is part of the solution to creating a social safety net for the region. Since responsible investors and SRI funds can have greatest influence over the pay-out policies of *corporate* pensions schemes, it should be noted that the primary beneficiaries of these schemes are workers and their dependents in more industrialised and commercial regions. However, retirees may retire back to their rural roots or send money back to dependents there. Corporate pensions schemes therefore tend to contribute most to eradicating urban poverty and give only un-guaranteed, indirect support to the rural poor. However, this is at the level of pension fund pay-outs. The investment policies of pension funds can also help to finance sustainable economic growth, including wealth creation in rural areas and disadvantaged communities.

Best practice in Asking the Pensions Question

KLD Research & Analytics, Inc., of the US and Michael Jantzi Research Associates Inc. of Canada are the only groups surveyed to include adequate pensions provision as a specific SRI research criterion.

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Price US\$150 for non members, free for ASrIA members.

About ASrIA

ASrIA (Association for Sustainable & Responsible Investment in Asia) is a not-for-profit membership association dedicated to promoting sustainable investment practice and corporate responsibility in the Asia Pacific region. ASrIA currently has more than 70 members, managing over US\$2 Trillion of funds. Among its many activities, ASrIA publishes research, runs events and is stimulating SRI investment throughout the region. **www.asria.org** is the 'go to' site for SRI in Asia.

¹ United Nations 2001, as quoted in Turner, John. 'Social Security Development and Reform in Asia and the Pacific'. London: The Pensions Institute, March 2002

² Turner, John. 'Social Security Development and Reform in Asia and the Pacific'. London: The Pensions Institute, March 2002

³ Environmental Outlook 2001, Asian Development Bank

⁴ ASrIA surveyed 27 leading SRI research groups and think tanks from Europe, Australia, North America and Japan in June- July 2002 to identify who considered the adequacy of pensions provision in their research criteria. The results reveal that pensions provision is not currently a focus for SRI research. Of the 16 responses received, 5 do not consider the issue to be applicable to their research, 3 choose not to consider the issue, 6 conduct assessments on the subject but do not engage, or engage only from a distance, and only two of the surveyed groups specifically and actively research the subject, though without engaging.