Juliet Altham, Responsible Shareholding Manager, Co-operative Insurance Services (CIS)

DEMAND FOR ETHICAL INVESTMENTS IS ON THE RISE AND NORTHWEST PROVIDERS ARE LEADING THE WAY, BUT COULD ENTRENCHED RULES AND CONFLICTING REGULATIONS BE HOLDING US BACK?

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cash values

If plunging ever deeper into the red is increasingly the trend in our credit-hungry society, then saving money to save the world appears to be the new black. Stashing your hard-earned readies in an ordinary savings account is no longer hip or cool, and record sums are now being saved by concerned individuals in what are broadly known as 'ethical' investments.

It seems obvious that health professionals shouldn't in conscience be drawing their pensions from the profits of tobacco shareholdings, and nor would a charity want its employees' pension contributions invested in a company making landmines. Indeed, charities, the NHS and the Church of England are only some of the institutions that no longer invest pension funds in companies whose activities run counter to their mission.

But it turns out that managing your money responsibly is not always so straightforward, and the term 'ethical' applied to financial products is a catch-all, shorthand term which does not explain with any precision where investors' money is going.

Financial products marketing themselves as ethical can be split into two categories: retail products that you sort out for yourself, e.g. personal pensions, savings accounts, ISAs and insurance; and occupational pensions which your employer provides for you. In the UK retail sector, socially responsible investments (SRIs) have recently reached a new high, with £42 billion invested. But the really big bucks are controlled by insurance companies, which have £103 billion invested in SRIs, and ethical workplace pension funds, which have £80 billion invested.

It all seems simple in theory. Wanting your money to follow your values, you are delighted to find that your employer offers an occupational scheme invested in an ethical fund. So far, so reassuring you think... how lovely that my pension money is helping research into wave energy, organic agriculture and fair trade products. However, on exploring further, you are startled to discover that this ethical fund owns shares in, for example, Tarmac, BP or Nestlé.

Bewildered at the apparent paradox of an ethical pension investing your contributions in companies with such poor reputations, you toddle off for an investigatory chat with your pensions provider and soon discover that the world of ethical investments is a curious and complicated place.

There is a problem at the heart of the ethical investment debate: people are choosing responsible investments in ever greater numbers, which is a testament to the enduring vibrancy of the ethical consumer movement, but ethical pension providers aren't delivering the conscience-salving products we want. Why?

It turns out that they're not allowed to. Unless someone has chosen a private ethical pension, trustees of occupational pension funds are legally obliged to maximise returns on monies deposited with them. This means that fund managers cannot in most cases exclude sectors - known as negative screening - that investors might find distasteful.

Before the 1995 Pensions Act, which requires occupational pension funds to disclose the extent to which they take social, environmental and ethical issues into account, this level of dynamic engagement between fund managers and corporates was rare. But nearly a decade on does 'engagement' really transform corporate bad practice?

UNLESS SOMEONE HAS CHOSEN A PRIVATE ETHICAL PENSION, TRUSTEES OF OCCUPATIONAL PENSION FUNDS ARE LEGALLY OBLIGED TO MAXIMISE RETURNS ON MONIES DEPOSITED WITH THEM

At Manchester-based Co-operative Insurance Services (CIS), which had to sell its own shares in the animal-experimentation company Huntingdon Life Sciences following a customer boycott in the mid-90s, Responsible Shareholding Manager Juliet Altham says that in judging results, it is important to remember that the SRI industry is young and engagement is still in its early days.

"While there is plenty of greenwash out there, and companies are getting better at it, it's our job to cut through that, and over past years there has been a marked improvement in company transparency," she says. "We don't just rely on the materials companies publish, that's just your starting place. We consult NGOs, we do research around the company looking at what else they are involved in, we ask them detailed questions and we don't usually have problems getting information."

Her view is backed by Dr Steve Waygood, Director of Investor Responsibility at Insight Investment, who is also on the Board of the UK Social Investment Forum which provides the secretariat to the All Party Parliamentary Group on Socially Responsible Investment.

"Has SRI made any kind of a difference? I'd say an unequivocal and resounding yes," he confirms. "I've personally met recently with the senior management of Standard Chartered regarding their operations in Burma, and pointed out to them that their stated commitment to the Universal Declaration of Human Rights (UDHR) sat uncomfortably with their presence there. It was a risk to their business that was out of proportion to the benefits. They've now pulled out, citing UDHR."

Taking ethical pension funds together with charity, church and insurance company investments, the total amount deposited in SRIs was measured at a massive £224.5 billion in the UK in 2003. It seems clear from this that concerned individuals and institutions agree that they want their money to work for a positive purpose.

Yet Brigid Benson, Director of The Gaeia Partnership, an ethical investment advice company in Manchester, says that she is frustrated at the slow pace of change and believes her clients are too. "One must distinguish between the reputations of big companies and what ethical funds themselves are sincerely trying to do, but I believe it is the job of the ethical funds to make these corporate social responsibility (CSR) reports more meaningful," she says.

"I remain very optimistic about ethical consumerism, but I do think that the public are far ahead of institutions and businesses that make decisions and use public money."

Steve Waygood defends engagement energetically, arguing that it is more effective to lever change in a company from the inside than to put your money elsewhere and allow pariah companies to carry on unchecked. He also explains that from a parliamentary perspective, the 1995 Pensions Act is to be strengthened, with companies being told that they must offer audited evidence to back up current reporting claims on their social, ethical and environmental performance. In addition, retail products, whether ethical or otherwise, will soon require the same level of disclosure as pension funds if a fund manager is to be able to invest savers' money in company shares.

So are there any financial products out there that will direct investors' money straight to organisations working positively for social change? While the Co-operative Bank operates a negative screening policy and will not lend to companies which contravene stringent human rights standards, a more active approach is taken by The Ecology Building Society which lends savers' money to mortgage borrowers committed to building and renovating for low-impact lifestyles.

Even more influential, because investors' money fuels cutting-edge social and environmental enterprises, is Bristol-based Triodos Bank. It offers a range of savings options including the Community Investor Account, the Earth Saver, the Fairtrade Saver and the Organic Saver, as well as a generalised savings product that allows the bank to lend customers' money across all ethical sectors. The bank aims to bring a human dimension to all its interactions with investors and borrowers, and becoming part of a community with shared values is a strong attraction for the socially aware saver, explains spokesperson James Niven.

But isn't it inevitable that people will lose out financially by investing their money with an ethical bank? After all, the wealth of every empire was built on exploitation not altruism. "With the majority of saver accounts that we offer, the interest rates won't be the best, but they're not the worst either, and more importantly, they're fair and sustainable," says James Niven, pointing out that many high street banks offer topline rates for short periods that subsequently drop off, a practice that Triodos does not follow.

"Triodos has an extremely active dialogue with its customers," he cheerfully notes in anticipation of the 500 people expected to attend the bank's upcoming AGM, "and they are increasingly asking for more sophisticated ways to use their money. In response, we've developed share issues with the Ethical Property Company, for instance, and most recently Cafédirect, which have been very popular. And then we have built genuine expertise in specialist areas, for instance we do a lot of lending to wind farms and these can be quite complex deals, but we've funded 120 of them across Europe now and so we know absolutely how to do it."

When the rest of the planet is finally knackered, it may well be that we need to stop counting our future chickens and concentrate on the eggs currently being nurtured by these 500 Triodos customers and others like them, and hope that our ethical pension fund manager has been engaging companies with the same alacrity that they have been accepting our money for shares... ie

Brigid Benson, director of the Gaeia Partnership, remains optimistic about ethical consumerism.

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