Review of KiwiSaver default provider arrangements

350 Aotearoa

Section 1: Your details

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Section 2: Feedback on discussion paper

Q21: Should the default provider arrangements be used to achieve objectives in relation to responsible investment?

350 Aotearoa support the view (pt. 130) that there is public interest in responsible investment, and that it is appropriate for the government to change the default provider settings to reflect this.

Given the long-period of review for default KiwiSaver settings, 350 Aotearoa urge the government to implement mandatory exclusion of the fossil fuel industry, in order to be consistent with climate change commitments and projections.

The Intergovernmental Panel on Climate Change's special report 'Global Warming of 1.5ºC' lays out the necessary pathways to reduce global emissions and curb rising temperatures to 1.5ºC[1]. To meet this requirement, financing of carbon intensive sectors, namely the fossil fuel industry, needs to decline rapidly.

Changing the settings of the default KiwiSaver funds to mandatory exclusion of the fossil fuel industry would reflect a long-term investment strategy consistent with mitigating climate change. Furthermore, by making mandatory exclusions for default KiwiSaver funds, as well as a broader certification regime for responsible investing in all other funds, would indicate a wider shift to the economy, necessary in the face of climate change. In order to allow for a smooth and planned transition, given the limited timeframe, this shift needs to be indicated immediately.

350 Aotearoa refute the view that consumers have free choice to invest responsibly. On the contrary, most people in default KiwiSaver funds are doing so with limited time and knowledge to understand the ramifications of their investments. The government has a responsibility to provide mandatory responsible investments for default funds as a baseline, given the lack of consent inherent in the scheme.

Beyond default funds, the lack of certification and availability of sufficiently responsible funds also restricts choice for KiwiSaver members. Given that fund providers have the economic literacy, access to information, and ultimately the decision-making over investments, a certification regime for responsible investment is necessary to hold fund providers to account.

350 Aotearoa believe that responsible investments align with the purpose of the review in providing long-term investment strategies that provide a good standard of living. The impacts of climate change put our standard of living at risk, therefore responsible investments should align with mitigating and adapting to climate change, namely rapidly shifting away from the fossil fuel industry.

Q22: Would default members want their funds to be invested more responsibly? If yes, is the same true if responsible investment means potentially limiting future returns?

350 Aotearoa agree that KiwiSaver members would like their funds to be invested more responsibly. As a baseline, the default KiwiSaver settings should be changed to require mandatory exclusions of certain industries, in particular the exclusion of the fossil fuel industry. A survey commissioned by IAG New Zealand in July 2019, reported 79% of New Zealanders are concerned about climate change[2]. It is the government and the fund providers' fiduciary duty to deliver products that meet the interests and requirements of New Zealanders faced with the future of climate change.

Responsible investment with mandatory exclusion of the fossil fuel industry and a stable economy do not necessarily fall into conflict. As we make the necessary shift to our energy systems and economies towards renewable energy, coal, oil, and gas projects and infrastructure will become stranded assets. Various fossil fuel products have entered structural decline, which by definition is a long-term shift that transcends cyclical ups and downs. Therefore, it is irresponsible for KiwiSaver products, which in nature are long-term investments to invest in a high risk industry, like the fossil fuel industry. For example, in 2016 the Institute For Energy Economics And Financial Analysis released a report on three coal-fired power plants in the Netherlands that vastly underperformed. The author of the report said the failure was due to "falling power prices, the rapid growth of renewable energy, flat or falling energy demand, and new emissions-control policies"[3].

Q23: To what extent is it a problem that default members do not have information about whether their investments are made responsibly? Would having more information make a difference to the behaviour of default members? What alternatives might there be to more/standardised information to address responsible investment concerns?

350 Aotearoa agree with pt. 139, that behavioural factors impact an individual's capacity to align their KiwiSaver with their expressed values. It's clear that consumer preference for responsible investment serves as a good indicator for change. However, consumer choice is confined to structural factors, like a lack of responsible products, and in order to transform the economy sufficiently, mandatory exclusion of the fossil fuel industry for default providers is necessary.

We believe the duty to invest responsibly should fall on fund providers rather than KiwiSaver members. Given that fund providers have the economic literacy, access to information, and ultimately the decision-making over investments, there should be stricter policies in place to ensure fund providers are transparent and accountable to the public. For example, Partners for Carbon Accounting Financials have developed a model for the finance sector to accurately report on carbon emissions[4]. This sort of reporting is effective because it holds the finance sector to account for its role in enabling fossil fuel projects to go ahead. 350 Aotearoa believe a reporting model like this would increase transparency and accountability. 350 Aotearoa support the government putting strict criteria on the term 'responsible investment'.

350 Aotearoa are critical of frameworks, such as the ESG principles, which provide little to no accountability or transparency in portfolio decision making. This allows fund providers to publicly purport to consider ESG principles, but in practice invest in harmful industries like fossil fuel companies with no public disclosure. Simply, declaring responsible investments without disclosing exclusions is misleading to customers.

Q24: Do providers' current responsible investment exclusions meet what default members would expect?

Current responsible exclusions do not meet what default members would expect. 350 Aotearoa support changing the default KiwiSaver settings to require mandatory exclusions of certain industries, in particular the exclusion of the fossil fuel industry. We urge the government to implement a robust criteria for 'responsible investment', which utilises negative-screening through sector exclusion policies.

We also urge the government to adopt a wider certification regime, beyond default providers, to reinstate trust in KiwiSaver members and ensure transparency and accountability of fund providers in adhering to responsible investments.

The global grassroots Fossil Free divestment campaign is a key indicator of the public's perception of the fossil fuel industry and the erosion of its social license. According to 350.org over USD$11 trillion worth of investment funds have been divested from fossil fuel companies, notably by sectors with high community engagement -like religious institutions and universities[5]. In New Zealand, notable fossil fuel divestments include, Dunedin City Council, Auckland City Council, Victoria University, Otago University, and Auckland University.

On a local level, the governments ban to offshore oil and gas exploration has clearly sign-posted the end of the fossil fuel industry's operations in New Zealand to the public. On a global scale, we are witnessing some of the biggest coordinated mobilisations for climate justice, notably the School Strike for Climate.

It is now commonly understood the connection between anthropogenic climate change and the role of the fossil fuel industry. However, KiwiSaver providers are not meeting the demand: there are only 11 KiwiSaver products, and 2 providers that rule out fossil fuel companies from their investment funds.

Q25: If this option is adopted, what industries or sectors should be excluded? Should the government instead adopt an international exclusion standard or certification regime? What would be the costs associated with an exclusion or certification regime?

350 Aotearoa support the adoption of Option 1 and advise that the fossil fuel industry be excluded from default fund portfolios. Investments in the fossil fuel industry are harmful and pose material, sociopolitical, reputational, and financial risk to shareholders.

The fossil fuel industry has over five times the amount of coal, oil, and gas than is safe to burn in order to curb temperature rise to 1.5C warming above pre-industrial levels. Given the direct link between the fossil fuel industry's business model and the impacts of climate change, investments in this industry pose a material risk for shareholders. In New Zealand, we are exposed to sea-level rise, increased droughts and risk to fire, biodiversity loss, increased flooding, glacial retreat, soil erosion, and the degradation of freshwater among other impacts.

The socio-political landscape is rapidly changing as the majority of New Zealanders report being concerned about climate change. The social licence of the fossil fuel industry has been eroded, and it is no longer acceptable to associate nor finance this industry. There is increased scrutiny on government, investment fund managers, among other institutions to be accountable for their relationship to the fossil fuel industry.

For example, in 2018, Mark McVeigh filed a lawsuit against Australia's $50 billion Retail Employees Superannuation Trust (REST) superannuation fund for not providing adequate information on how the fund manages climate-related financial risks. Steven Feit, Staff Attorney at the Center for International Environmental Law said in response to the case "Climate change poses significant financial risks to investors, especially those who have significant holdings in fossil fuel companies. This risk is particularly acute for pension funds, which have extremely long investing horizons and are generally risk-averse. Failing to monitor fund portfolios for climate-related financial risk is risky both financially and legally, and opens the door for cases like this in Australia, the United States, and elsewhere."[6]

350 Aotearoa identify the crucial role of the finance sector in facilitating a fast, just and equitable transition to a zero carbon economy -in both investing in mitigation and adaptation solutions, as well as the exclusion of the fossil fuel industry, to readily progress the transition away from extractive industries in a timely manner. As the government implements emission-reduction policies and public opposition to the fossil fuel industry heightens, coal, oil, and gas projects are set to go into structural decline and become stranded assets. Therefore, it is irresponsible for KiwiSaver products, which in nature are long-term investments to invest in a high risk industry, like the fossil fuel industry. The economy must be shifted and transformed to account for a fast and just transition away from fossil fuels.

Reference List:

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