Spotlight on the financial sector:
Investing in exploitation

Traditionally, the financial sector is perceived as low risk for human rights abuses.[1] In reality, there are multiple ways the sector is exposed to risks of modern slavery, including through its operations, supply chains, and business relationships.

Financial actors may unknowingly engage vulnerable workers through labour agencies in higher risk industries such as catering and cleaning services, or purchase goods at risk of being produced with forced labour such as IT equipment and corporate merchandise.[2] There are serious risks of becoming part of value chains that rely on exploitation by investing in or lending to businesses that are complicit in modern slavery within their own operations or supply chains.[3] Certain financial actors may also inadvertently facilitate criminal activities where profits generated by modern slavery practices are laundered through legitimate financial channels.[4]

At the same time, financial institutions have a critical role to play in combating slavery. They have the ability to influence global business, drive better investment and lending frameworks and practices, identify financial flows and unscrupulous clients linked to these crimes, and use their leverage over companies invested in to improve company practices. While the sector is complex and involves a range of different financial institutions and services,[5] this spotlight focuses predominantly on asset owner and manager investment in companies listed on stock exchanges.

Financial institutions are captured under the United Nations Guiding Principles on Business and Human Rights (UNGPs) which established the “corporate responsibility to respect”, including the requirement to avoid causing or contributing to adverse human rights impacts and seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products, or services by their business relationships, even if they themselves have not contributed to those impacts.[6] This responsibility has been increasingly translated into national legislation targeting human rights related to business activity.[7] As large businesses, many investors are captured by legislation imposing reporting requirements on the steps taken to identify and address modern slavery in operations and supply chains[8] and, more recently, by laws requiring entities to undertake human rights due diligence.[9] For example, the Australian Modern Slavery Act’s official guidance recognises the responsibility of financial institutions by clarifying that entities are expected to report on the risks of modern slavery in their financial investments.[10]

However, investor action to assess and address modern slavery is still lagging behind these laws. In 2021, Walk Free, WikiRate, and the Business and Human Rights Resource Centre assessed statements published by 79 asset managers who were required to report under the UK Modern Slavery Act.[11] The assessment found that asset managers were not adequately considering the risk of modern slavery within their direct operations or supply chains of the goods and services they purchase. More importantly, given the size of their investment portfolios, asset managers also failed to consider modern slavery risks in their investments, with only about a quarter (27 per cent) indicating that they conducted some form of due diligence on human rights or modern slavery issues in their portfolios. Few assessed their investee companies for modern slavery risks (9 per cent) or engaged directly with companies to address modern slavery through social audits, self-assessment reviews, filing shareholder resolutions, or providing training (15 per cent).[12] This was similarly reflected in a 2022 assessment of asset owners and managers based in Australia and the UK who were exposed to the garment industry. Less than a quarter (24 per cent) of garment investors described that they conduct pre-investment assessments to identify modern slavery risks, despite the risks associated with the garment sector.[13]

Despite the growing number of voluntary initiatives, only one in three asset managers in the UK disclosed being part of any relevant initiatives or collaborations.[14] These initiatives provide important opportunities for financial actors to learn from experts and peers, and to lift the industry standard for preventing, identifying, and mitigating modern slavery in their own businesses and investee companies.[15] Within the evolving movement, some investors have taken on an active role in using their leverage to address modern slavery such as the CCLA impact investment firm’s Find It, Fix It, Prevent It initiative[16] and the Investors Against Slavery and Trafficking Asia-Pacific (IAST APAC) initiative.

With the support of Walk Free and the Finance Against Slavery and Trafficking (FAST) initiative,[17] IAST APAC is an investor-led, multistakeholder initiative comprising 37 investors from Asia and the Pacific representing AU$7.8 trillion (approximately US$5.2 trillion) in assets under management, together with the Australian Council of Superannuation Investors. IAST APAC engages with investee companies spread throughout the region in the consumer, healthcare, and technology

London, United Kingdom, August 2022.

Public artwork is stationed outside the Bank of England, as part of a new art trail exploring the impact of the Trans-Atlantic slave trade. In 1833, when The Slavery Abolition Act was passed, the UK government agreed to provide £20 million to compensate 3,000 slave-owners. No reparations have been paid by the government to former slaves or their descendants to date. Photo credit: Mike Kemp/In Pictures via Getty Images.

sectors to find, fix, and prevent modern slavery from occurring in their businesses.[18] In 2020, IAST APAC signed and published a statement to the top 100 companies listed on the Australian Securities Exchange (ASX), setting out investor expectations for addressing the risks of modern slavery under the Australian Modern Slavery Act.[19]

> **"As investors we expect companies to meet their reporting and compliance obligations and in doing so encourage companies to examine broader risks of labour exploitation as a leading indicator of modern slavery."**
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> *Investors Against Slavery and Trafficking Asia-Pacific, 2020*[20]

Alongside human rights legislation, the burgeoning responsible investment/sustainable finance movement — incorporating environmental, social and governance (ESG) considerations into investment decisions and reporting frameworks[21] — is rapidly being translated into formal regulations and guidance. Investors that do not incorporate ESG considerations into their investment practices and decision-making, for instance, increasingly risk failing to meet their fiduciary duties[22] and can face reputational, operational, and potentially legal risks related to maximising short-term profits over long-term sustainability.[23] ESG efforts are increasingly linked to the United Nations Sustainable Development Goals (SDGs).[24] It is clear that actions to address modern slavery must — as an abuse of both labour and human rights, a driver of unsustainable earnings,[25] and a key issue addressed through Targets 5.2, 8.7, and 16.2 of the SDGs[26] — form part of the 'S' in ESG.

At the regional level, building upon the Action Plan on Financing Sustainable Growth,[27] the European Union in 2019 set obligations on financial actors to disclose the impact of investment decisions on sustainability, including the environment and social justice, with EU Regulation 2019/2088.[28] In addition to introducing transparency requirements, the regulation calls on financial market participants and financial advisers to consider guidance published by the Organisation for Economic Co-operation and Development[29] and the Principles for Responsible Investment.[30] The EU Platform on Sustainable Finance has further proposed a structure for a social taxonomy to promote investment in sustainable activities in Europe, which would cover decent work, including for workers in value chains.[31]

Stock exchanges are also increasingly requiring listed companies to disclose ESG risks, including those related to modern slavery. As of August 2022, 32 stock exchanges have mandatory ESG reporting, and 67 had offered written guidance on ESG reporting.[32] In Thailand, for example, listed companies must report annually on sustainability issues, including human rights protection throughout the value chain. In 2021, Walk Free partnered with the Stock Exchange of Thailand and FAST to produce the Guidance on Modern Slavery Risks for Thai Businesses, as well as an online Modern Slavery Benchmarking Tool, to help companies manage labour risks across a range of sectors and meet their sustainability reporting obligations.[33]

International standards act as a framework to guide business in their reporting under stock exchange and other sustainability disclosure regulations. In 2021, the Global Reporting Initiative (GRI) released its revised standards to align with instruments such as the UNGPs.[34] At COP26, the International Sustainable Standards Board was established to develop a global baseline of sustainability disclosure standards.[35] Further, the EU is set to adopt mandatory sustainability reporting standards to guide company reporting under the proposed Corporate Sustainability Reporting Directive.[36]

Bangkok, Thailand, October 2020.

Increasingly, investors are taking action on modern slavery issues. Pictured is the Stock Exchange of Thailand, which in 2022 partnered with Walk Free and the Finance Against Slavery and Trafficking initiative to develop a set of tools to help investors manage human rights risks, specifically modern slavery. Photo credit: Taylor Weidman/Bloomberg via Getty Images.

Recommendations for governments

1. Introduce mandatory human rights due diligence laws to require companies, including investors, to conduct due diligence to prevent, mitigate, and remedy modern slavery in operations and value chains.
2. Strengthen existing mandatory reporting laws by including and implementing penalties.
3. Establish disclosure requirements for listed companies to report on ESG risks, including modern slavery, and actions being taking to address them. Encourage stock exchanges to publish guidance on these reporting requirements.
4. Collaborate to ensure sustainability reporting standards fully address modern slavery issues.
5. Ensure that any national or regional reporting regime has in place single reporting deadlines, easily accessible reports in a centralised repository, and that the reports produced are machine-readable.

Recommendations for investors

1. Improve reporting under national Modern Slavery Acts and other relevant regulations to ensure the minimum requirements are met and to provide more detailed disclosures on modern slavery risks.
2. Implement strong risk assessment processes prior to making investment decisions to avoid high-risk investments.
3. Conduct continuous engagement with investee companies to improve their modern slavery risk management and consider the use of collective leverage to improve company risk performance.
4. Engage and share good practice with industry initiatives and collaborations, such as IAST APAC or CCLA's Find It, Fix It, Prevent It initiative.
5. Advocate for and support government efforts to strengthen legal and regulatory frameworks and resources for preventing and remediating modern slavery.