Dame Sara Thornton's recommendations to the financial sector (September 2021)

In 2016 it was estimated that 16 million people were victims of forced labour in private business. While slavery is illegal in every country in the world, our economic and financial systems appear to tolerate and even promote practices which result in unacceptable abuse of workers. There is high global demand for cheap goods and services exacerbated by high investor expectations of profit. And sadly there are significant numbers of vulnerable workers who feel they have no choice but to work in unsafe and exploitative jobs, frequently in debt to their unscrupulous employers and facing menace and threat on a daily basis. Governments bear significant responsibility in remedying this but business itself must do more to protect the most vulnerable workers in fields, farms and factories across the world. Businesses which turn a blind eye to modern slavery and human trafficking have lower labour costs, unfair competitive advantage and are able to access capital unfairly. This is a failure of the market.

During 2019 I was approached by the financial crime consultancy Themis and the Tribe Freedom Foundation about collaborating on joint work focused on modern slavery risks in the financial services sector. I had made a commitment in my strategic plan to develop good practice in this area and so welcomed this opportunity to explore how the sector could do more to identify and prevent modern slavery. I particularly liked the emphasis on practical steps and the proposed engagement with the sector. In January 2021 we published *Preventing Modern Slavery and Human Trafficking: an Agenda for Action across the Financial Services Sector*.

I then wrote to 51 CEOs of leading companies in the financial services sector to ask them to respond to the report. In particular, I asked them to reassure themselves that their organisations were taking concrete steps to address the findings and recommendations in the report as it was clear that there was much to be done across the sector. Forty four organisations responded ranging from international banks to investment platforms, building societies and digital payment companies. The responses were often detailed and described innovative initiatives, leadership commitment and collaborative working.

As I read the responses I was struck by a number of common themes which resonated with work done by the Liechtenstein Initiative, the *Blueprint for Mobilising Finance against Slavery and Trafficking*[1] published in 2019. The report had argued that the world's bankers, investors, insurers and financial partners 'have unparalleled influence over global business… and that finance is a lever by which the entire global economy can be moved'. And while there were examples of good practice in the responses I had received, it was not the case that the financial services sector had integrated modern slavery risks across all its business processes in the same way it has approached environmental risk. I agree with the recent report from the ESG Working Group that it is a myth that social performance is less financially material than environmental risk.[2]

Financial institutions have legal responsibilities to report suspicious activity to law enforcement and a significant role in detecting and disrupting serious organised crime more widely. However, through their investing and lending decisions they can do so much more. Increasingly, investors do not want to invest in companies with forced labour risks, but banks should not be lending to such companies either.

[1] FAST Initiative website: fastinitiative.org
[2] See 'Amplifying the S in ESG: Investor Myth Buster' (2021): www.isfc.org

I am convinced that the only way we will make a step change is if business leaders set the tone from the top and commit to eradicating all forms of coercive labour practices. However, business leaders need to collaborate in order to do this. My recommendations focus on the need to develop relevant risk management processes and the need to create better systems to share intelligence. I also strongly encourage growing collective action initiatives by investors and suggest that financial services could be a powerful force to encourage action to address significant risks in the electronics business. Finally, until the government legislates to extend Section 54 of the Modern Slavery Act to cover financial portfolios I suggest that business covers these areas voluntarily in their annual modern slavery statements.

The financial services sector should ensure that it integrates modern slavery and human trafficking risk across all its business processes, in the same way that it has approached environmental risk.

Recommendation 1: Risk management and mitigation

- Modern slavery and human trafficking risk should be embedded throughout the investment lifecycle of a business.
- The sector needs to develop better risk identification, assessment and mitigation controls or to integrate modern slavery and human trafficking risk into its existing systems so that organisations can identify concerns at the stock, company and worksite level in real time.
- There needs to be consistency in the definition and understanding of forced labour risks – the ILO's 11 indicators of forced labour provide a useful foundation. [3]
- A standardised and consistent approach to measurement needs to be developed to enable benchmarking and reporting.
- Industry stakeholders, such as investors, business information providers, ESG analysts and regulators should work with tech companies and innovators to support the development of new products, thinking about how information should be structured and agreeing a common set of expectations and metrics to speed up innovation and the eradication of forced labour.

Recommendation 2: Systems for sharing

- Financial sector entities need to find ways of sharing data more widely on current and emerging threats, while operating within relevant legal frameworks.
- Government and industry stakeholders should support the development of information sharing systems, for example, on bad actors involved with modern slavery and human trafficking.
- Information sharing should not only inform anti money laundering and other compliance requirements but also wider investing and lending decisions.

Recommendation 3: Collective action

- Investor-led initiatives such as CCLA's Find it Fix it Prevent it initiative, Rathbones-led Votes Against Slavery campaign, and Investors Against Slavery and Trafficking Asia Pacific, demonstrate how collective action can incentivise and accelerate improvements in company disclosure and compliance to the Modern Slavery Act.
- These initiatives should be broadened and developed to enable a greater range of high risk sectors and regions to be targeted. More investors should become involved, backed by CEOs and senior management.

[3] International Labour Office indicators of forced labour webpage: wcms_203832.pdf (ilo.org)

- Until now, such activities have been investor led, but banks could also be taking collective action, particularly when financing major international developments.
- Financial sector actors should also support initiatives such as ShareAction's Workforce Disclosure Initiative, which encourages disclosure from major companies on labour standards in their supply chains.
- All initiatives should place more emphasis on remedy for victims and survivors of forced labour.

Recommendation 4: Collaboration on electronics supply chains

- Electronics equipment, including laptops, monitors and mobile phones, is essential to any office environment. In its 2020 Modern Slavery Statement, the UK Government identified information and communications technology (ICT) as one of three priority risk areas for central public procurement.
- The challenges of electronic supply chains stretch not only from assembly and manufacture of devices, but also of the mining of rare metals, and the manufacturing of silicon.
- As an office-based, technology-reliant industry, the financial sector could use its collective voice to improve conditions in electronics supply chains.
- As well as using leverage through procurement, stakeholders could also put pressure on the sector through investing and lending activities.

Recommendation 5: Financial institutions should be reporting on their investment and lending portfolios under Section 54 of the Modern Slavery Act

- Despite the fact that financial institutions could have a major impact against forced labour through their investment and lending portfolios, very few are disclosing this activity in modern slavery statements.
- The UK government should strengthen the Modern Slavery Act to include the requirement that reporting covers financial portfolios as well as business and supply chains.
- Pending any change in legislation, the financial sector should voluntarily cover this area in its modern slavery statements. This would be a powerful driver towards greater transparency, particularly as most of the world's multinational financial institutions have bases in London.