

# Investing at the margins: business approaches to tackling poverty and social exclusion in the UK

*As a leading sustainable and responsible investor (SRI) in the UK and globally, Henderson Global Investors considers the issues associated with marginalised communities as significant, both from a social and financial perspective. In late 2007, Henderson's SRI team commissioned the consultancy, TwentyFifty, to research how leading businesses engage with poor and marginalised communities in the UK, and to review the potential investment risks and opportunities this presents. This briefing paper represents a starting point from which to develop a more thorough assessment of the business response to marginalised communities in different sectors.*

## The challenge: a growing gap in society

With the focus on climate change as the critical sustainability issue for business and society, other significant social and environmental issues have not received the consideration they deserve.

About one in five or 13 million of the UK population can be considered marginalised or socially excluded. This includes 66,000 adults facing 'chronic social exclusion' through multiple problems (including low income, poor mental and physical health, homelessness, prison, addiction, domestic violence, sexual abuse and low education skills).<sup>1</sup>

The latest available figures (2006) showed the first increase in numbers in poverty since 1996-7 with persistent levels of child poverty above government targets.<sup>2</sup>

Reports of rising costs for households have dominated the news so far this year:

- Household gas bills have risen by 109% and electricity bills by 70% in the five years to January 2008.<sup>3</sup> They are predicted to increase a further 25% in 2008.
- The oil price topped US\$100 at the start of 2008 and has risen over 30% in the first six months of the year, sending petrol and diesel pump prices up and increasing the transport cost component of many goods.

### Our definition of marginalisation

"The marginalised lack or are denied the resources, rights, goods and services and ability to participate in the normal relationships and activities available in a society, whether in economic, social, cultural or political arenas. Marginalisation affects both the quality of life of individuals, and the equity and cohesion of society as a whole."

Source: "Multi-Dimensional Analysis of Social Exclusion", Levitas et al, January 2007

- Increasing demand, poor harvests and high fuel costs have contributed to price increases of basic foodstuffs, bringing shortages and protests in some parts of the world. The price of wheat increased by 130% in the year to March 2008.<sup>4</sup>

- Additionally, mortgage and lending costs have steadily increased over the past 12 months. UK inflation reached 3% in April 2008, and the Governor of the Bank of England expects inflation to exceed the government's 2% target for the next two years.<sup>5</sup>

These dramatic developments have only served to emphasise this research agenda. The impacts of rising fuel, food and finance will fall disproportionately on the poorest members of our society. The causes of these price increases – burgeoning demand in India and China, scarcity of cheap oil, a global credit crunch and changes in weather patterns, amongst others – are not short-term blips. How businesses choose to respond will shape our future society, determining levels of inequality and the consequent symptoms of poverty including poor health and crime.

## The findings: many responses, little strategy

TwentyFifty's research focused on the finance, telecoms and utilities sectors – competitive markets where there is a growing implicit, if not explicit, expectation of a 'universal' or 'near-universal' service stemming from the nature of the services. We were interested to understand both how companies were interpreting this agenda and the nature of their responses.

As summarised in Figure 1 (overleaf) businesses in the finance, telecoms and utilities sectors were able to describe a variety of initiatives that engaged marginalised communities either as employees or consumers (whether current or future) and demonstrated a range of business arguments for doing so.

However, these initiatives appear to be largely ad hoc with few if any companies providing a structured and strategic framework that demonstrates a clear understanding of the growing business risks, societal impacts and opportunities of engagement with marginalised groups.

### Source:

- 1 The Guardian, 18 June 2007
- 2 "Monitoring poverty and social exclusion", Joseph Rowntree Foundation and New Policy Initiative, 2007
- 3 Energywatch, 20 March 2008
- 4 Bloomberg, March 2008
- 5 BBC News, UK inflation jumps to 3% in April, May 2008



**Figure 1: Engaging marginalised communities – company examples**



Source: Henderson Global Investors

**Recommendations: towards a strategic approach**

Our research identified that companies can benefit from giving specific attention to their engagement with marginalised and socially-excluded communities. There are sound business reasons to do so; product and service innovation, threats to income, cost of debt and its recovery, and the reputation risks of bad news stories. There is also a clear societal case in terms of reducing poverty, combating the social consequences of inequity, and enabling social adaptation to climate change.

It was also clear that most companies have yet to develop strategic approaches to their engagement with marginalised communities and many more questions than answers were raised through our research. Consequently, our findings led us to propose a series of questions that could be used by businesses and investors to assess current practice and explore a strategic engagement with poor and marginalised communities:

**Employment**

**Current situation**

Employment is an obvious route to alleviating poverty and exclusion. There are a range of programmes creating employment opportunities for those who are marginalised or face chronic social exclusion. These include:

- Business Action on Homelessness which aims to help equip homeless people, through business support, with the necessary skills to gain employment and independent living.
- Mencap's WorkRight programme works with employers to support people with a learning disability into genuine work opportunities.
- The Corporate Alliance for Reducing Re-offending works with employers to increase the number of offenders going into jobs as well as involving employers in other aspects of making offenders job-ready.
- Remploy provides specialist employment services for disabled people and those who experience complex barriers to employment and operates ten businesses as suppliers to leading multinationals such as Ford and Unilever, as well as national and local government.

- Minority Supplier Development UK, of which BT is a member, works to provide direct links between corporations and minority businesses and maintains a database of minority suppliers.

**Questions for investors to ask companies**

1. What initiatives is the company engaged in to bring the chronically excluded into employment?
2. Does the company engage with suppliers in disadvantaged areas and those suppliers who specialise in providing employment for marginalised or excluded groups?
3. Can the company demonstrate that its lowest paid staff and those of its suppliers receive a living wage/income?

**Customers**

**Current situation**

Consumer bodies are being strengthened and regulators are paying more attention to the experience of marginalised and excluded communities. In October 2008, the energy and postal watchdogs will merge with the National Consumer Council (NCC) creating an enhanced consumer representation and advocacy body. The Act which establishes the NCC as a statutory body also provides for new consumer redress schemes in the gas, electricity and postal services markets. The energy regulator OFGEM recently announced the creation of a consumer panel to be drawn from British households.

The reality is that the poorest and most marginalised in our society continue to pay more for their goods and services:

- In the telecoms industry, the 'pay-as-you-go' services, preferred by the poor because of the predictability of the payments, are more expensive than contract or direct debit options.
- Customers using pre-pay meters in the energy sector can pay up to £452 per year more than customers on direct debit.<sup>6</sup>
- In the finance sector, sub-prime 'borrowers' pay significantly higher interest charges.

Source:

6 Energywatch submission to Ofgem Energy Supply Markets Investigation, April 2008

Social tariffs offered by energy companies have not always been the cheapest tariffs available. Energywatch, the independent watchdog, deems voluntary action has been shown to be ineffective and is calling for regulation on social tariffs.<sup>7</sup>

### Product and service innovation

Reasonable adjustments introduced following disabilities legislation, (eg, improved access to buildings, simplified and larger typeface documents), have demonstrated that a focus on product and service provision to a disadvantaged group can bring improvements to other customers (eg, parents with pushchairs). Furthermore, technology advances and innovation can reduce the cost of providing services to marginalised groups. There are innovations in developing countries that could be used effectively in the UK, eg, Vodafone has cut the cost to individual users of pay-as-you-go services by making it possible to transfer credit between phones by SMS (not currently available in the UK).

### Debt management

Debt and debt management are significant and growing business costs. By 2003-4 the UK water industry was facing an annual non-recoverable debt of £164m. A Citizens Advice Bureau report in December 2007 highlighted that mortgage and secured loan lenders' arrears management often increased the problems that borrowers faced.<sup>8</sup>

There are a variety of initiatives in the finance, energy and water sectors that support the provision of financial advice to those in debt, eg, funding of debt advice agencies and trust funds to help those struggling to pay utility bills. At least one company, Severn Trent, has been able to demonstrate a clear business benefit to its trust fund. The Severn Trent Trust Fund, which seeks to provide an integrated package of financial support and advice that gets its beneficiaries back in the 'black', can show a clear return in terms of future revenue protected against contributions to the fund.

### Questions for investors to ask companies

1. *In assessing business risk, is the affordability of products and services to households considered? Looking forward, particularly in the energy and water utilities, how will the affordability of the product or service be impacted by climate change, and wider environmental legislation?*

### Conclusion

Marginalised communities have traditionally been addressed by companies through their philanthropic activities. At best, companies have instituted programmes that have addressed a particular marginalised community while also delivering value to the business. Typically, however, these have been marginal, ad hoc initiatives that have not been coordinated or enabled by deeper strategic thinking.

We believe there is an urgent need for this to change. Wider trends in society associated with rising fuel, food and water prices (in turn driven by scarce resources and climate change) are driving greater numbers of people into poverty. These trends, alongside ongoing demographic change such as the growing proportion of elderly in UK society, mean that companies need to develop more sophisticated and strategic responses to the challenges facing marginalised communities. Engaging with marginalised communities, whether as customers, suppliers or employees, should be viewed as a material issue representing both significant regulatory and reputational risk as well as significant opportunities associated with a rapidly growing market niche.

As a leading sustainable and responsible investor in the UK and globally, Henderson Global Investor considers the issues associated with marginalised communities as significant both from a social and financial perspective. This briefing paper represents a starting point from which to develop a more thorough assessment of the business response to marginalised communities in different sectors. Our focus initially will be on addressing fuel poverty in the UK, engaging utilities and other businesses to encourage a more strategic approach to this issue. We plan to engage other sectors in the coming months and look forward to working with these companies, as well as with other investors and stakeholders, to better meet the pressing needs of marginalised groups in society.

2. *Is there a strategic focus on innovation to meet the needs of customers in marginalised and excluded communities and how are poor and marginalised communities involved in the development of product and services designed to meet their needs?*
3. *What is the intent and approach to dealing with customers who are indebted? What balance is struck between reclaiming arrears and supporting individuals and households to achieve personal financial sustainability?*

### Community

#### Current situation

Existing corporate charitable giving in the UK often benefits marginalised and excluded communities. Companies are currently refocusing community investment and charitable giving to:

- Align them more closely with the core business (eg, so that a financial institution may support financial education in schools).
- Supporting causes which are supported by employees with both their own money and their time.

There are many different stakeholders involved in tackling poverty and exclusion in society. Businesses find themselves in dialogue and acting in partnership with government agencies and bodies, local authorities and non-governmental organisations and groups representing marginalised communities. This includes high profile government-led initiatives such as the Fuel Poverty Advisory Group and the Financial Inclusion Task Force. A clearer strategic case for engaging with marginalised groups will strengthen these initiatives.

### Questions for investors to ask companies

1. *What charitable programmes does the company lead or support which seek to build sustainable and inclusive communities? Are the most marginalised specifically identified and engaged with in the design and development of these programmes?*
2. *What government-led programmes designed to alleviate poverty and exclusion does the company participate in?*
3. *Has the impact on marginalised communities been considered in coming to its public positions on changes in law and regulation?*
4. *How is the company developing its capacity to collaborate with other bodies in tackling poverty and exclusion?*

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### Further information

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