Notes of an UKSIF Roundtable Discussion on

Tomorrow's Thinner City: Creating a Framework for Innovation in Sustainable Financial Services

hosted by CCLA Investment Management Ltd on Wednesday 18 March 2009

Introduction

UKSIF has an emerging vision of **tomorrow's revitalised "Thinner City" in which world-leading sustainable financial services come from both within and beyond the current finance sector.** We believe that the current climate potentially offers the most significant opportunity in our lifetimes for innovation to deliver high quality financial services that meet the needs of providers and users of capital in new and better ways and, at the same time, protect and support the real economy, society and the environment. We see potential for new solutions from both the private sector and the third sector.

"Welcome, Thinner City – Urban Survival in the 1990s" was a book by writer Colin Ward on economic, social and environmental revival after the UK's last major economic upheaval. Today, the first part of his title seems particularly ripe for reuse. UKSIF believes that those in financial services today and new entrants should both say "Welcome, Thinner City – we will respond to this challenge with innovation for sustainability and we will thrive".

The purpose of the roundtable was to explore the future of high impact sustainable finance, particularly outside the public equity space, including **what support was needed from regulators, policy makers and trade bodies to enable positive "Thinner City" visions to be realised**. This will inform UKSIF's work in influencing these audiences. In advance of the meeting, an UKSIF briefing paper and a set of scenarios "Future of the Global Economy to 2030" from Outsights, a strategic futures consultancy, were circulated to stimulate thinking. Extracts from the briefing paper are attached as Appendix A. The Outsights paper is available at www.outsights.co.uk/services/scenarios.

Attendees

Geoff Burnand	Investing for Good
Harry Glavan	Community Development Finance Association
Catherine Howarth	FairPensions
Robin Keyte	Towers of Taunton (FS) Ltd
Tom Powdrill	PIRC
Chris Powles	
Tim Purcell	CO3
Penny Shepherd	UKSIF
Erin Van der Maas	Carnegie UK Trust
Peter Webster	EIRIS
Helen Wildsmith	CCLA (Chair)
Janet Williamson	TUC

Attendees were mainly from UKSIF members working outside the public equity space. They participated in a personal capacity and organizational affiliations are given for information only. These notes summarise points made during the discussion. They do not intend to suggest that any or all points had the support of all present.

Points Made

1. Background and Context

Reputation of the Finance Sector

- The finance industry is **in denial about the depth of its reputational problem**.
- Reputationally, the finance sector is now where the mining sector was ten years ago.
- The public is "brassed off" with financial institutions; this is driving demand for a people's bank at the Post Office.
- John Varley of Barclays has been a relatively lone voice[1] in acknowledging the reputational impact and saying "sorry", although HSBC has also said good things[2]; however, most comments from mainstream banks about reputational issues are coming out of CSR or brand.

[1] Eg. See paulseaman.eu/2008/12/john-varley-of-barclays-unspun/.

- Trusted providers outside financial services are saying **"I wouldn't want to get close to financial services because its dirty."** ie. its not worth risking the trust. "Would have to be sure there was a lot of benefit and you could make a difference."
- There are many asset owners that believe that they have been let down; this can be built on this.
- Nationwide Building Society and ethical banks have retained a positive reputation and grown.

Role of Civil Society
- There are **three roles for civil society** (a) "voice" at the table and in the debate (b) monitoring (c) as a service provider.

Other Background
- Which? claims that the current level of choice in financial services is unhelpful for individuals. Need **fewer products of higher quality**.
- **Lower charges for individuals are achievable**. Can already get 0.3% or 0.4% as a pensions management charge if there is nil commission.
- There is a **shortage of investable propositions**. Investing for Good tracks investable propositions – and most are outside the UK.

2. Aspirations, Fears and Role Models

Social Investments and Not for profit Financial Services
- Want opportunities for **more diversification of corporate forms** delivering financial services, eg. credit unions, and more of a level playing field for different corporate actors; want to see a shift away from the assumption that shareholder value delivers best for consumers; prevent ever escalating size; could new corporate forms have a financial inclusion mandate, helping to avoid loan sharks?
- Would love to see community banking but struggle to see how it could be made to **work to scale**.
- There is **increasing appetite by civil society organizations** to explore being financial services providers. (NB. This did not refer to social housing providers.)
- NS&I was seeking £4bn in one year but instead took in £11bn in three months. That money is unlikely to all remain there and so offers an opportunity to attract it into social investments. However, there is a **risk that the current scale of social investment cannot meet the potential demand**.

Positive Role Models
- The **Co-operative Financial Services** / Britannia Building Society merger is interesting. The Co-operative Bank is providing greater support for SMEs.
- **Unity Trust Bank** is owned by trade unions.
- **Zopa** offers a fair lending model.
- **Rules in South Africa** require banks to check that people can afford to repay their loans; otherwise people don't have to repay.
- Dutch pension funds have come together to **fund renewables in the developing world**, with the Dutch government providing initial risk capital.
- Energy for all = **I&PS for community owned wind farms**; Ventus **VCT** invests in wind farms.
- **Mondragón** offers an example of a community movement to emulate.
- The **International Council on Mining and Metals (ICMM)** was created to develop a sector response to the reputational problems of the mining sector, involving mining companies at the Chief Executive level. There was a research period at the start of ICMM.
- The FSA's **Retail Distribution Review** is a positive move.
- A couple of years ago, Esmée Fairbairn Foundation and Friends Provident Foundation supported Wessex Reinvestment Trust and Robin Keyte to work with the regulator to develop **model rules for Industrial and Provident Societies** that could invite investment into share capital and be exempt from financial promotion regulation (which otherwise introduced unaffordable extra costs). This made it affordable to raise small amounts of money.
- **Enterprise Investment Scheme tax relief** can be used for some social investments.

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[2] Eg. See www.thisislondon.co.uk/standard/article-23656115-details/HSBC+chief+is+sorry+for+'out+of+control'+bonuses/article.do.

3. Possible Ways Forward

Differing views on the role of politicians and public sector solutions

- It falls on civil society to **get politicians to root out conflicts of interest**, including lobbying Tory shadow ministers. Need to challenge the mainstream sector using public anger – drive out conflicts of interest, **get fiduciary duty redefined to take account of systemic risk**.
- Politicians don't know the answers; there is an **openness to ideas by all political parties**.
- There is a **mixed track record from the involvement of politicians** in promoting community finance – too much pressure on politicians to deliver solutions is therefore not the answer. The community finance / social investment **sector needs to harness its own expertise** and work out the best way forward for itself. The knowledge base is there within the sector.
- There are **mixed views about local finance providers created by the public sector**. For example, "Finance Wales" is a positive example. It lends to SMEs in Wales without the same requirements as other lenders eg. in relation to collateral. All loans are based on a business plan. But some find that bureaucracy or restrictive conditions make it difficult in practice to access funds from this type of organisation.
- Government is being blinkered in the solutions they will accept eg. re European state aid rules.
- Lots of **strategies are being put in place without regard to social lenders** like CDFIs and credit unions, with designs that are counterproductive for social lenders. At the same time, banks are being asked to be more cautious and risk averse.
- **Funds are not currently being provided to social lenders** to the same degree as to banks; CDFIs are meant to be able to participate in guarantee schemes but can't do so in practice (but nor can banks!).

Role of Charity Investors and other asset owners

- Government is a passive follower; mainstream capital is not yet motivated to change its model; charitable foundations are better placed to drive this by influencing their fund managers and requiring them to do mission driven investing. **If could do only one initiative then it should be to exercise pressure on the charitable sector to get them to demand that their money is managed in a new way.** The problem today is conceptual not contractual.
- One fund manager is doing lunches for trustees to expose them to new asset classes.
- The lack of accountability of charity trustees is a problem.
- There is a **lack of mainstream mission-driven investment propositions** for charities.
- Mainstream capital is regulated and therefore need to look through the prism of the regulator. **Robust measurement of the use of the money invested is needed** by foundations, using independent rating and verification of use.
- It is important to support **collective working**, eg. mentoring, supporting dialogue between and among charities and pension funds; it is also important for asset owners to act collectively – NAPF is feeling its way forward on that. Need to **encourage action based on the opportunity to improve, not out of fear**.
- The **HNWI community** is open to innovation and change; in the venture world, HNWIs are very engaged with companies and driving a cultural change to ownership.
- Increasingly buyers of services (eg. local authorities) want providers to be socially accountable.
- **Local authority pension funds** could work more closely together, eg. the current cost structure doesn't make sense for inner London LA pension funds.

Other suggested ways forward

- Senior people need to get together. Create one or more **bodies like ICMM for the finance sector**. Might need more than one ICMM-equivalent as the finance sector is very complicated.
- Consider what further role **trade bodies** could play.
- Need more **surveys** of what would restore confidence.
- Consider further how to **ensure low barriers to entry while retaining safety for consumers**.
- Push **social lending by CDFIs**. Use leverage to get buy-in from governments and banks. Address the mechanisms now working against the ability to attract capital and on-lend. (However, there is concern about the ability to achieve scale.)
- Get **existing institutions to take on community banking**.
- **New partnerships** are needed.
- Think of ways to **get financial institutions to connect to the outside world**.
- Are there **new risk products** that could be developed? Eg. Robert Schiller ideas eg. income linked loans.
- Need to have a **service that packages small investment offerings into large ones**.
- A **Social Stock Exchange** plan is being developed.

Appendix A: Extracts from Preparatory Briefing Note

Potential for Innovation in Investment and Finance

<table>
<tr><th rowspan="2">Users of Capital</th><th colspan="3">UK Investment and Finance Today</th><th rowspan="2">Providers of Capital</th></tr>
<tr><th>“Manufacturing”</th><th>“Retailing” / Distribution</th><th>Advice and Education</th></tr>
<tr>
<td rowspan="3">1. Consumers
2. SMEs
3. Private companies
4. Listed companies
5. Mutuals, co-operatives and non-profits
6. Green Infrastructure
7. Social Housing
8. Other Property
9. Governments

Etc</td>
<td>• Banks (incl Co-op, Triodos, Ecology, Charity Bank)
• Credit Unions
• Asset Management (Pooled and segregated; all asset classes)
• NSI
• Investment Clubs
• Pension Fund buyout companies
• Kiva, Zopa
• REITs
• Microfinance Institutions
• CDFIs

Etc</td>
<td>• Personal Accounts system (from 2012)
• Occupational Pension Funds
• Banks
• Credit Unions
• Supermarkets / Post Office / Other Retailers
• Insurance Companies
• Asset Management Direct Sales
• Platforms (Skandia, Cofunds, Fidelity Fundsnetwork, Hargreaves Lansdown take most of market)
• Kiva, Zopa

Etc</td>
<td>• Wealth Managers
• IFAs
• Citizens Advice
• Online education (eg. FSA)
• Schools

Etc</td>
<td rowspan="3">1. Consumers: Low income/assets
2. Consumers: Medium income/assets
3. HNWIs
4. Trusts and Charities
5. Pension Funds
6. Insurance Companies
7. SWFs
8. Banks

Etc.</td>
</tr>
<tr><th colspan="3">Tomorrow’s Entrants? Disruptive?</th></tr>
<tr>
<td>• Outsourcing companies?
• Infrastructure providers?

Who else?</td>
<td>• Other utilities: telecoms, energy?
• Media businesses?
• Advice web sites?
• Social networking sites?
• Supermarkets and retailers (expanded role)?
• New mutuals and co-ops?
• New online entrants?
• Mass membership organisations (charities, trade unions, etc)?
• Overseas entrants (utilities, banks, etc)?

Who else?</td>
<td>• Computer games?

Who else?</td>
</tr>
</table>

Key issues include:
Scale, reach, target audience, business model, barriers to entry, does regulation support responsible innovation?

Drivers of disruptive change include:
Regulation, Internet, Aging Population, Success or failure of business models, Population wealth profile, Public opinion, etc.

Voices from Financial Services 2030 – Alternative Futures?

"I bank with China Mobile. I lend through Kiva. Bupa picks the fund managers for my pension. My pension savings go mainly into green infrastructure, responsibly managed private equity and social enterprise investment funds. And my embedded wellbeing management chip monitors my vital signs and decides automatically each month whether I should spend on my health, my retirement savings or having a splurge."

"After the Financial Markets Act 2012 was passed here in the UK, it soon became clear that both the FSA and all other regulators in the United Financial Stability Network would, in practice, allow only organizations with very significant capital to hold consumer savings. With credit unions and CDFIs having gone to the wall due to a mixture of heavy handed regulation and the retreat of local government funding to meet only statutory obligations, Walmart4Money and its fellow megabanks are effectively the sole source of capital for social enterprises. But, in spite of the Community Reinvestment Amendment 2016, we find that only the largest ones get loans."

"In 2025, Philadelphia Quaker Health is the most trusted and respected name in health and life care. This not-for-profit has close to 1bn members globally. Once full vested members' income and life care through death is guaranteed and at least half of their economic assets become fully integrated into PQH's Intergenerational Trust. Members are committed to enhancing their global community's health and well-being. PQH and the rest of the GoodLife500 web continues to gain market share from the Fortune500. A pattern that is repeated at local level too." (Bill Torbert – quote supplied by Helen Wildsmith)

Radical visions, government prescriptions, achievable solutions?

Some compare the UK finance sector today with the dysfunctional UK car industry of the 1970s – expensive and can't be relied on to get you from A to B without breaking down. A critical catalyst for change then was competition and cooperation from the Japanese car industry. Today, quality of cars is no longer a concern. The challenges for the UK finance sector today is: How can reformed regulation make equivalent innovation happen? And who will play the role of the Japanese?

Radical visions:	eg. www.e4declaration.org/
Government prescriptions:	eg. www.londonsummit.gov.uk
Achievable solutions:	eg. ??

Penny Shepherd, Last updated: 27 May 2009