

Michael Lord
Small Firms Division
Financial Services Authority
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Dear Michael

Investing Responsibly

Thank you for your reply of 8 December to Dr Robin Keyte of Towers of Taunton who wrote to you on behalf of the UK Social Investment Forum (UKSIF) and the Ethical Investment Association (EIA). Robin has replied to you separately on behalf of the EIA, the financial advisers' association, about specific points in your response.

I am writing on behalf of UKSIF as we felt it most appropriate for the EIA to make specific points while we made a more general response. Our members are drawn from the broad range of those involved in responsible investment including investment institutions, non-governmental organisations, advisers and concerned individuals.

Treating concerned customers fairly

As we have said previously, we believe that ensuring that consumers with social, environmental and/or ethical concerns are treated fairly by financial advisers forms an important and legitimate part of your role. We also believe that this is consistent with the need to ensure efficient and fair markets as it is about widening investor choice, rather than directing clients towards or away from any given area.

We welcome the opportunity to confirm that we are not requesting that the FSA become involved with whether or not a consumer chooses socially responsible or ethical investment. We would also like to emphasise that we are not seeking to promote particular products or providers or even any given approach (eg. screened funds, shareholder activism or ethical bank accounts). Our aim is to ensure that consumers with ethical, social or environmental values are treated fairly.

Not expecting the customer to ask first

The growth of fair trade coffee, organic food, energy efficient white goods and similar products demonstrates that consumers are increasingly concerned about social, environmental and ethical issues surrounding the products they buy. The combination of this level of consumer concern with the current low level of investment literacy means that it is doing customers a disservice and not treating them fairly if they are not in a position, in practice, to make similar financial decisions.

Our experience is that most consumers do not feel sufficient confidence in their financial services understanding to suggest the types of products in which they are interested – whether these are bond funds, property funds or ethical investment funds.

The complexity of the financial services market is such that the onus needs to be on the adviser to make some effort to understand their concerns or preferences and translate that into possible investment solutions.

To expect clients interested in ethical issues to be sufficiently aware of options of this kind that they will proactively request such an approach is simply not realistic. We therefore feel that advisers need to understand sufficient information about their client in order to determine what they should offer or recommend – rather than rely only on client preferences that have been volunteered. In the case of social, environmental and ethical concerns, our research suggests that today most financial advisers are not doing this.

We appreciate that you do not wish to prescribe that financial advisers should ask a question in their fact find but are disappointed that, in the light of this research, you see no case to highlight the need to gather sufficient information to take account of such values and concerns. In spite of the very welcome recent support for socially responsible investment from others such as the Personal Finance Society and the Association of Independent Financial Advisers, we believe that a clarifying signal from the FSA is still needed to ensure that concerned customers are treated fairly.

Ensuring that financial advisers are aware that the FSA expects them to be competent to advise on socially responsible investment

We welcome your response that you expect financial advisers to provide good quality advice and to identify customers' needs. And that you expect them to be able to discuss socially responsible investment if this is raised by the client and to make themselves aware of all available investments, including these.

As outlined in EIA's response, the evidence strongly suggests that the majority of financial advisers do not currently have the expertise to provide advice on socially responsible investment even when the client asks for this. In particular, the lack of identified training needs in this area suggests that they are unaware of the FSA's view (as expressed in your letter) that they should be capable of doing this.

The Ethical Investment Association has analysed past FSA occasional papers and believes that an occasional paper on the development and future direction of socially responsible investment would be within the range of topics previously addressed and would provide an excellent means to ensure that this FSA view was clear.

We believe that such a paper would make a major contribution towards ensuring that financial advisers were aware that the FSA recognized the relevance and legitimacy of clients' personal values as a factor in their investment decisions and expected financial advisers to have the skills, knowledge and client understanding to address these. We believe that it could also play a part in rebuilding trust in financial services.

We hope therefore that you will re-consider the case for such a paper.

We look forward to hearing from you.

Yours sincerely

Penny Shepherd MBE

Chief Executive
For UKSIF Retail Sub-Committee

cc. Stephen Bland, Director, Small Firms Division, FSA
Mandy Spink, Retail Intermediaries Sector, FSA
Toby Wallis, Consumer Sector, FSA
Sue Burness, Financial Services Consumer Panel
Robin Keyte, Ethical Investment Association