UKSIF

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Dear Jason Pope

UKSIF response to FSA ‘Product Intervention’ Discussion Paper

Thank you for the opportunity to comment on this FSA discussion paper.

Summary

UKSIF welcomes the FSA’s view that effective regulation of financial products should support consumer protection, choice, competition and innovation. We believe that good outcomes for consumers and broader society require that these areas are not interpreted too narrowly.

In particular, effective regulation should address:

- **Protecting and growing wealth** by responsible asset ownership and the integration of material environmental, social and governance issues into the design and delivery of financial products
- Delivering **positive outcomes for society**, including socially useful innovation and encouragement of responsible corporate behaviour in areas such as equality, diversity and sustainable development, as well as delivering good outcomes for the direct users of financial products
- Enabling **consumer well-being** by allowing consumers, including diverse consumers, to reflect their values and social priorities as well as more narrow financial aims in their use of financial products.

There is increasing acceptance that a range of **social, environment and governance (ESG) issues affect the growth and protection of wealth**, justifying both responsible asset ownership practices and their wider integration into investment selection and management. Effective regulation should address market failures in demand for these practices.

Effective regulation should also address **market failures where investment practices fail to deliver value for society** as well as where they are not aligned with the interests of consumers. This includes supporting equality, diversity and sustainable development and enabling a resilient economy both in the UK and worldwide. As part of this, it is important that regulation advances rather than stifles socially useful innovation in financial services.

In addition, a modern approach to regulation should support and enable consumers to use financial products in ways that **support their overall well-being, including their ability to reflect their values and social priorities in their investments**. This is important to support equality and diversity as well as general consumer well-being. It is an outdated perspective to assume that consumers require financial products to achieve only their narrow financial aims. For example, UKSIF research for National Ethical Investment Week has found that more than half of private investors want to make money and make a difference with their savings and investments so long as they can achieve both at the same time.

Our consultation responses have been informed by these priorities. We have responded to selected consultation questions only.

We recommend, in particular, that the FSA should include understanding of modern sustainable and responsible financial services within the competencies required of its regulatory staff. It should also maintain a strategic oversight of this rapidly developing area to inform its regulatory approaches.

Q1: What issues should we consider in relation to how our product intervention approach affects equality and diversity? and Q2: How could we use our focus on products to promote equality and diversity?

We would encourage the FSA to consider the following aspects:

1. **Meeting the financial product needs of diverse consumers:** Equality and diversity encompasses different consumer values and social priorities as well as different incomes, risk profiles and other financial characteristics. A focus on consumer well-being rather than only consumers' narrow financial aims would be an effective way to encourage a deeper market in products suitable for religious investors and others with protected characteristics. Similarly, a lack of recognition of the needs of values-based investors by the FSA can discourage the provision of products to meet their needs.
2. **The impact of investor behaviour on corporate equality and diversity practices:** Use of responsible ownership and ESG integration in the delivery of financial products may encourage more effective corporate management of equality and diversity practices. It may also deliver better consumer outcomes by enabling more effective assessment of corporate management quality, encouraging better management of associated risks and opportunities and/or addressing the social priorities of consumers in parallel with meeting their financial aims. Similarly, a lack of focus on these issues may encourage product providers to invest in ways that disregard or discourage good corporate approaches to equality and diversity.

Please see also our answer to Q10.

Q3: Do you have any comments on our market failure analysis?

In our view, your market failure analysis would be improved by greater consideration of market failures in the areas of

- Demand for responsible asset ownership and the effective integration of material environmental, social and governance issues into the design and delivery of financial products
- Broader outcomes for society that result from the design and delivery of financial products
- Consumer access to financial products that address their values and social priorities as well as their narrow financial aims.

Q4: What do you think are the criteria by which we should judge when to intervene further?

Consideration of potentially problematic product features should be informed by a concern for positive outcomes for society as well as for specific consumers and by a vision of positive consumer outcomes that encompasses their values and social priorities as well as their narrow financial aims.

Without this perspective, the FSA may fail to make appropriate judgements on, for example, in your Figure 3:

- Product features outside the core range
- Use of non-standard assets for investment purposes

Q6: Do you have any comments on the supervisory approach we have adopted, or suggestions to help develop it?

We would recommend that the FSA should include awareness and understanding of modern sustainable and responsible investment and finance within its competency framework for supervisors. It should also maintain a strategic oversight of this rapidly developing area in order to inform its regulatory approaches.

Involvement with networks like UKSIF can play a helpful role in this. In addition, some other public bodies already offer role models. In our view, the NEST team, the Pension Protection Fund and the Environment Agency Pension Fund are just some of the examples of good practice by UK public bodies in engaging with sustainable and responsible investment.

In contrast, some FSA consultation papers and UKSIF member feedback suggest that FSA staff may sometimes have an outdated or incomplete understanding of the area.

Sustainable and responsible investment and finance is a growing and maturing field with international support. For example:

- The UN-backed Principles for Responsible Investment now has over 800 signatories drawn from around the world
- In the UK, NEST Corporation has recently announced its responsible investment approach. This includes its investment beliefs about ESG issues and its approach to responsible ownership and ethical choice
- The Charity Commission has recently consulted on its CC14 investment guidance. In response, investors provided a range of comments about modern responsible investment practice.

Q7: Should we give further consideration to new rules to prescribe conduct by firms when designing and managing products?

We believe that it would be helpful to consider whether or not firms should be explicitly required to consider, on a “comply or explain basis”, whether they have effective and appropriate processes for assessing and managing emerging and material environmental, social and governance risks and “license to operate” issues as part of designing and managing products. The risk areas they might be expected to consider include climate change, resource efficiency and economic and social resilience. Such a requirement might help to reduce associated market failures.

In addition, the FSA should consider whether to introduce additional requirements addressing transparency about the social and environmental impacts of investments. UKSIF has worked recently with our pan-European umbrella organisation, the European Sustainable Investment Forum, to respond to the European Commission consultation on Packaged Retail Investment Products (PRIPs). This consultation included questions about improved transparency about the social and environmental impacts of investments and also about risk rating (where there is an increasing recognition of the importance of environment and social risks to resilient investments). For example, the consultation asked “Q30: What detailed steps might be taken to improve the transparency of the social and environmental impacts of investments in the KIID for PRIPs?”[1]

Q10: What would the implications be if we consider similar interventions for services as those discussed in this paper for products?

We hope that the FSA would consider how platforms and other distribution services affect consumer access to and demand for financial products which deliver responsible ownership and investment and positive outcomes for society as well as the ability of consumers (including diverse consumers) to select financial products which address their values and social priorities in addition to their narrow financial aims.

[1] http://ec.europa.eu/internal_market/consultations/docs/2010/prips/consultation_paper_en.pdf

Q12: What activities could we define as non-mainstream advice for the purposes of developing additional qualifications?

Additional qualifications could be desirable to support advice on emerging areas of sustainable and responsible investment and finance. These include, for example, impact investing and new sustainable and responsible investment approaches to assets like forestry and bonds. Advice on impact investing includes advising consumers with a blend of financial and non-financial motivations for some or all of their portfolios, together with recommending both conventional and less traditional investments to address these blended motives.

UKSIF – the Sustainable Investment and Finance Association

UKSIF, the sustainable investment and finance association, promotes responsible investment and other forms of finance that support sustainable economic development, enhance quality of life and safeguard the environment. We also seek to ensure that individual and institutional investors can reflect their values in their investments. We aim to support the UK finance sector to lead the world in advancing sustainable development through financial services.

UKSIF was created in 1991 to bring together the different strands of sustainable and responsible finance nationally and to act as a focus and a voice for the industry. UKSIF's 250+ members and affiliates include pension funds, institutional and retail fund managers, banks, financial advisers, research providers, consultants and non-governmental organisations. For more information about UKSIF, please visit www.uksif.org.

With best wishes

Penny Shepherd

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Chief Executive
UKSIF – the sustainable investment and finance association