UKSIF
UK Sustainable Investment and Finance Association

15th March 2013

The Baroness Kramer
Lead Member
Panel on Retail Competition
Parliamentary Commission on Banking Standards
14 Tothill Street
London SW1H 9NB

Dear Baroness Kramer,

Alternative providers of retail products in the banking sector

Thank you for the opportunity to feed into the investigation the Panel on Retail Competition is currently undertaking into alternative providers in the retail banking sector. I understand that this letter has been sent to some of the more prominent alternative retail product providers. Our response aims to complement these individual submissions and focuses on: outlining the sustainable finance landscape; highlighting the interactions between the different categories of provider; and highlighting the growing interest of institutional investors in impact investing.

About UK Sustainable Investment and Finance Association

UK Sustainable Investment and Finance Association (UKSIF) is the UK's membership network for sustainable and responsible financial services. We promote and support responsible investment and other forms of finance that advance 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.

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 financial advisers, institutional and retail fund managers, pension funds, banks, research providers, consultants and NGOs. For more information about UKSIF, please visit www.uksif.org.

The Sustainable Finance landscape

The financial crash of 2007/2008 highlighted the systemic flaws in the financial system which acted as a barrier to the creation of a sustainable economy. There are currently various NGOs, social entrepreneurs, business organisations, finance experts and academics who are working to try to encourage systemic change to the finance system that will enable it to better serve the public good as well as ensure more sustainable returns over the long-term to the end users of the capital markets: companies and savers.

There is a growing body of analysis which posits that true change in the financial system is likely to occur in response to disruptive innovation where "a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors"[1]. The theory of "disruptive innovation" states that it is unlikely that government regulation would be enough to stimulate this innovation, although the appropriate policy framework would help, while existing finance players are encouraged to alter their approaches and products by the competitive stimulus from those new financial innovations which can make the case for change.

Defining Impact Investment

There is a continuing debate about the definition of "impact investment". UKSIF - and several of our members - use the definition as outlined by the Global Impact Investing Network (GIIN), where impact investments are "investments made into companies, organisations, and funds with the intention to generate measurable social and environmental impact alongside a financial return[2]".

The terms "impact investment" and "social investment" are often used interchangeably. Big Society Capital, for instance refers to "social investment" throughout its literature. However, where they are not, the term "social investment" generally refers to investment specifically in social enterprises.

Types of impact investment platforms/intermediaries

The UK impact investment market is increasing rapidly, with UKSIF members – amongst others – forming a growing part of this space. Government encouragement, including the creation of Big Society Capital - a financial institution with £600m of capital, set up to invest into impact investing intermediaries – and the Cabinet Office's *Red Tape Challenge – Social Investment,* has helped this growth to take place.

[1] http://www.claytonchristensen.com/key-concepts/ Accessed 8th March 2013
[2] http://www.thegiin.org/cgi-bin/iowa/resources/about/index.html#1 Accessed 8th March 2013

Community Development Finance Institutions (CDFIs)

The Community Development Finance Association (CDFA) which UKSIF helped to prepare, defines CDFIs as organisations which "lend money to businesses, social enterprises and individuals who struggle to get finance from high street banks and loan companies. They help deprived communities by offering loans and support at an affordable rate to people who cannot access credit elsewhere[3]".

They are generally set up in disadvantaged communities and, unlike the traditional retail banks, their primary motive is not to turn a profit, but instead to support communities through the provision of affordable finance. Funding sources for these organisations can vary, but include government bodies, charitable foundations and the banking industry.

Credit Unions

We understand that you have been seeking responses from Credit Unions; these are financial co-operatives which offer savings and loans services to their members. Criteria for membership often include the requirement to live or work in a certain area.

Peer-to-Peer finance and Crowd-funding

Both Peer-to-Peer (P2P) finance and Crowd-funding are online marketplaces which facilitate direct finance transactions. Peer-to-Peer focuses on the provision of simple loans, in essence directly linking a lender and a borrower although the peer to peer platform may diversify an amount lent across many borrowers and vice versa to manage risk. Crowd-funding aggregates many investors (often for very small amounts) to provide funds for investment in a particular project, often enabling investments in shares and other instruments. When P2P or crowd-funding are used to fund projects with a social or environmental purpose, they can be seen as a form of impact investment.

Microfinance

Microfinance is probably the most well-known of all impact investment assets and the microfinance funds market is particularly well-developed in Switzerland. Microfinance funds provide wholesale capital for microfinance organisations in the developing world. In terms of market size across Europe, a recent European SRI Survey conducted by Eurosif estimated that 55% of all impact investments were in microfinance[4].

Impact Investment Product Providers

There are firms creating the supply of products for potential investors. Funds (equity/debt/mezzanine/blend), payments-by-results instruments and bonds are currently marketed to charities, foundations, high net worth individuals and other retail investors. Impact investment funds

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[3] http://www.cdfa.org.uk/about-cdfis/what-is-a-cdfi/ Accessed 8th March 2013

[4] http://eurosif.org/images/stories/pdf/1/eurosif%20sri%20study_low-res%20v1.1.pdf Accessed 8th March 2013

have been constructed and managed by a range of institutional and boutique investment product providers, such as Bridges Ventures' three funds. Bonds include the likes of the exchange-listed charity bond programme for Scope, arranged by Investing for Good.

Merging the traditional financial silos

There has been increased interest in impact investing from institutional investors. For instance, P2P lenders have reported increased interest from family offices which are looking to diversify their portfolio to yield returns which are not correlated to other assets. Banks such as Triodos are also increasing their microfinance fund offerings, giving institutional investors "the opportunity to actively contribute to the development of an inclusive financial sector in developing countries".

The growth of the market in impact investment product providers is also indicative of the growth in interest in supplying financial products to meet the growing demand and interest in impact investing from institutional providers.

I trust that these comments are self-explanatory but hope that you will not hesitate to get in touch with us should you want any further information.

Yours sincerely,

Penny Shepherd

Penny Shepherd MBE
Chief Executive
UK Sustainable Investment and Finance Association