The view from the Ethical Investment Association (EIA) – Robin Keyte

In August 2003 a survey conducted by Friends Provident / NOP found that the majority of the public may be receptive to the concerns addressed by socially responsible investment (SRI). Out of 998 people aged 15 or over, 76% said they did not want to invest in companies with poor Social / Ethical / Environmental (SEE) policies.

Whilst some of you may hold the view that members of the public might generally profess an interest in ethical issues when surveyed because respondents feel in some sense encouraged to give what appears to be an appropriate answer at the time, these findings are very substantially at odds with the numbers of consumers purchasing socially responsible investments.

According to the Ethical Investment Research Service (EIRiS), less than 5% of the investing population (i.e. 450,000 policy holders) currently invest in ethically screened funds.

We therefore conservatively estimate that between $^{1}/_{3}$ and $^{1}/_{2}$ of all retail investors would be interested in SRI.

No matter how you look at it this is a huge market waiting to be served.

So do financial advisers have the right tools available to them at present to meet this demand (e.g. investment choice, knowledge of ethical investments, ethical factfinding skills)?

Currently there are around 60 screened socially responsible investment funds in the UK. For cash investors there at least 2 banks run along ethical guidelines that offer access to interest bearing deposit accounts.

In short, an ethical investor can take their pick from the following:

- Cash
- Corporate bonds
- Commercial property
- Managed
- UK equity
- UK equity income
- European equity
- Global equity
- Enterprise Investment Scheme

The existing market place caters for all needs from income to growth and low risk to high risk. So, there is no problem with the choice of investments and asset classes.

What about knowledge of SRI and related factfinding skills?

Here we start to fall down. At no time was SRI ever covered in a study text for the Financial Planning Certificate exams, so all FPC qualified financial advisers could be forgiven for knowing little or nothing about this area.

It is interesting to note that this has since been put right and there is an entire chapter on socially responsible investment in the study text for the new Investment & Risk (CF2) module. So, all newly qualified financial advisers will already be at a considerable advantage to those holding FPC.

So, if you know little or nothing about SRI, what do you do? Stick your head in the ground? Tell your clients they don't want it, that it is higher risk or provides underperformance (a brief look at the F&C Stewardship fund would quickly disprove that).

Or do you decide to find out about it, and then start talking to your clients about it and actually find out it is really a great new business opportunity.

To help you find out about it, the UK Social Investment Forum has been busy creating an excellent 3 page document titled 'Practical Introduction for Financial Advisers' which is aimed at FPC qualified individuals and is freely available as a pdf download on their website (www.uksif.org). This provides a good overview of ethical investment and how it can be integrated into the advice process and I strongly recommend you all read it.

On the website you will also find a more substantial Technical Guide which runs to 24 pages which should ideally be studied if you are serious about advising in this area. There are also various sample ethical factfind documents to help you get started. To broach the subject with your client, why not use an open question like:

"What about your personal values, are there any social, ethical, environmental or religious considerations you want us to take into account in our work for you?"

If the client answers positively, or wants to know more, you can then discuss screening criteria. The most common perception of SRI funds are that they are run on the basis of negative screens, meaning they will exclude from their universe of shares any companies with activities that are listed in the negative screens. Typical negative screens might be: alcohol production and sales; animal testing for pharmaceuticals; other animal testing; armaments; environmental damage; gambling services; genetically modified food / organisms; nuclear power; oppressive regimes; pornography; tobacco production and sales.

Most funds do indeed employ negative screens but this is only half the story.

Most SRI funds also employ positive screens as well, where they will actively seek out shares in companies with activities that are listed in the positive screens. Typical positive screens might be: community involvement; employee welfare / rights; environmental policy; environmental reporting; packaging reduction; sustainable forestry.

In addition, many funds also actively engage with their investee companies on SEE issues, and as a last resort, will use their shareholder voting rights (remember the Glaxo Smith Kline shareholder revolt in 2003 against fat cat pay deals).

Once you have managed to discuss SRI with your client and have some idea of their ethical profile, you then need to try to match this with their investment needs for income or growth, and also their attitude to risk.

It is not always possible to find a perfect match, so you then have to go back to your client and discuss a compromise. This is one of the most important parts of the SRI advice process and one which clients are always hugely grateful for. Compromise may mean sticking strictly to their ethical principles and accepting a little less investment income or a little more investment risk. Alternatively, it may mean loosening their ethical principles and getting the investment income they want or the risk exposure they want. There is no way of knowing the outcome until you discuss it openly and frankly with your client.

Finally, we understand that a new international standard will be published later this year for the Competencies of a Personal Financial Planner (ISO 22222), and that the draft standard currently requires a financial planner to request additional appropriate data that should include attitude to social, ethical, environmental and religious considerations.

We believe that any financial adviser wishing to be assessed against the standard will need to be able to demonstrate a knowledge of SRI, and the ability to put it into practice. We believe this means you will need:

- an opening ethical question in your factfind
- a supplementary ethical factfind listing negative and positive criteria
- if FPC qualified, SRI should be identified in your T&C records as a training need
- your CPD records should show evidence of relevant training on SRI

The EIA is developing a training package specifically tailored to helping FPC qualified advisers meet the SRI requirements of ISO 22222. To find out more, please make enquiries on our website www.ethicalinvestment.org.uk

The EIA also offers regular meetings in London and Birmingham where members can meet with other SRI practitioners and also providers of SRI products to ensure you keep up with developments in the SRI arena. To find out more please contact cassie.higgs@uksif.org