

NEWS RELEASE

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NEW INQUIRY REPORT CALLS ON UK FINANCIAL SYSTEM TO WORK TOGETHER TO PUT THE CUSTOMER FIRST

A new report published today (June 15th) concludes that the trust and confidence of investors has been damaged; calls for an industry-wide culture change that puts the customer first; and recommends changes in the way institutional investors fulfill their ownership responsibilities. The report warns that the only way for the UK investment system to deliver better value to its customers is for concerted and collective action by the industry itself, starting with a high level statement of what it stands for.

The report, "Restoring trust: investment in the twenty-first century", is the initiative of Tomorrow's Company, the business-led think tank. It is the result of two years of consultation among over 500 practitioners and interest groups representing all parts of the investment chain.

The report is significant because it represents the views of senior practitioners from all sides of investment, financial services and wealth creation. The Inquiry Team that produced it was led by Sir Richard Sykes. Unlike recent reports that have reviewed a particular aspect or problem in financial services, the inquiry has sought to take a holistic view of the whole investment system.

Its main analysis and recommendations are:

- *The current system is not serving customers or the end beneficiaries well, be they companies or individual investors: a failure to align with customer needs and timescales, and a lack of transparency and accountability, are eroding trust in the system*
- This is in spite of a number of fragmented attempts to improve things by the industry and the regulator. *The Inquiry calls for an act of collective leadership* by the investment and financial services industry working together to change practices and to become more customer-focused
- Rather than surrender the initiative to the regulator, *the industry needs to come up with its own plans to create a forum for self-regulation that sets standards and polices good practices*, as have other industries from house-building to the drinks industry; an "overarching statement of principles and standards" and a "seal of approval" for individuals and companies are proposed
- *Becoming more customer-focused starts with much greater transparency over fees and charges, conflicts of interest and the basis for incentives and rewards, which are still biased to reward short term behaviour*
- Investment mandates should be granted on the assumption that they are for the long term - ideally 7 to 10 years.

MORE FOLLOWS.../2

- The biggest institutional investors have failed in their responsibilities as owners. *They should start to pool their resources to be effective owners, and investment consultants should develop league tables* so that pension trustees and retail investors can factor their ownership performance into their choice of fund manager.
- *Companies should find new ways to explain their strategy to major investors, and both companies and investors should use the new OFR as a basis for this dialogue*
- Financial services companies have been focused too much on market share and too little on meeting the needs of clients. *The industry must do much more to make its products suitable, transparent and fairly marketed to individual investors; but at the same time, to create a generation of more confident consumers needs better financial education as well as better information: the education system, employers and the media all have a role to play*
- On the political front, the inquiry calls for a long term commitment by all parties to create a *predictable savings environment with clear policies on means-testing, further flexibility for savers and pensioners, and incentives to encourage companies to contribute on behalf of employees* to stakeholder plans.

Sir Richard Sykes, Chairman of the Inquiry, said:

“This is really the last chance for the financial services system to get its act together. It recognises this, but has lacked the will to act. The trouble about regulation is that it makes you think about the regulator, not the customer. What is needed is a change in the culture of the financial system that genuinely puts the customer first and takes a longer term view, so that the whole chain creates value for the end-customer and continues to create wealth for all of us in the UK. This requires an act of collective leadership that puts common interests ahead of the traditional fiercely competitive instincts of the City. We have a good and sensitive system of regulation in the UK. We have made progress, but not enough, and tougher, less helpful regulation from overseas lurks round the corner. In short, the stark choice is between leadership and suffocation.”

Mark Goyder, Director of Tomorrow's Company, commented:

“This report reflects honest thinking and self-criticism from the practitioners who have led the Inquiry and played a part in it. The health and wealth of the country demand an investment system that works for the benefit of all. The industry and its stakeholders have told us that we need to disentangle the distortions and unintentional short-termism that have arisen. Only those who work in the system itself can do this, by showing leadership, re-stating their core values, and making sure those values are lived consistently by people in the front line. ”

RESTORING TRUST: Investment in the twenty-first century is published on 15 June 2004, costs £150 and is available from Tomorrow's Company, 020 7021 0550.

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MORE FOLLOWS .../3

NOTES TO EDITORS

1. About Tomorrow's Company

Tomorrow's Company is a not-for-profit research and agenda-setting organisation committed to creating a future for business which makes equal sense to staff, shareholders and society. Its business-led programme of publications, events and activities focuses on three issues fundamental to the future success of business:

- an improved investment system;
- an inclusive approach to leadership and governance;
- and closing the gap between business and society.

In recent years, it has had a particular focus on governance and leadership in the corporate sector, and has made a major contribution to the development of the government's proposals for an Operating and Financial Review (OFR).

2. The RESTORING TRUST Inquiry Process

Restoring Trust is the report of an Inquiry by business leaders and savings and investment professionals brought together by Tomorrow's Company. The report published today is the result of a seven-part process that has taken place over two years and enabled those involved in the UK savings and investment system not only to assess the problems and challenges of their own sector, but to propose their own solutions.

- An **Inquiry Team**, made up of leaders from every link in the investment chain came together to define what is wrong with the system, to discuss a number of solutions and to set out a way forward for their own industry;
- A **Research Faculty**, made up mainly of experts from within the organisations involved in the Inquiry drilled down into the issues, asking questions and finding facts;
- Over **20 workshops** were conducted with a wide range of people from every link in the chain;
- **In-depth interviews were conducted with leading figures** from all parts and levels of the investment chain;
- Extensive **background research** was carried out;
- A **consultative draft was circulated** and discussed with major organisations affected by the recommendations;
- In November 2003, Tomorrow's Company organised an **Investment Summit** to present the Inquiry's initial conclusions and to seek consensus and sound out dissent within the wider savings and investment community/system.

In total over 500 people who work in, influence or are customers of the investment system have been involved in the process.

MORE FOLLOWS .../4

3. The Inquiry Team & Other Supporters

Chairman Sir Richard Sykes, Rector of Imperial College London

Inquiry Team Members

<i>Name</i>	<i>Position</i>	<i>Company</i>
Hasan Askari	Chief Executive	Old Mutual Financial Services
Matthew Bishop	Business Editor	The Economist
Louise Botting	Chairman	Douglas Deakin Young Ltd
David Chynoweth	Former Chief Executive	Universities Superannuation Scheme Ltd
Robin Ellison	Senior Partner	Pinsents
Stanley Fink	CEO	Man Group
Martin Graham	Director - Market Services	London Stock Exchange
Stephen Haddrill	Director General of Fair Markets	DTI - Fair Markets
Chris Hirst	Chief Investment Officer	CIS
David Ledster	Global Head of the Investment Management and Funds Practice	KPMG
Ken Lever	Finance Director	Tomkins plc
Chris Mellor	Former CEO	AWG plc
Roland Rudd	Senior Partner	Finsbury Group
Philip Sadler	Programme Director	Tomorrow's Company
John Sunderland	Chairman	Cadbury Schweppes plc
Tony Ward OBE	Group Services Director	BAA plc
Edmond Warner	Chief Executive	IFX Group plc
Tony Watson	CEO	Hermes Partners LLP
Roger Urwin	Global Head, Investment Consulting	Watson Wyatt LLP

MORE FOLLOWS .../5

Organisations Supporting the Inquiry

<i>Organisation</i>	<i>Name</i>	<i>Position</i>
Bank of England	Peter Brierley	Head of Domestic Finance Division
Corporation of London	Tim Sweeney	Adviser
Department for Work & Pensions	Paul Gray	Second Permanent Secretary Managing Director, Pensions & Disability
HM Treasury	John Kingman	Director, Enterprise & Growth Unit
NAPF	Christine Farnish	Director General

Individuals Supporting the Inquiry

<i>Name</i>	<i>Background</i>
Sir John Banham	Chairman of Whitbread Plc, Senior Non-executive Director Amvescap
Lord Brittan of Spennithorne	Vice-Chairman of UBS Warburg
Sir Adrian Cadbury	Patron Tomorrow's Company
Sir David Cooksey	Chairman of Advent Venture Capital
George Cox	Director General of the Institute of Directors
Sir Howard Davies	former Chairman of the Financial Services Authority
Digby Jones	Director General of the Confederation of British Industry
Geoff Lindey	Former Managing Director JP Morgan Fleming; Strategic Advisor NAPF
Bob Monks	A leading shareholder activist
Paul Myners	Former Chairman of Gartmore Investment Management Currently Chairman of Guardian Media Group
Alastair Ross Goobey	Chairman of Hermes Focus Funds Chairman of the International Corporate Governance Network
Richard Saunders	Chief Executive, Investment Management Association
David Young	Chairman of the John Lewis Partnership Pension Fund