

## Inquiry seeks to take investments into 21st century

BY RICHARD MILES **TIMES ONLINE**

PROMINENT figures from industry, finance and education are to draw up a blueprint for reform of the UK's "complex and inefficient" investment business.

Led by Sir Richard Sykes, Rector of Imperial College and former chairman of pharmaceuticals giant GlaxoSmithKline, a 15-strong group of businesspeople and City investors will conduct a nine-month inquiry under the auspices of Tomorrow's Company, an independent think-tank.

Dubbed 21st Century Investment, the committee boasts the support of the Bank of England, the Treasury, and the Department of Trade and Industry (DTI), as well as a host of business worthies. It will attempt to take a "holistic" view of investments, tackling issues such as performance, tax and government intervention.

Sir Richard said he had seen at first hand the shortcomings of the savings industry and had noted that "the countless reviews of parts of the system" had been fragmented, leading to only partial improvements. "The danger is they add to the burden of regulation without working to an overall holistic view," he said.

Likening financial services to medicine 25 years ago when doctors dispensed pills out a black bottle, Sir Richard said that savers needed to be far better informed on the risks they are taking. "This will mean a revolution in attitudes throughout the industry."

The 21st Century Investment inquiry will seek views on five areas. It will ask whether there are structural issues in the investment industry that work against the interests of savers. One question here is how to reconcile the long-term perspective of pension funds with the City's need to meet immediate earnings forecasts.

Second, the committee intends to investigate what influence the investment industry has on companies and their financial planning, and whether this works in the favour of long-term shareholders.

Third, the group will look at the factors that influence pension fund management. One issue that will command particular attention is why schemes are so focused on relative performance when their job is to meet the liabilities of their members.

Fourth, the consumer will come under scrutiny with a view to restoring the public's faith in equities after a three-year slump on the stock market. If the UK is moving from paternalism to self-reliance, the investment industry needs to improve the consumer's awareness of risk.

Last, the inquiry will explore whether government intervention has improved or worsened the lot of savers. It will ask whether the actions of Whitehall and regulatory bodies help, and will examine the changes to accounting standards.

Tomorrow's Company expects to hold a summit in October to discuss the findings, and may then produce a report. The think-tank said both the Treasury and the DTI were taking a close interest in the group's work.

### Labour's round of reviews

THERE have been four notable government-backed reviews of the financial services industry since Labour came to power in 1997, as well as an inquiry into the role of nonexecutive

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directors.

**Don Cruickshank's** review of UK banking made a series of recommendations when it was published in March 2000, including a new regulator for the country's cash transmission system with a brief to police cheques, cash machines, credit cards and debit cards. He concluded that banks overcharged customers by £5 billion a year. He recommended that banks should either offer free banking to small businesses, or pay interest on accounts.

A year later **Paul Myners**, then chairman of Gartmore Investment Management, was invited by the Treasury to conduct a review of the UK's pension fund industry. The Government has implemented his recommendation that the minimum funding requirement (MFR), a solvency test for pension funds, be scrapped. Instead, pension funds must make much fuller disclosure of their solvency position.

Some of Mr Myners's other proposals have fared less well. His wish to stamp out "soft commissions" — the absorption by funds of expenses incurred by investment brokers, such as research — has yet to be fulfilled, although the investment industry has drawn up its own code of conduct.

In July 2002, two reports on long-term savers were published. **Ron Sandler**, former chief of Lloyd's of London, disclosed his blueprint for low-cost savings plans. The Treasury and the Department for Work and Pensions have recently said they will press ahead with his proposals for a stakeholder suite of products.

**Alan Pickering**, a former chairman of the National Association of Pension Funds, outlined a slimmed-down regime for state and private pensions, and suggested that the Pensions Act of 1995 be scrapped.

Last month **Derek Higgs**, a former investment banker, completed his review of the role of non-executive directors. He suggested that the pool of candidates for non-executives should be widened and chief executives should not be promoted to chairmen.

### **Chris Mellor**

You would think the chief executive of Anglian Water Group had his hands full already, juggling two bid approaches as well as legal proceedings against one of the bidders. But Mr Mellor seems to like his plate full. He is also chairman of Business in the Community (East Anglia), a member of the CBI Economic Affairs Committee, and of the Council of Cranfield University. He serves on the Government's Fifth Advisory Committee on business and environment.

### **Stanley Fink**

The 45-year-old chief executive of Man Group started his working life with a three-year stint as a chartered accountant at Arthur Andersen. He quit in 1982. Five years — and two jobs — later, the Cambridge-educated Mr Fink worked at Man Group, the world's largest hedge fund, first as director of mergers, acquisitions and treasury. In 1994, as finance director, he oversaw the fund's flotation on the Stock Exchange. Six years later he was in the top job.

### **Sir Richard Sykes, chairman**

After almost 30 years at Glaxo, which after two mergers became the second largest pharmaceuticals group in the world, Sir Richard left in 2001 for the public sector, where he holds the arcane title of Rector of Imperial College of Science, Technology and Medicine.

Sir Richard, who helped to engineer the merger of Glaxo Wellcome and SmithKline

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Beecham, severed all ties with GlaxoSmithKline in May last year.

Sir Richard was knighted in the 1994 New Year's Honours List for service to the pharmaceutical industry and is now free to devote most of his time to Imperial. The remainder of his working life is spent on endless government, corporate and scientific committees. He remains a non-executive director of Rio Tinto, a trustee of the Natural History Museum and a board member of Royal Botanic Gardens, Kew.

### **Philip Sadler**

As programme facilitator of Tomorrow's Company, Mr Sadler will be in the inquiry's hot seat, overseeing the review and chairing discussion groups with analysts and sector players.

Mr Sadler, who was appointed a CBE in 1986, began his working life in the advertising industry (he lasted a year) before joining the Ministry of Defence, where he worked for ten years.

In 1964 he joined Ashridge Business School. Five years later, he became the school's chief executive, a position he held for 20 years.

He became a founding trustee of the Centre for Tomorrow's Company in 1997 and went on to serve for three years as a member of the board and chairman of the research committee.

He is the author of a dozen books on leadership and organisation.

### **Tony Watson**

Became chief executive of Hermes Pensions Management last year, after four years at the firm. So, in addition to the inquiry he will be overseeing £36 billion of pension money, including BT and Royal Mail funds — not to mention servicing directorships at the Securities Institute, Investment Management Association and MEPC. Then again, this is a man who trained to become a barrister in his spare time while working as an economist more than 30 years ago.

### **John Sunderland**

The chief executive of Cadbury Schweppes is among the few high-flyers who have spent their working lives at one company. After running Cadbury confectionery, Sunderland became chief executive in 1996. His decision to step up to the role of chairman in May conflicts with the guidelines of the Higgs review. He is a non-executive of The Rank Group and president of both the Food & Drink Federation and the Incorporated Society of British Advertisers (ISBA).