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Restoring Trust – the case for the Retail Financial Services Industry to rethink its purpose.

In the last few years we have seen a steadily growing social acceptance on the importance of firms pursuing a purpose that goes beyond profit because, as *Tomorrow's Company's* 2018 report concluded, "a firm which possesses a clear and enduring purpose is more than ever the precondition for agility in the age of uncertainty."¹

Firms that possess a wider purpose tend to see four main benefits:

- 1) better working relationships
- 2) enhanced stability and resilience
- 3) customer good will
- 4) reputational benefits

Some of the oldest UK-established wealth management firms (a couple of which are over 200 years old) have a very clear purpose, which has always been beyond profit. In financial services it has become increasingly clear that longer-term profit can only be achieved with the pursuit of a purpose that makes equal sense to staff, shareholders and society.

Yet in the retail investment sector, for example, industry veterans can recite a catalogue of companies who were tempted to boost sales and focus on transactions to the short-term benefit of the company and the long-term detriment of customers, communities and the reputation of the industry as a whole.

This can happen in even some of the most well-established companies operating by the most highly recommended governance practices. In his book about Barclays 'The Bank that Lived a Little' Philip Augar charts the consistent tension in investment banking, corporate banking and retail banking, between the desire to build long-term trusted relationships and the sales and bonus culture that encouraged people to take short cuts that proved costly to customers and ultimately to banks and their shareholders. In the end there were almost no winners from LIBOR, PPI and many of the other ploys. Recent history has provided multiple examples of poorly designed incentive schemes that put the short-term rewards of management and of staff ahead of other stakeholders.

As a consequence, consumer trust evaporated whilst pressure grew for the regulator to be more prescriptive and rules based. Desirable and responsible innovation may have been inhibited by this climate of mistrust.

¹ The Courage of their Convictions, Tomorrow's Company 2018

So, culture is vitally important in the creation and protection of value, with some banks able to demonstrate decades and even centuries long track records based on their commitment to relationship management.

In discussions with retail investment firms, part of an FCA initiative on culture in finance, the notion of an agreed set of principles and common purpose beyond shareholder value to which the sector could publicly subscribe was proposed. The idea of every retail investment firm agreeing to a purpose beyond profit is a powerful one, but why stop there? A joint statement of purpose and guiding principles could be shared by all firms across financial services, not just those in retail.

A Statement of Purpose

The British people have, over centuries, created a nation based on the simple values of fair play, democracy, the rule of law, individual liberty and mutual respect for those with different faiths and beliefs. They have placed themselves in harm's way many times to uphold these values. They deserve institutions, both public and private, whose behaviours respect and mirror these simple yet hard-earned values.

The financial services industry is the largest industry in the UK; indeed, the UK is the world's leading exporter of financial services, contributing around 10% of the country's GDP and 1 in 14 of its jobs, with the vast majority of those outside of London.

Given the vital role that the financial services industry plays in the economic life and growth of the country, financial businesses have a duty to engage in responsible stewardship, developing policies and practices that are deeply rooted in these values.

Imagine how powerful it would be if, while acknowledging that every company will define its purpose in its own unique way, every firm publicly accepted that it had a purpose that went beyond an exclusive commitment to shareholder value? And having made that statement, every firm committed to living up to a common approach to the principle of how a firm should operate? Think of it as a recalibration of capitalism.

In the US, often regarded as the bastion of capitalism, the US Business Roundtable – an association representing some of the largest firms in the United States – has recently released such a statement, signed by nearly 200 chief executives of companies including American Express, J.P. Morgan, Apple and BlackRock.

Their statement defines the purpose of a corporation as one delivering value for all stakeholders and not just shareholders, a clear indication of how far views have shifted from the days in which shareholder primacy was the be all and end all. It goes on to describe how it would operate in its relationship with each of its stakeholders.

A British statement could provide a similarly powerful demonstration of financial services' commitment to a broader purpose. Signing up to the statement would be voluntary but signatories could agree to report against it in a way that could be externally verified.

Companies could commit to operating by fundamental values, including:

- Delivering value to customers while always dealing with them fairly and ethically.
- Investing in employees. This includes compensating them fairly and providing important benefits as well as supporting them through training and education.
- Dealing fairly and ethically with suppliers and partners to the other companies, large and small, that help them meet their missions.

- Supporting the communities and the society in which firms work and respecting the needs of current and future generations.
- Protecting the environment by embracing sustainable practices across their businesses.
- Generating long-term value for shareholders, who provide the capital that allows companies to invest, grow and innovate and pay the pensions of their beneficiaries.

With the code would come a commitment to transparency. Signatories would commit to reporting on their culture, and encourage customers, employees and shareholders to challenge them when they did not live up to the values.

We encourage the sector to take the lead and create our own British Statement of Purpose.

This is a moment for leadership.

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