

Balatro Financial Services Club

A Consumer Agenda for Financial Services

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“They offer you an umbrella when the sun shines but take it down when it’s raining”

That could be a blues song. In fact, it is what one woman, over sixty, from Wales, told us in research about financial service companies.

Two out of every three under-30s are not saving a penny for their retirement, partly because of suspicions about the financial services industry.

We completed a short survey of consumer concerns at the end of last year – taking a Halloween look at the good, the bad and the downright scary. We asked people who they would most like to “trick” or “treat” in terms of service providers.

Across all age groups, the organisations they most wanted to penalise or “trick” were banks and credit card companies – even more than doorstep salesmen.

If people want anything from the financial services industry, they want better service.

There have been advances. The pensions sector is starting to rebuild from what Mick Macateer of Which? Magazine dubbed a “perfect storm” of declining equities, withdrawal of tax reliefs and widespread mis-selling.

But it is clear that some issues are systemic to the financial services sector. At its heart is the mis-match between what providers want and what consumers want in terms of better service. A combination of inertia, complexity and mistrust has created a “race to the bottom”, where:

- The best customer service is not rewarded with more customers
- The worst customer service is not penalised with less

As a result, the industry is characterised by short-term profit-seeking and what competition economists term a “lemons” market of low quality services.

There are many agendas for reform – not least around the new financial services forum which will bring together industry and consumer groups. NCC hopes that this will address the issues of incentives and values that can generate and regenerate better customer service.

What I will do tonight is not to repeat these, but ask what one innovator in a different sector might have to offer - and that is Apple. And so, in the spirit of the age of the I-pod, here is my playlist for financial service reform.

1. Mad World

Tears for Fears told us that “I find it kind of funny, I find it kind of sad, that the jeans in which I’m dying are the best I’ve ever had. It’s a very, very mad world”.

The single best book on business and consumers – and my reading recommendation to every one of you here today – is called “The Support Economy”.

It shows how a world of commodification and cost reduction, have created a model in which people are having to bend to the structures and needs of business. And it will not last. The only approach which can succeed is one that offers personalisation and support to individual consumers.

A shift from “what do I know, what can I provide you, what can I sell you?” to “who are you, what do you need, how do I support you?”

2. Money’s too tight to mention

What do many consumers really need? From you, they want:

- Genuine service rather than always trying to sell them an additional product they don’t need or want.

- Good quality products that do what they say on the tin. Not bringing people in on high rates and then dropping them. Not changing terms and conditions to the detriment of customers.
- Staff who can clearly explain products and help with problems.

You have to get these basics right – and do them as well as anybody in the world. Trust is a rare commodity. If you look at trust statistics, then what you see is that it is still the professions – nurses, doctors, teachers, soldiers – that are trusted. Business, largely, is not.

There are two trust theories I enjoy.

One says that the way to be trusted is to wear a uniform – this is the single most convincing correlation in the figures.

The second is a conspiracy theory that says that those that are least trusted have increased their hold over those that have most, all in the name of increasing trust.

The essence of trust is not about being kind to injured teddy bears, or sponsoring the local charity float. It is about competence, competence and competence.

Then, you can talk about integrity, fairness, honesty, responsibility – using the lexicon of the everyday to talk about being a friend.

3. You've got a friend

So, you are going to be fair.

You are not going to reach for the FSA rulebook on how to treat customers fairly, because the only thing that is important in treating customers fairly is that you mean it. If you mean it, and you communicate that at every level through the organisation, then you will have created a culture that generates and regenerates fairness and customer service.

Why do we get rip-off deals from large companies on things like insurance or income protection?

But I do accept that fairness is not always easy. The Miles report put its finger on the thorny issue of what you offer to new customers, compared to what you offer the old.

Some banks - and some building societies - are not offering all new deals to existing customers, so that the only people that cannot get them are your loyal customers.

This is a tricky area. People that switch benefit everybody if markets can't isolate them. If markets can isolate them and give them a better deal, others may in fact be lost out. This is the political economy of competition - and something we have explored in a new NCC paper by the former Times economics editor, Janet Bush.

But a fundamental principle should be non-discrimination, so that all offers are open.

4. Like a Prayer

The big consumer ethics issue of our day is financial exclusion.

Treating customers fairly is a process, not just an outcome. That means you have to integrate the needs of all customers, not just those that are easier and most profitable to serve.

Providers should recognise their role in designing and delivering products that promote financial inclusion.

5. The Dark Side of the Moon

When things go wrong people look to the regulator.

I see six legitimate objectives for consumers from financial service regulation.

1. Prevent mis-selling of unsuitable products (e.g. conduct of business)

2. Protect against larger-scale losses (e.g. prudential regulation)
3. Aid informed choice (e.g. financial capability)
4. Keep charges competitive (e.g. stakeholder products)
5. Stop rip-off providers from entering the market (e.g. OFT license requirements)
6. Ensure that all consumers have access (e.g. pressure to provide basic bank accounts)

Of course, regulation has other “citizen type” objectives too – such as tackling financial crime, but they are rarely top of the consumer agenda, and can be a nuisance.

Today, the dominant emphasis in financial services regulation is on stopping sales of unsuitable products or seeking compensation when things go wrong. It is important, but it is only the negative half of the picture.

The other half is that consumers do need access to low-cost, appropriate financial products to meet their basic financial needs, from an income in retirement to meeting the costs of higher education. If they can’t get good products, that is as much of a problem as the mis-selling of bad products.

I believe that future regulation will focus increasingly on positive access to financial services. That certainly applies to bank accounts – arguably as essential in modern society as utilities. But home contents insurance, mortgages and perhaps private pensions too.

This will raise difficult questions for regulators – of who can be given responsibility and for what.

In the USA, a series of fair lending laws, in particular the 1977 Community Reinvestment Act (CRA), has helped banks to serve a wider set of consumers on a profitable basis. Under the CRA, US banks have committed around \$1 trillion in loan pledges to under-served communities. Their efforts are supported by public funds, in the form of loan guarantees, tax credits and funding for non-profits that act as partners.

The CRA operates at three levels: disclosure; ratings; and sanctions against worst performers.

I can quite see that rating will be a powerful future way of promoting access to financial services. And if ratings failed, then the UK might also go down the US route of sanctions.

But of course, sometimes consumer access and consumer protection can collide. Stakeholder pensions are an example. The government wants low-income consumers to save more. Industry still claims that the costs of preventing unsuitable sales are pricing them out of the market.

NCC has concluded the risks of lifting suitability rules are too great, particularly given the interactions between public/private pensions and household debt. A few years down the line, it could be the final nail in the coffin of consumer distrust in the industry. We are pleased that the FSA has agreed. But we do accept there are difficult trade offs.

Indeed there are also trade-offs for government – do they want short-term spenders to boost retail sales or long-term savers to reduce state pension liabilities?

6. Imagine

Think about the advertising of financial services. The adverts are about lifestyle choices, coming good when children grow up, we “won’t make a drama out of a crisis”. Horses, pearl divers, armchairs in fields... It is as if the product were so unseemly that no-one wants to talk about it, it would be like asking someone at the bus stop how much they are paid.

Financial products are about convenience, not allure. There has long been huge inertia on switching bank accounts. It used to be said that people stay longer with a bank, on average, than they do with their husband or wife?

In fact, the average length of time before switching a current account is 91 years, suggesting we are more likely to die than switch.

Yes, we want security. But if it was an interesting car, consumers go to enormous lengths and hassle to change, but it can excite them. Banking is more or less of a pain.

The more revealing advert is the lager advert "If Carlsberg ran a bank." The customer is not intimidated. The bank manager pulls out more money than he is asked for from the shiny console. "Pay it back when you can".

Now if Carlsberg were a financial service company, what then might we see?

I would say "An emotional attachment with customers and the relentless pursuit of quality service – focus on meeting consumer needs and that staff have the requisite skills to deliver".

Conclusion

The beauty of playlists is that they are personal. They reflect our passions and our preferences. That is why the NCC is committed to engaging with the financial services sector, and why we will do more than throw bricks at you. We need dialogue, but more than that, we need, first, an industry willing to listen to the passions and preferences of its own customers.