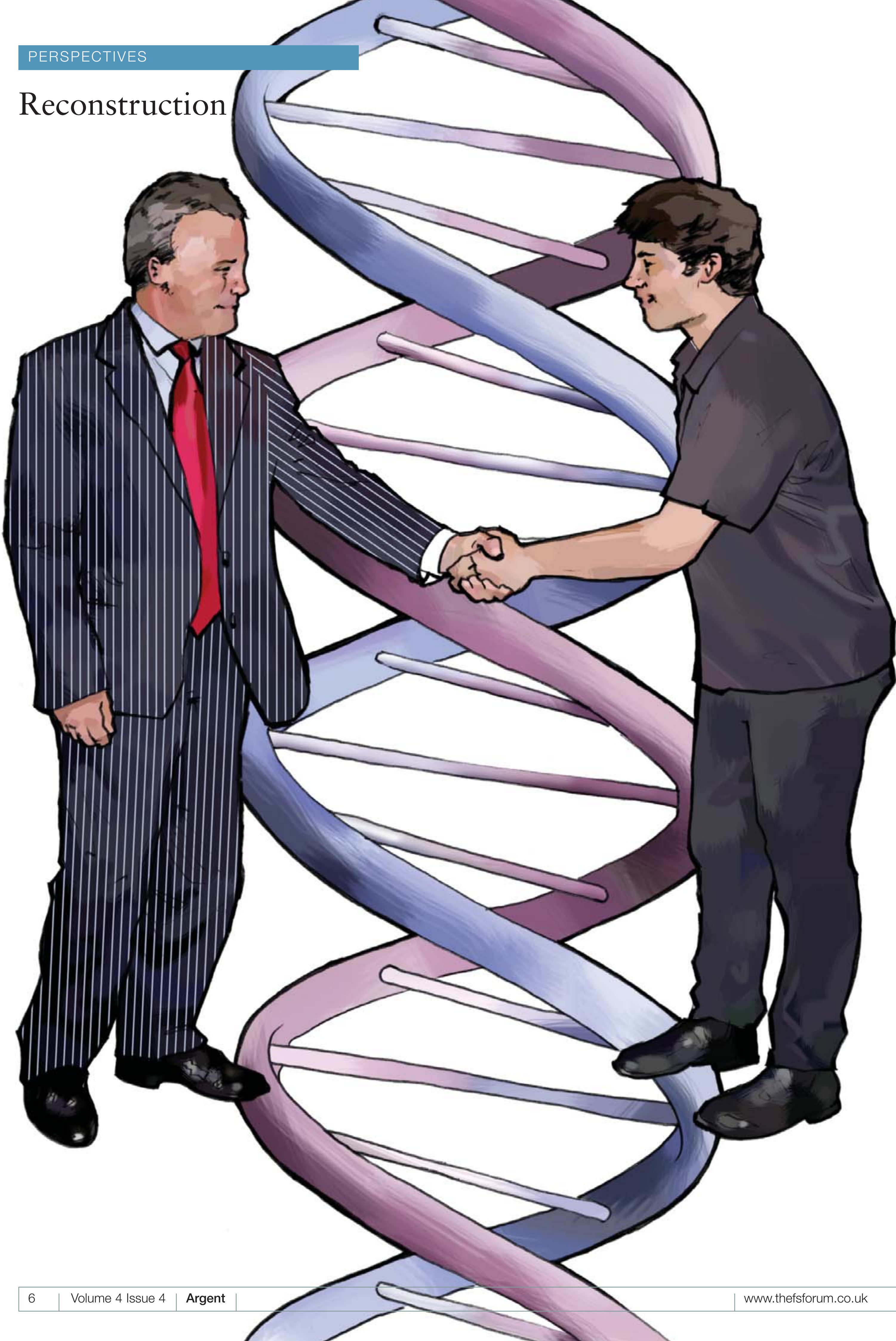
Reconstruction



REBUILDING THE TRUST

Customers continue to lose trust in the financial services industry. Philip Williamson argues that companies are sending the wrong messages, and need to change their mind-sets.

One of the key challenges facing the industry at the moment is the question of how to address falling consumer trust in financial services providers. Why is it that people are instantly "turned off" from doing business with us? We should, whatever specific part of the industry we are in, be providing high quality service, making our customers better off, and protecting them against an uncertain future. Why are we not more popular?

Simply put, I believe there is an increasing lack of trust in financial services companies. It seems pretty clear from the general tenor of articles in the consumer press and the broadcast media that journalists regard most financial services companies with less trust and more suspicion. Customers, too, seem to take much less for granted these days, and are increasingly-aware of their "rights". The Financial Ombudsman Service (FOS) is handling more and more complaints, and scandals such as Equitable Life and endowments mis-selling have shaken confidence in the industry. Some of this is, perhaps, not completely within our control. Falling equity values from 2000 to 2003 lost many of our customers a lot of money and severely tested their faith in banks, building societies and insurers, even though there was little that we could have done to buck the market trend.

However, we should not look for excuses, even justifiable ones. We are, to a large extent, the authors of this lack of trust. Too often, we are perceived as offering poor value, poor service and unclear information.

When it comes to value, for example, customers see that many current account providers – in truth the majority of the market – still offer only 0.1% interest on balances. How can this be justified when the best providers are offering nearer to 5%?[1] They see similar disparities on overdrafts, credit cards, savings, mortgages – in fact, right across the product range. Customers must suspect that, if it is possible for some providers to offer market-leading rates, those who are so far out-of-line are simply making excessive profits.

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When it comes to service, customers might be forgiven for thinking that we are retreating as far away from them as we can. For example, in 1996 the big four banks had 10,267 branches, but by 2004 that had fallen to 7,507.[2] Whilst the odd branch closure is inevitable, a fall of over 2,700 is a cut of 27% in just eight years. When many customers still want to do business in branches, what conclusions are they left to draw about their banks' motives?

Furthermore, many financial services providers have decided to move their customer-facing call-centres overseas. There are clearly arguments in favour of off-shoring, particularly with regard to cost savings.[3] But again, market research data shows that customers do not like customer service operations being migrated offshore,[4] yet the trend continues. These examples must appear to customers to be symptomatic of a wider change in attitude towards them; that they are just a number, another sales target to be exploited for profit. The message they receive is that service comes second to profitability; that *our* interests are more important than *theirs*.

Customers must also be left wondering whether our marketing campaigns are truly customer-focused and helpful. Whilst all marketing is designed to sell products, it should also inform. At present, product design does not help the clarity of the messages we may wish to promote, because the range and complexity of new products, as well as regulatory requirements, continue to reach new heights.

People need to be encouraged to invest and save, and to that end they need to have confidence that the industry will manage their money well. They need to trust the industry to work in their favour. That is why complex products, with reams of small print, are potentially so dangerous. If we damage trust and discourage people from saving for the future, we will all be worse off.

The marketing of personal loans, for example, seems to be particularly unhelpful. The common use of "typical" rates that are then not offered to a significant proportion of customers is unnecessarily complicated – and in some cases inevitably misleading. In this situation, better and tighter regulation could work to improve marketing. If customers easily understand and trust our marketing, they will be more likely to buy our products. Lenders such as Nationwide and Sainsbury's Bank, who have adopted a one-price product in this market, have prospered.[5] The Consumer Credit Bill offers the government an opportunity to address this situation: it should take it.

Through poor value products, unclear marketing and a lack of customer-oriented service, we have forfeited some of our customers' trust. This loss of trust has repercussions, some of which have already started to make life more uncomfortable for us. We now have a relatively – some might say healthily – sceptical media that fights hard for the consumer. In addition, *Which?*[46] maintains a high profile as the champion of a range of consumer issues.

Furthermore, the political establishment has become increasingly active in its protection of the customer. In recent years, the Treasury Select Committee has looked into such areas as credit cards, ATMs and endowments, and in May the Office of Fair Trading (OFT) ordered an investigation by the Competition Commission into restrictive practices in banking in Northern Ireland.

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Of course, the impact of this heightened scrutiny has been felt most forcefully by mortgage and insurance companies. The aims of the Financial Services Authority (FSA) for regulation were laudable: to protect the consumer in the event of receiving bad advice, and to make it easier for people to compare deals in order to make the best possible choice for their circumstances.

However, in reality, regulation has also created problems. Prior to M-day, customers could obtain a mortgage quick-quote within just a few minutes. Now, obtaining a quote within the regulated process can be far from quick, and instead of more transparency there is, in reality, less.

There is also a feeling that the costs of regulation are disproportionately-high compared to any benefits delivered. Not just from lenders but from customers too, the feeling persists that it may not actually have helped at all.

However, it would be disingenuous and irresponsible of us as an industry to engage in too much hand-wringing. Perhaps if we had shown more concern for the welfare of our customers in the first place, we would not be facing these costs, and our customers would not be facing extra hurdles in buying their homes. Looking forwards, we need to work with the FSA to improve regulation so that, whilst customers are protected, the freedom of the industry to trade is not inhibited.

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Aside from regulation, a further challenge we face is from an increasingly-competitive market, which includes rapidly-expanding non-traditional providers of financial services. If customers are disillusioned with traditional market players, they are more likely to turn to new entrants. The MORI survey on corporate image showed that whilst banks, building societies and insurance companies had net favourability scores of 28%, 41% and 2% respectively, supermarkets scored 72%. An example of the potential that supermarkets, in particular, have to exploit this lack of trust was seen in June, when Tesco Personal Finance announced it had gained its five-millionth customer account.

Some new entrants are retail experts and have the advantage of high footfall through their stores. They have exploited strong brands and a reputation for good value and customer loyalty. Fundamentally, why is it that people like to do business with supermarkets but are wary of traditional providers? Simple: supermarkets are generally perceived as offering good value products that are easy to understand.[7]

At Nationwide, we have a mantra: *simple products, simply sold*. Those of us in financial services can easily forget that we're in retail too. Whilst simplicity must never be at the expense of delivering products that meet the needs of our customers, I think that the balance needs redressing. I believe the way to counter our customers' lack of trust and win through in an increasingly-hostile market is not to respond with more-complicated offerings, but to go back to the basics of retail: offer good value, customer-based service, and act in a way that builds trust.

The delivery of good value products and services is the key to what we offer. On its own it is not enough, however – we need to offer good value on a *consistent* basis. Whilst the temptation is there for all of us to engage in portfolio management to gain favourable publicity, it should be resisted. A reputation and a relationship of trust between consumer and provider cannot be built up quickly, but is the product of long-term behaviour. It can, however, be lost all-too-quickly if our customers believe we are trying to short-change them with unsustainable offers and marketing gimmicks.

Too often, we offer service that fulfils *our* needs rather than those of our customers. At a basic level, it is our responsibility to employ and train people who are courteous, knowledgeable and efficient in what they do. On regulation, we need to work with the FSA to shape sales processes that are genuinely customer-focused, not simply box-ticking exercises. If we can achieve this without sacrificing the quality of advice we offer, we will have done both the FSA and our customers a great service.

If we can do even these simple things, we will start to rebuild the trust of the consumer. However, to continue the process, we need to alter our whole way of working as an industry.

To design and sell products that genuinely meet genuine customer needs; products that offer value but are easy to understand; products that deliver what we promise, and that rely less on the small print.

Our corporate policies and processes too should start with the explicit intention of serving our customers' needs and acting in their best interests.

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Openness, honesty and transparency – things that we all look for in a business partner. This is what should be at the heart of our customer proposition.

Fifty years ago, banking was about a series of close relationships. Banks and bank managers knew their customers, and were able to respond effectively to meet their needs. Service was just that. We've now been round the houses, but better technology gives us the opportunity to return to that level of service without the overbearing cost it currently incurs.

When we can convince our customers that our interests are aligned with theirs, we will regain their trust.[8] Only once this has been achieved can we start to fulfil our role in society properly – a role that is perhaps needed more today than for a generation. This should be our maxim: openness, honesty and transparency. □

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[1] Alliance & Leicester Premier Plus Account paying 4.89% gross. Information from Moneyfacts.co.uk, correct as at 9 June 2005.

[2] Barclays, HSBC, LloydsTSB and RBS (including Natwest).

[3] Some of these arguments have been discussed in recent issues of *Argent* – see, for example, *Passages to India* by Wanda Warhaftig in *Argent 4.1*; and *Long-term gain from short-term pain?* by Chris Callaway in *Argent 4.2*. Ed

[4] Nationwide research, conducted by Marketing Sciences with 1,002 adults between 26 November and 28 December 2004, found that 88% of respondents believed it was important that their calls were handled from call centres based in the UK.

[5] For example, in 2004–5, Nationwide increased its gross lending by 23%.

[6] The organization formerly known as the Consumers' Association.

[7] And in a business sense, the best supermarkets have "squared the circle" by constantly reducing average prices *and* increasing average margins – not least by persuading customers of the value of the "added-value" products that deliver higher profits. Ed

[8] Incidentally, I believe this is easier for a mutual than for a quoted company, but that's another story.