



Demographics
Consumer trust
Future

The best of times. The worst of times.



The Financial Services Forum's tenth birthday is a time to consider what's gone – and ponder what's coming. At our anniversary conference, CASPIAN WOODS listens for the lessons of those looking both ways.



The Financial Services Forum came into the world in the year when the 'hanging chad' disfigured Bush's Presidential victory, when Barclays acquired the Woolwich, and when Alliance and Leicester demutualised. Since then, it's lived through the "decade of fear" as it segued from Y2K and 9/11 into battles that are still being fought.

But truly, LP Hartley surely had it only half right in *The Go Between*: the past is, indeed, a foreign country; and, yes, they do things differently there. However, it's clear that the future's just as "foreign" and is going to be just as "different".

Looking back first, Richard Royds of BlackRock recalls an alien world of work ten years ago: "I remember women were not allowed to show 'toe cleavage', you could smoke after 5pm and liquid lunches were common'. Today, fewer than 25% of his firm's graduate intake are the WASPs that so dominated the decade before.

And, in more immediate financial terms, it could be defined as the "decade of going nowhere". Aegon's Otto Thorensen remembers: "At the start of the decade, customers could have been expecting double digit returns from the FTSE. Now there's a big disappointment factor, and we have to wonder how that will impact."

But should the conference's speakers really heed the encouragement to use their collective hindsight in the service of foresight? Simon Gulliford, Chief Marketing Officer of Standard Life, is one who's alive to the risks of soothsaying. Technology proves his point: "Imagine ten years ago trying to sell the technology that would allow you to type your telephone calls? I say to my daughter nowadays – 'one day you'll be able to talk into that'".

Mike Hoban, Chief Marketing Officer at Confused.com puts it more arrestingly: "Spending your time predicting the future is intellectual masturbation." So Gulliford maps another route: give up the game of predictions, he urges delegates, and heed the word of the late uber-guru Peter Drucker: "Strategy is not about forecasting the future and its attendant pressures. Rather it is about understanding the future implications of today's decisions."

And, right now, it's genuinely hard to look past the issue of debt. Andrew Fisher, MD of Towry, starts by putting the UK public sector deficit into context: "Let's say you started to pay £1 a second. To pay it off, you'd have had to start at 29,000 years BC!"

So, to Fisher, the only thing that can credibly get us out of this hole is what Adam Smith called 'pretended payment' – or inflation. But Fisher worries about a future with pockets of super-inflation and real losers. "I remember visiting an

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old couple in Russia who'd spent 20 years saving 20% of their salary. They had amassed savings of 140,000 roubles. That afternoon, I bought a coffee. It cost me 150,000 roubles."

Another change-factor concerns life-expectancy. Consider this: there are more people over 40 alive in the world today than have ever died. By 2050, 30% of the UK population will be over 60. The more dramatic futurologists go so far as to predict that the first person who'll live to 1,000 is already alive today.

These are the issues the speakers feel bound to address today: a retirement age of 70 to beat the pension crisis for Fisher; and 'bullet proof products' for Richard Royds of BlackRock. Fisher also urges a more realistic approach to expectancy calculations in pension planning: "You need to plan your retirement funding with a life expectancy of 95 or you'll spend the last years of your life eating cat food off the floor."

Yet, while the West toils under these burdens, another tide is building in the East. Royds illuminates his advice to 'face east', by pointing out that 86% of the world's population lives in emerging markets. They account for half of GDP, 13% of equity capitalisation and their net debt is tiny. And Fisher sees the consequences of that clout: "China currently owns one third of America in terms of debt. That gives them real bargaining power."

No-one thinks this challenge will be easy to meet. Fisher advocates joint ventures with Chinese banks, the export of risk management expertise and manpower but cautions that "I'd expect more money to be spent than made".

Perhaps the most immediate concern for the conference, though, is that of consumer trust. Few can say the last years have brought them the best of times – or that the implications will be wholly positive for an industry where, as Royds observes, "we've spent the last ten years boiling frogs. Indeed, it was only the scalding water of the credit crunch that made them jump out of the pan".

A clear result is the growth of consumer power, where the "scalded frogs" seek to become the guardians of their own financial destiny. Gulliford underlines this with research from Standard Life showing that five times as many



customers would prefer to take control of their own wealth than go through an IFA. Many point to the rise of price-comparison sites not as price drivers, but as a response to the needs of the self-directed consumer.

The "informed consumer" clearly has implications for pricing. Gulliford argues that "only stupid people will buy via a percentage-based system". His views are echoed by Royds: "Charging 2% a year over 40 years is not sustainable. The cost of investing will fall. The Exchange Traded Fund will be mainstream."

That's clearly a trend others will seek to exploit, and Gulliford warns that "a new competitive agenda will emerge and it will not be driven by the current incumbents".

It might be driven by hungry and opportunistic predators, like Giles Andrews, co-founder and Chief Executive Officer of Zopa: "I see a gradual decline in the traditional bank. Banks could be targeted by players picking bits off until all that remains is a utility current account function."

The future is all around us today, that's clear. And our time is perhaps best spent understanding where that is – and to heed the counsel of Tony Blair: "Predictions? Never made them, never will".