Trusting customers

Honest, guv …

The culture of spin is so well-established that we tend not to believe figures of authority. That's quite a challenge for financial services companies who need to regain their customers' trust, says Ian Stewart.

Have you ever taken a psychometric test? You know the sort of thing: out of a hundred questions, numbers three, seventeen, nineteen, fifty-four and eighty-two all exhibit the compiler's ingenuity in trying to catch you out.

You claimed in number three to be the most ruthless, results-at-all-costs go-getter ever to hit the organization, so you're obviously the only choice for the top job. You also claimed in number twelve to have the people skills to get everyone singing your song, so you never need to deploy the formidable armoury indicated in number three anyway. All the way from twenty-one to a hundred is a game of cat-and-mouse devoted to trying to catch you out. Knowing that you might be quite a smart cookie, the compiler will have asked you to do all this honestly but quickly – it wouldn't do for you to see through the charade. It's all part of the industry devoted to the pretence that those who select people for senior positions know what they are doing.

Just for a change, ask *yourself* a question and try to answer it honestly – but take your time. Which of the articles in the last edition of *Argent* did you find most significant?

If you find that question a bit hard, try asking yourself which you found most useful.

If it has been a long and difficult day, try asking which you found the easiest to read.

Do you have answers to these questions? Is the answer the same in each case?

For my money, the most significant was Lucian Camp's on the inside back cover, in which he sets a

HOW REAL CUSTOMERS BEHAVE

If the principal aim of speed cameras is to reduce speeding, the money might have been spent rather more effectively by first understanding better why people speed.

Some drivers, of course, are inveterate speeders, but they are the type that will tend to have radar detectors and GPS systems to warn of cameras and traps. So all that happens is rapid braking followed by equally-rapid acceleration when the "hazard" is past.

Most drivers, though – and certainly most of those that are caught – do not intend to speed, and are probably not even aware that they are exceeding the limit until it is too late. Modern cars are so quiet and responsive that 40mph can easily feel like 30mph. At least one chief constable has now recognized that those "SLOW DOWN 30MPH" signs that light up when a car approaches them too fast are much more effective in changing or moderating driver behaviour.

More *effective* – but zero revenue spoils the cost-effectiveness …

very high standard of personal honesty. There is an arterial connection between his message and one of the most powerful but least understood (and so most poorly executed) concepts in financial services: brand.

Ask a sample of chief executives in finance to explain the difference between book debts and depreciation and most will rap out the answer faster than you can write it down. Ask them to explain brand and they'll play for time and space by saying something like "it depends on what you mean by brand".

Lucian pointed to something which affects the wider world but is particularly significant in marketing. Corporate honesty and honesty in government, or rather the lack of it, is everywhere, and it subliminally colours the way we think and the way we behave. Most of us have driven past speed camera warning signs with our eyes focused everywhere but on the road ahead, and subsequently wondered exactly where the spy was lurking – when it was never there at all. What we should have been thinking about, perhaps, were the two levels of government dishonesty on display.

Firstly, there was the initially unchallenged idea that the cameras were there to improve road safety. The public outcry against their proliferation finally led to what amounted to an official admission that they were really just toll gates.

Secondly, there is the under-discussed broader problem of official mendacity. This state-sanctioned lack of truthfulness is all around. In the case of the need to encourage speed moderation, the late John Le Mesurier, in his *Dad's Army* guise, would no doubt have said: "Would you mind awfully slowing down a little, please." The custodians of the highway, unaccustomed to having to sell an idea for a living, used to be more inclined simply to put up a sign with the injunction SLOW. Increasingly, officialdom is turning to deceit to achieve its ends with a very corrosive result: we don't trust "them" any more. "They" would presumably justify their actions with the time-stained formula of the end justifying the means. Unfortunately for totalitarians, this approach does not go down well with those who ultimately have freedom of choice.

In the corporate world, honesty and brand are closely related. In a developed industrial economy, we just do not know the people we do business with. We look for indications – any indications – that we are in trustworthy hands when we part with our cash. If the door on the car closes with a satisfying exhibition of solidity, we take on trust the wear-resistance of the cylinder liners; if we get a passable imitation of a Hare Krishna band perambulating down the street, we treat casually assurances about build quality.

Honesty is the first requirement of a brand. Without it, the rest falls apart.

But in war, truth is the first casualty. This pronouncement is variously attributed to Aeschylus, Samuel Johnson and an American senator[1] at the time of the First World War. Business is widely regarded as a proxy for warfare, as the widespread tendency to quote the aphorisms of the Chinese military strategist, Sun Tzu, testifies – and truth, sadly, tends to put in an early appearance at the casualty station.

The defence of last resort for the proponents of the truth economy is realism. With an air of indulgent weariness, they point out that no brochure ever qualifies its boilerplate statements with the words (in italics) that add the real meaning:

> We regard our people as our most important asset *but only so far as the finance director and HR director reckon we can get away with behaving to the contrary*.

The consumers of the communication, though, are increasingly adept at decoding the message. One of the reasons for the enduring popularity of the *Alex* cartoons in the *Daily Telegraph*, and their chronicling of City life, is that they satisfy a widespread hunger for recognition of the truth. They are the litmus paper that

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FIGURE 1: CUSTOMER ATTITUDES

	Agree	Disagree	Don't know
I do not trust financial companies	43%	42%	15%
I would rather invest my money in property than savings products	43%	44%	12%
There is no point in saving as you have to pay tax	22%	70%	8%
There is no point in saving as interest rates are too low	16%	75%	8%
There is no need to save as I can pay for anything I need on credit	5%	92%	3%

Source: NOP/Mintel: *Consumer attitudes towards saving*, November 2004 Base: 1,996 adults aged 18+

FIGURE 2: CUSTOMER CONFIDENCE?

Does your bank:	All of the time	Most of the time	Some of the time	All+Most of the time
Operate your accounts efficiently	40%	46%	9%	86%
Ensure its staff are well trained	33%	41%	15%	74%
Give you good advice on financial matters	29%	39%	15%	68%
Sell you suitable products to meet your needs	22%	33%	20%	55%

Source: NOP/Mintel *Confidence in financial providers*, August 2005 Base: 1,723 banked adults aged 18+

blushes bright pink at the first touch of the acid of corporate dissembling.[2]

In an orderly world, honesty would be managed. It would be promoted, practised, measured, audited – regulated. Unfortunately it is just too vulnerable to ambition to succumb entirely to the managerialist paradigm. There is, however, no shortage of evidence for it being a commodity with a high value. The very existence of leading consumer brands and the sales revenues attributed to them shows how powerful brands can be when they embody a positive message about a widely-perceived truth.

Around twenty years ago, a film called *The Killing Fields* told the story of the genocidal régime of Pol Pot in Cambodia. Early in the film, a reporter and his local host are riding in a taxi, a Mercedes-Benz. On being complimented on his choice of vehicle, the driver turns round and says: "Mercedes Number One". Later, the driver, having been coerced into the régime, conveys his recognition of one of his captives by repeating the phrase. Whatever one's personal taste, it is difficult to deny that a fair proportion of the world regards Mercs as the best cars obtainable.[3] Trust in the brand is fundamental.

Perhaps one of the saddest spectacles is that of a formerly trusted brand falling from grace. Our friends at Mercedes-Benz had a close squeak when their new A-series vehicle initially failed the "moose test". In corporate language, this revealed a problem with the car's dynamic stability; in the customers' language, it tended to topple over if you went round a corner slightly too fast. However, the Mercedes engineers did not hide behind the PR gloss, but rapidly eliminated the defect. Sales of the A-class are now respectable, and the Mercedes brand is if anything enhanced – because the public has seen an open and effective response to an unexpected problem.

Putting things right quickly without loss to the customer is one of the signs of a trustworthy brand. We have all, since childhood, been aware of the guarantee on the bar of chocolate that exhorts us to post it back to the manufacturer in the event of a problem. Very few of us today would pen a tirade to Cadbury's if a shopkeeper had stored the chocolate badly, but the reassurance is there. In an earlier age, when adulteration of manufactured foods was widespread, it was an important warranty – and it still does duty as a sign of confidence.[4]

The traditional attitude in financial services, in contrast, has tended to be "buyer beware" – early problems with "phantom" withdrawals from ATMs were put down to customer carelessness or forgetfulness rather than technological limitations in the system, as were, more recently, security problems in electronic banking. But there have been a few (all-too-rare) examples of the "Cadbury effect" in the sector – in the early days of e-commerce euphoria, the Royal Bank of Scotland sent statements to its credit card customers saying something along the lines of "if you buy on the Internet, pay with your card and experience a problem, we'll make sure you don't lose money". As with all good customer insights, competitors tend to follow after a while – but only when the cost of doing so is lower than the value of business lost by not doing so.

The continuing problem for financial institutions is that there is now a substantial disconnection between them and their customers, as Figure 1 shows.

For businesses that depend absolutely on confidence, the fact that more than four out of ten customers do not trust them cannot be anything other

than a serious problem. And it is also interesting to note that some of the common excuses used by banks and insurers – for example, customers won't save because returns are too low or because they can buy everything on credit – aren't given much credence by customers themselves.

Given the fragility of truth, it would be right to question the validity of this picture as a measure of the value of honesty. The question is, after all, a bit general. Unfortunately, the same picture emerges when we get a bit more to the point, as in Figure 2.

A sizeable majority believes that providers will get the basic mechanics right, but when it comes to the more personal aspects, where adherence to the truth is harder to measure, confidence falls off markedly. Yet no provider claims to do anything other than "meet your needs".

The snag is, customers don't really believe it. One of the most catastrophic breakdowns in corporate honesty in recent years was the failure of Equitable Life. For two hundred years, policyholders had believed that their money was in good hands, and the positive experience of two centuries had reinforced that view. But then, in a move driven by a lethal combination of greed for more business, fear of being left behind and an inability to see the consequences of its own actions, Equitable Life shattered the bond of trust. Not only did it shatter policyholders' dreams, it shattered confidence in an entire industry. It shattered trust in long-term savings because it shattered the perceived honesty of the brand.

No wonder consumers consistently say they would rather buy a house than invest in a pension. As Malcolm Oliver has put it, a pension is a "promise to pay the bearer on demand" – but only in about forty or fifty years' time. To continue his allusion to the Bills of Exchange Act, it most certainly does not represent a "sum certain in money", and in the present-day climate of managerial trickery, that is just not good enough.

There is one sense in which the financial services industry has institutionalized honesty, at least on the face of it. The Basel II capital accord has three so-called pillars to it. The first is about credit risk, operational risk and their calculation – not too much controversy there, you might think.

The second is concerned with the identification of risk factors, primarily through the review of internal management processes. It does not take too much imagination to see that a risk is not going to receive too much attention if it is not identified as such.

The third pillar is concerned with requirements for disclosure: publishing risk assessments. At this stage, the corporate honesty scout must be feeling distinctly uncomfortable – who decides what gets published?

What can be said is that there is a view on what does *not* get done. The Council of Mortgage Lenders has produced a handy guide[5] to Basel II, and a fragment is worth digesting (the italics are mine):

> The Accord also, for the first time, deals explicitly with operational risk ("the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events" eg including, without limitation, human error, systems failure or fraud, *but [appearing] to exclude, for example, such risks as strategic or reputational risk)* and requires organisations to hold capital expressly related to these risks.

So, a bank must hold some capital against the possibility of an airliner landing on its data centre but no capital against the management team so distressing its clients, actual and potential, that they take their business elsewhere. That seems a strange way of going on when it is put so starkly; in fairness to the authors of Basel II, we need to recognize that the international regulation of banking systems and capital markets is still developing.

Perhaps a better bet from the point of view of encouraging veracity might be the growth of corporate social responsibility. Dr Craig Mackenzie, a well-known practitioner in the field, has written recently:[6]

> While there is sometimes a fast buck to be made by cutting corners and pulling the wool over your customers' eyes, in the long term irresponsibility rarely pays.

Yes, indeed. You can fool some of the people some of the time, but not all of them all of the time.

What this means is that there is still no substitute for personal responsibility; which brings this line of thought right back to the psychometric test: we know how to find honest people – honest, guv. ☐

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[1] The isolationist Hiram Johnson (no relation to Samuel), speaking in 1917.

[2] The relative popularity of the archaic word dissemble is in itself an interesting example of this process of deliberately concealing the truth in practice. Like "resile" and "nugatory", it has re-emerged in recent years in parliament – where it is an acceptable alternative to the unparliamentary "liar" – and the obfuscation seems to be directed as much at the electorate that see the exchanges in news bulletins as at fellow representatives at Westminster. Of course, industry (and not just financial services) has its own arcane lexicon to draw on when it wants to confuse the customer!

[3] Or, at a less obtainable level, the "Rolls Royce solution" is instantly understood worldwide.

[4] And, *in extremis*, it is far better for the company to be given an opportunity to satisfy a complaining customer than to see him walk away, perhaps for ever in a competitive market, to a rival producer.

[5] Available at www.cml.org.uk/cml/policy/issues/748

[6] *Rewarding virtue: effective board action on corporate responsibility:* available at www.bitc.org.uk/resources/publications/rewarding virtue.html. See also *Daily Telegraph*, 8 December 2005