

# Trust in Financial Institutions – an Oxford Union Debate

15 January 2020

## #FSFEvents

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 The Financial Services Forum

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### *MORTGAGE COMMUNITY PARTNERS:*



# 'Financial Services companies have rebuilt the trust they lost since the global financial crisis'

**Jackie Bennett**

Director of Partnerships, UK Finance

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***MORTGAGE COMMUNITY PARTNERS:***





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# Improved trust in financial institutions

Jackie Bennett OBE, Director, Mortgages UK Finance

15 January 2020



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- New FCA Mortgage Rules April 2014 (although industry had shifted well beyond this)
- Detailed income and expenditure assessment
- No self-certification of income
- Repayments stressed at reversion rates
- No interest-only without evidence of a credible repayment strategy
- Clear distinction between advice and execution only with most expected to get advice
- Macro prudential tools – FPC recommendation stress test of 3 per cent above reversion rate, PRA limit of no more than 15 per cent of business at more than 4.5 times loan to income.

## **A fundamental shift in mortgage regulation**



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## Organisations are more financially stable

- Banks have to hold 10 times more capital than before the financial crisis
- Holdings of liquid assets have doubled
- Banks are less reliant on short-term funding
- The UK's largest banks are required by law to 'ring fence' core retail banking services from investment and international banking activity



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- Senior managers are subject to the Remuneration Code which requires that at least 60 per cent of any bonus is deferred over seven years and can be reduced or cancelled for poor performance or conduct.
- At least 50 per cent of bonuses for senior managers are paid in shares so that they are incentivised to make decisions that benefit their businesses and shareholders.
- The SMCR clarified lines of responsibility, enhanced regulators' ability to hold senior individuals to account, requires firms to annually certify their material risk takers for fitness and propriety, and provides for new criminal sanctions.

**Senior managers  
have greater  
personal  
accountability  
and responsibility**



## A more diverse workforce

- A more diverse and inclusive workforce mitigates conduct risk.
- The proportion of Women board members has risen from 12.5 per cent for the FTSE 100 in 2011 to 32 per cent in 2019.
- 350 organisations spanning 880,000 employees – including UK Finance – are signed up to the HM Treasury Women in Finance Charter. This has already seen an increase in the number of senior roles held by women from around 20 per cent to 30 per cent, with the ambition for this to rise to 40 per cent and above.
- Recognition that more to be done in other areas of diversity – BAME, LGBT, disability.



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- The Financial Services Compensation Scheme fully protects cash savings and deposits up to £85,000, compared to £31,700 prior to the crisis.
- Arrears and possessions are at historic lows. There were only around 8,000 possessions in 2019, down from nearly 49,000 in 2009.
- Industry has worked with the Post Office to promote the everyday banking services available through 11,500 branches in communities across the country.
- More ways to interact with firms – face to face, telephone, online, apps.
- The nine largest current-account providers offer fee-free basic bank accounts to help consumers being unbanked.

**Customers are  
better protected**



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# Vulnerable customers are better protected

- Vulnerability Task Force principles adopted by the industry.
- The Banking Protocol – a rapid scam response scheme between branch staff and law enforcement – protects many elderly and vulnerable customers, saving them from losing £38m of their own money to fraudsters last year and leading to 231 arrests.
- Authorised Push Payment Scams Voluntary Code – delivering new standards of customer protection and a commitment from all signatory payment service providers to reimburse customers who fall victim to an authorised payment scam, provided they did everything expected of them under the Code.
- Financial Abuse Code of Practice so firms can improve how they identify those at risk and provide them with consistent help to regain control of their money.
- Death Notification Scheme launched to prevent customers having to repeat information.
- Developed guidance for debt collection staff to help them identify and support vulnerable customers, such as those living with mental health conditions or serious physical or terminal illness.
- Firms already considering how they can deliver the expectations of the new FCA Vulnerability Guidance.



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- Eight in 10 business loan applications are approved.
- The scope of the Financial Ombudsman Service has been extended to include SMEs.
- Business Banking Resolution Service will be up and running later this year to offer fast and effective dispute resolution for SMEs.
- The number of SMEs who see access to external finance as a major obstacle has fallen from over one in 10 in 2012 to fewer than one in 20 last year (Source: SME Finance Monitor: Q2 2018).

**SMEs get a better deal**



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## Regulated firms aren't waiting to be told to treat customers fairly

- Lenders have been proactively contacting customers with interest only mortgages since 2013. The back book of IO mortgages has halved in the last six years.
- In 2018, UK Finance co-ordinated an industry voluntary agreement that saw thousands of previously ineligible homeowners on reversion rates be offered a new mortgage.
- More generally, lenders are proactively offering customers a new deal as they come to the end of a fixed rate. In 2019 more than 1 in 5 customers switched to a better deal.
- This isn't happening with unregulated book owners who FCA recognise sit outside their regulatory powers.



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- Firms recognise their responsibility to the wider community. Almost all partner with local and/or national charities.
- UK Finance report with Linklaters 'Ethics in Banking and Finance' profiling issues relevant when considering organisational ethics based around leadership, governance, systems and controls, employees, customers and other stakeholders.
- On a broader front, firms recognise their environmental responsibility, with the emphasis on climate risk (and green finance opportunity).
- 100+ banks have signed up to the UN Principles for Responsible Banking.
- UK Finance and a number of members have signed up to the Green Finance Institute and their Coalition on Energy Efficient Buildings

**From conduct to  
strategic purpose**

## The final word should go to the public.....

Public trust in Britain's bankers has doubled in the past five years, from a low of 21% in 2013 to 41% in 2018 (Ipsos Mori. <https://thinks.ipsos-mori.com/trust-in-the-financial-sector/>)

At 57%, trust in the financial services sector globally is at its highest level since we started measuring it in 2012 (51% in the UK) - the [2019 Edelman Trust Barometer: Financial Services](#)

# 'Financial Services companies have rebuilt the trust they lost since the global financial crisis'

**Lynda Blackwell**

Former Mortgage Manager, The Financial Conduct Authority

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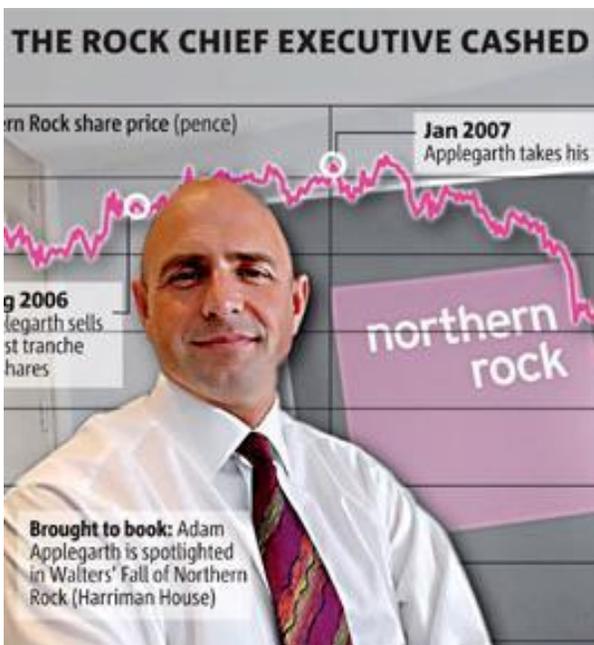
**Lynda Blackwell**

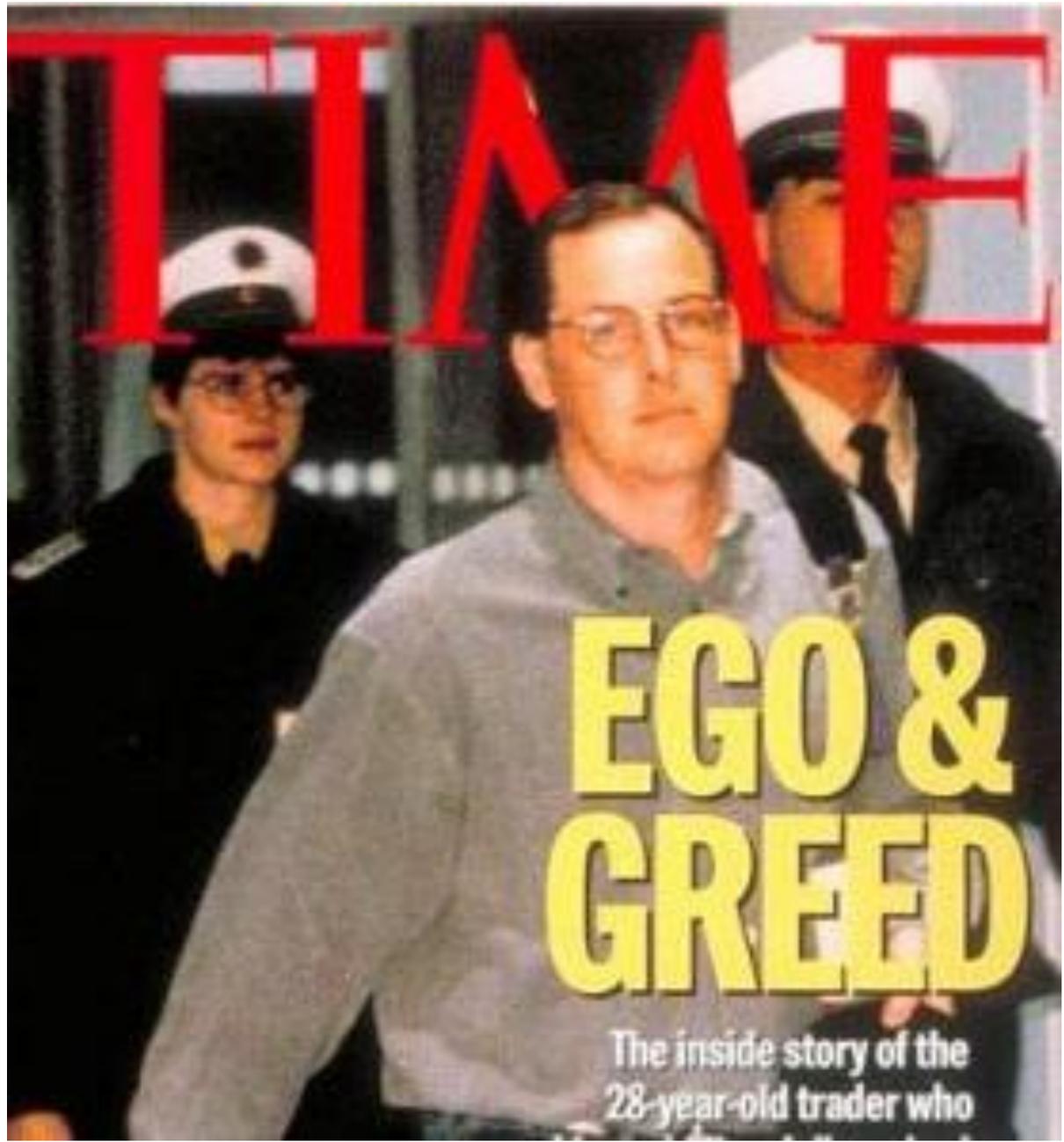


'Financial services firms  
have rebuilt the trust  
they lost since the  
global financial crisis'

The case against...







The **LIBOR** scandal  
The rotten heart of finance

**PPI scandal** costs industry £50bn

FSA closes **sale and rent back market**

FCA plans to stop banks  
charging **excessive and  
unfair overdraft fees**

Thousands of homes at risk  
as **interest only  
mortgages** set to mature

**Packaged current accounts:**  
did banks not learn from PPI

**Pension mis-selling**  
payouts double in 2018

**Endowment mis-selling**  
is a national scandal

RBS Profit Wiped Out by U.K  
**Insurance Mis-Selling Scandal**

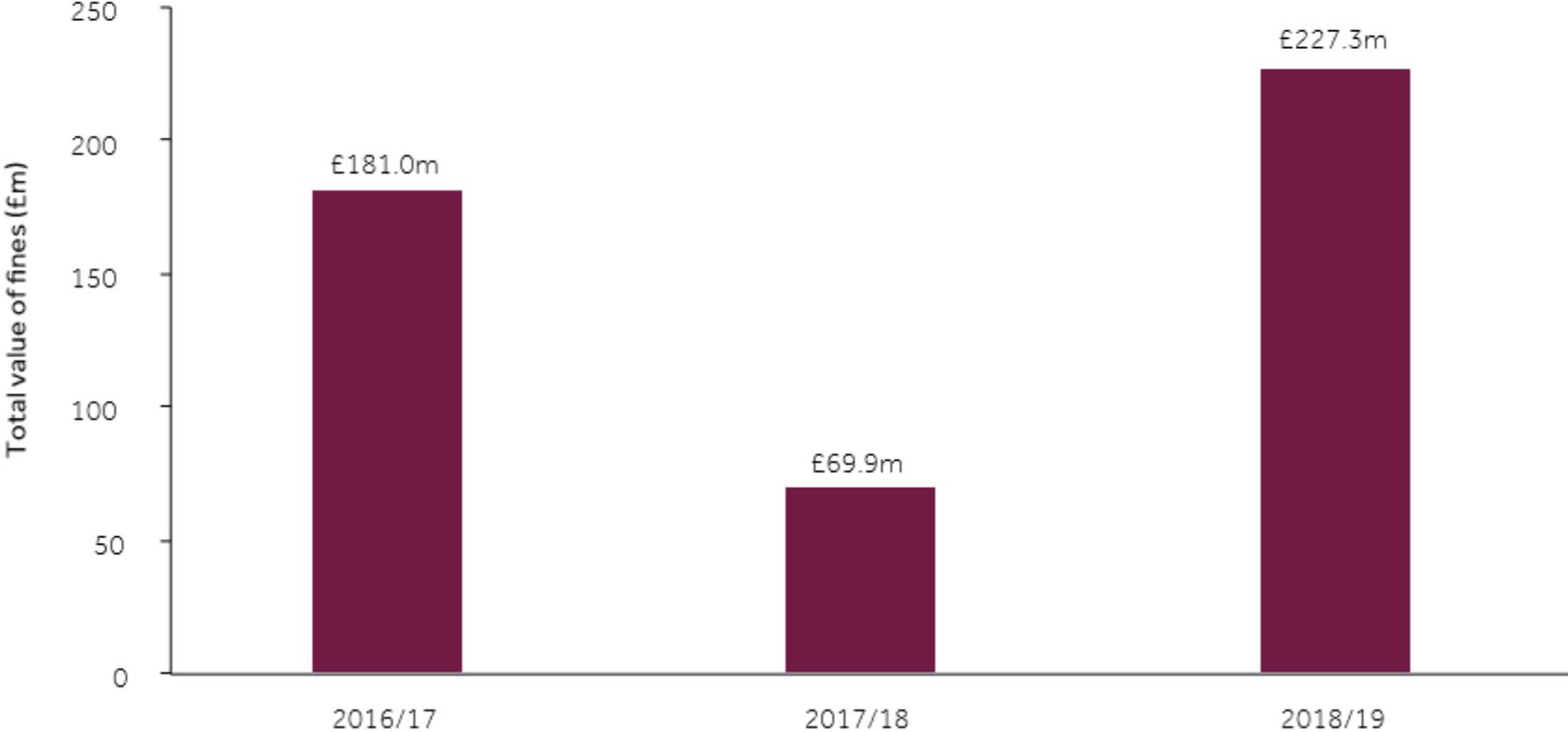
‘End of road in sight’ for **payday lenders**

**Ripoff overdrafts** costing  
seven times more than payday loans

**Interest rate hedging**, yet  
another banking scandal

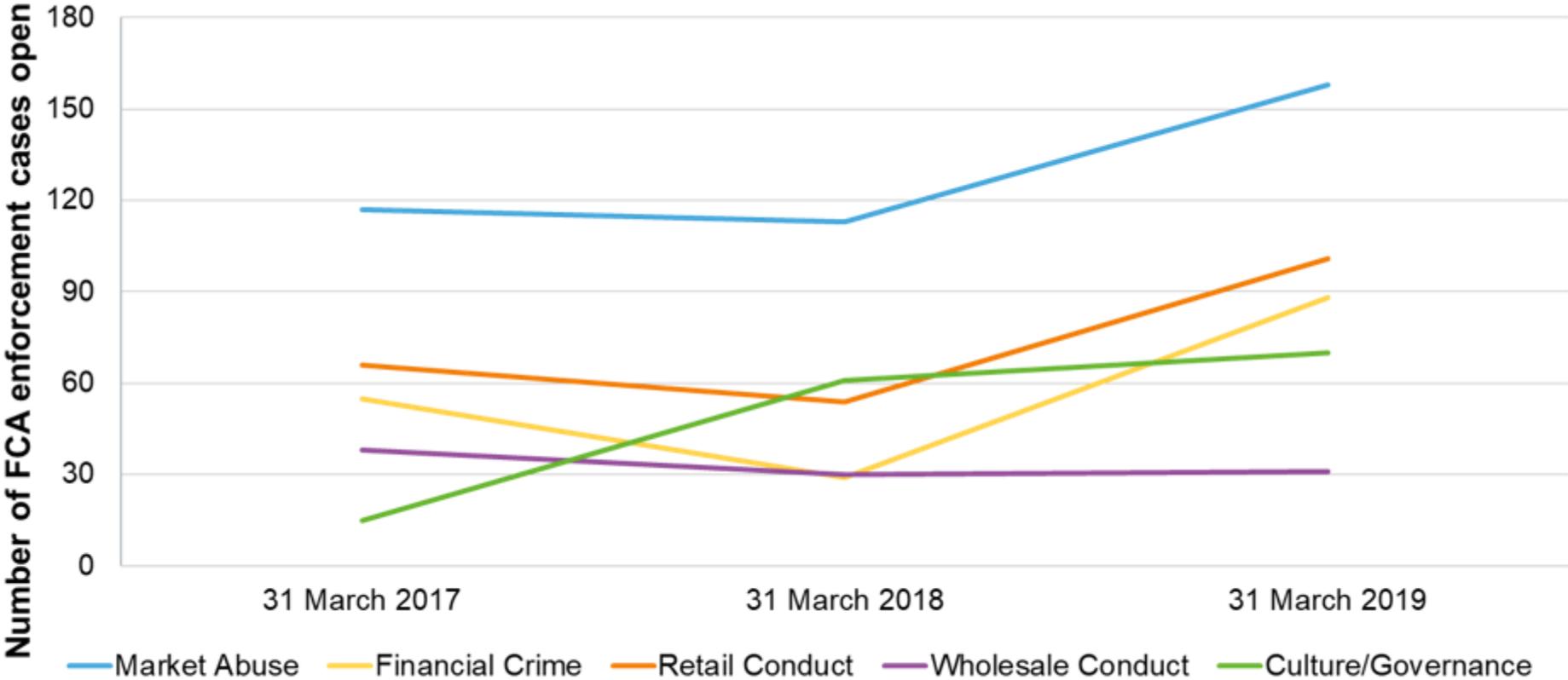
FCA to ban marketing of **mini-bonds**  
amid concerns over investor losses

# FCA financial penalties 2016-2019



Source: FCA Enforcement Annual Performance Report 2018/2019

# FCA enforcement actions 2017-2019

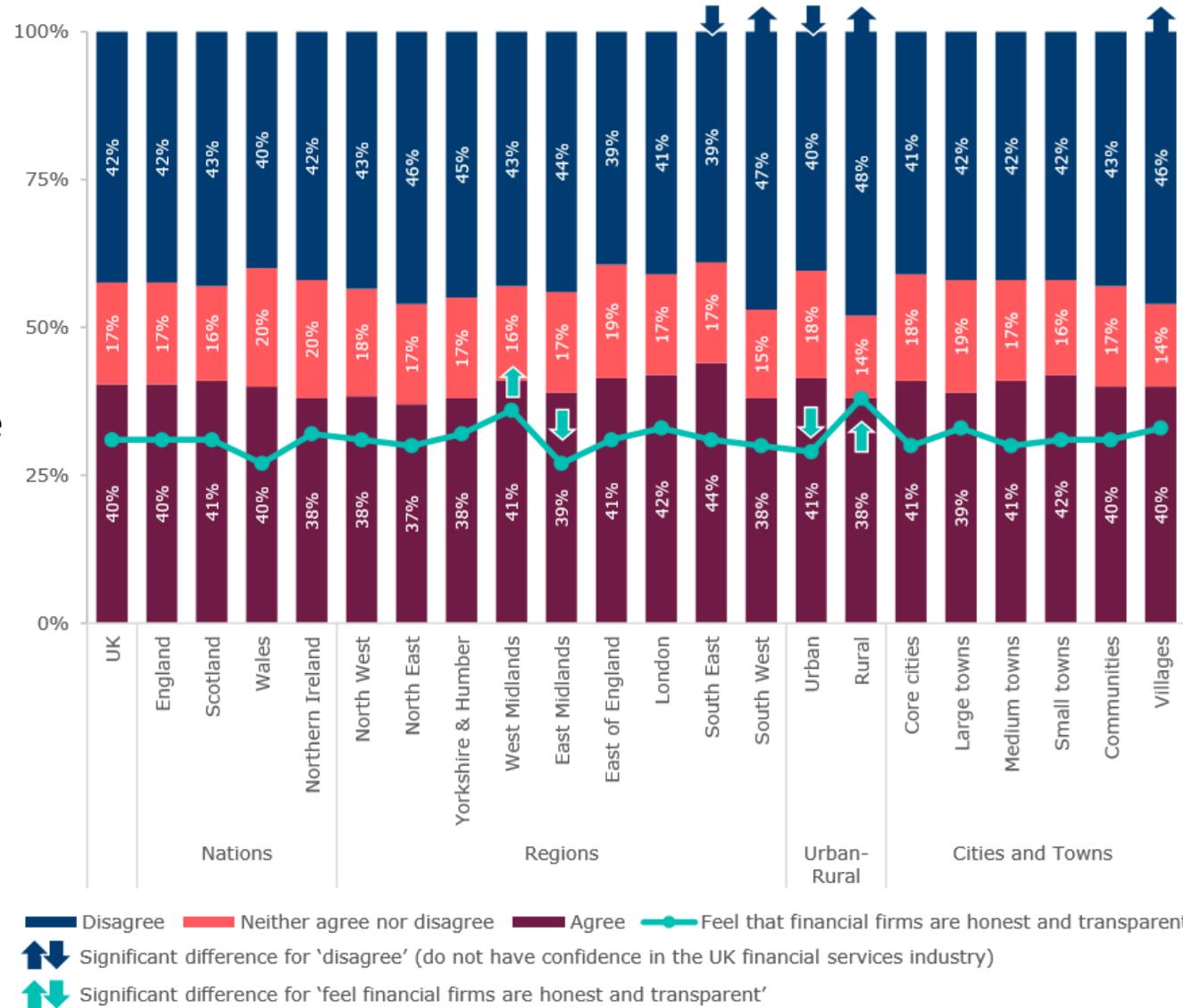


Source: FCA Enforcement Annual Performance Report 2018/2019

## UK adults' confidence in the UK financial services industry, and UK adults who feel that financial firms are honest and transparent in the way they treat them

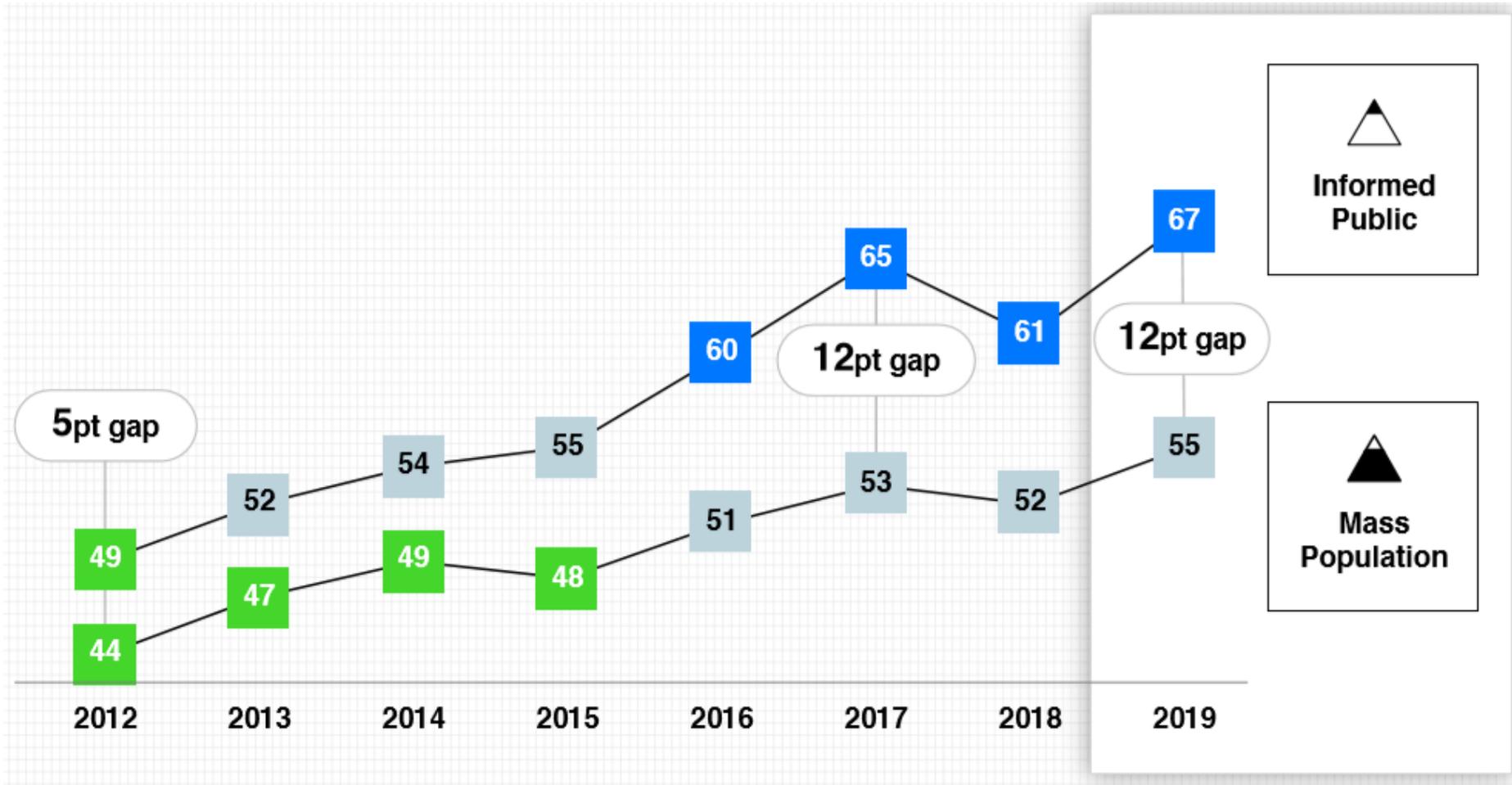
42% confident in financial services industry

31% feel financial firms are honest and transparent



# Financial services trust inequality returns to record highs:

*Percent trust in financial services*



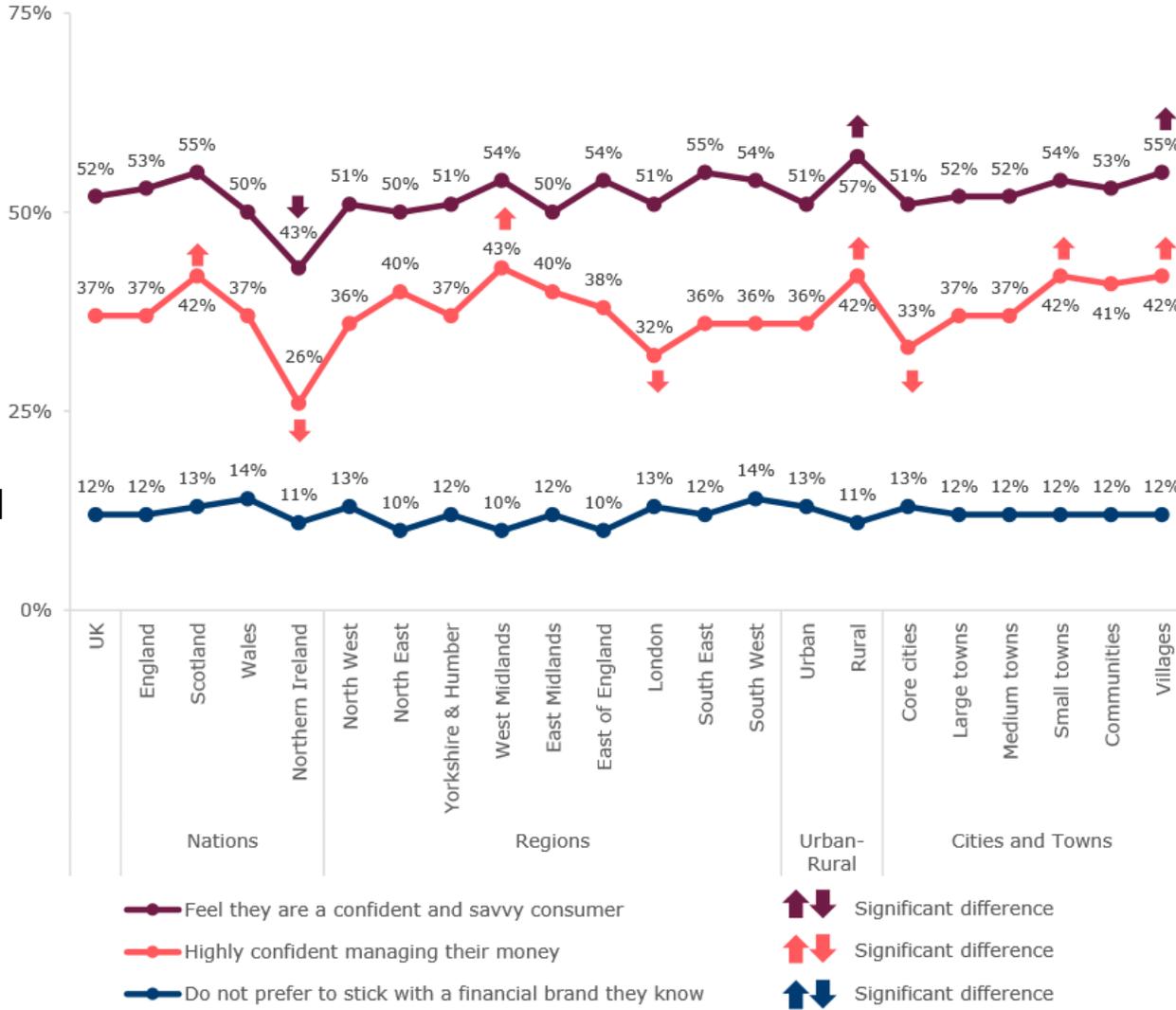
Source: 2019 Edelman Trust Barometer: Financial Services

**UK adults who say they are a confident and savvy consumer, who say they are highly confident managing their money, and who do not prefer to stick to a financial brand they know**

52% 'confident and savvy'

37% 'highly confident'

88% stay with known brand



Source: FCA Financial Lives Survey 2017

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Please visit us there from now on.  
Here are the opening times:





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‘Consumers should not trust banks’

Anthony Thomson, September 2018

This is Iceland

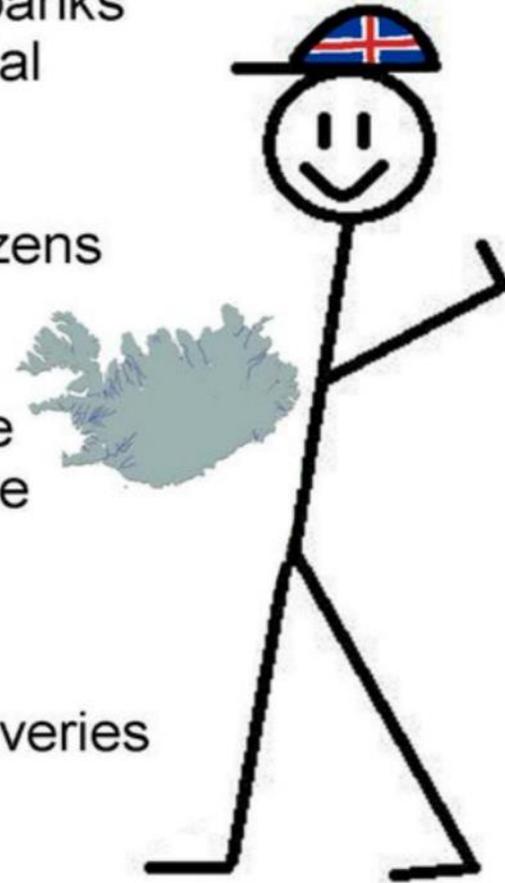
Iceland let its 3 biggest banks fail after the 2008 financial collapse

Iceland bailed out its citizens instead.

Iceland prosecuted those banksters that caused the meltdown.

Iceland had one of the strongest economic recoveries ever.

Be like Iceland.







**molo**

**Revolut**

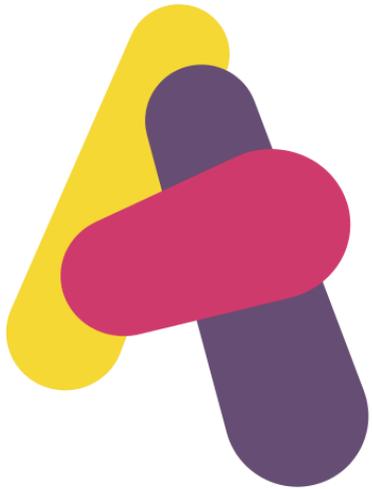


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STARLING BANK



**Atom bank**

 **Curve**

**TANDEM**

**N26**



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# Bank of England

“History shows that there are two things we can be sure of when it comes to financial crises: **there will be another one**, and the next one **won't be the same as the last.**”

“That's a big problem because they can **be very damaging.**”

# Bank of England

**“No one can say where the next crises will come from.”**

“But what we do know is that the next crisis will be different from past crises: **history may rhyme , but rarely repeats.**”



- Many financial firms that caused the damage are no longer around and have left stranded customers behind
- Those that are still around have not actively rebuilt trust but rely on customer inertia and market dominance
- Customers no longer need to put up with this: New players are delivering what customers want and are starting to build new found trust and confidence in the financial service sector
- Legacy banks are having to adapt and hopefully trust will follow.

# CONCLUSIONS

