Financial Services Forum Members Conference: 25th March 2009

The Trust Debate: Opposing the motion

“"This house thinks that restoring trust between consumers and financial services providers is a lost cause.”

Format:
Opening speech: 15 minutes
Questions: 10 minutes
Summation: 5 minutes

OPENING

Thank you to the team at The Financial Services Forum for organising this debate, and for the privilege of opposing this motion. I’d also like to thank Ian for his spirited, if misguided, defence.

INTRO-DUCTION

So trust – what exactly is it? Do you trust me to make this speech? Do I trust you to look after my money or investments? As an industry what is our reputation, as trustworthy, reliable bankers or evil, scheming, wankers?

I believe resolutely that we must reject the motion that “restoring trust between consumers and financial services providers is a lost cause.”

I’d like to explain why I believe this motion is flawed from two perspectives: the conceptual – that trust is so important to our economy that we cannot let it go; and from a very practical perspective that there is much we can do to improve trust in our industry and so it is far from being a lost cause.

DEFINING KEY TERMS

Defining trust is a complex issue. It is hard to measure. I don’t agree with defaulting to the overly simplistic, dictionary definition that Ian used in his opening remarks. Adam Smith knew that trust was a key economic currency; it wasn’t luck that The Theory of Moral Sentiments, in which trust is writ large, enabled the Wealth of Nations.

There are many models of trust: some behavioural, some transactional, some genetic. But what I believe is that we need a practical and pragmatic view of trust that we can apply to our industry and businesses – a model that can help us drive positive solution-oriented action at the tactical and strategic level.

I'd like to define three words today: Trust, Trustworthiness and Reputation.

Firstly *Trust*. Trust depends on the existence of risk – if something was certain there would be no need to trust. Trust depends on interdependence between actors – if there is no dependence there is no need to trust.

Therefore I would like to define trust as a relationship.

I trust someone in relation to a specific action or situation.

For example, I may trust Ian to conceive a terrific advertising campaign for me, but if my heart fails I do not trust him to perform heart surgery on me.

Secondly, *Trustworthiness* which I will define as:

The intrinsic absolute value of how someone will act in given specific action or situation.

Each of us have different absolute levels of trustworthiness intrinsic to our being and the situation we find ourselves in. Finding a £20 note on a bus, for example, some of us might pocket the money, others might hand it in.

Therefore as trustworthiness as an absolute, intrinsic quality, it is separate from the perception for trustworthiness which is an aspect of reputation.

I am sure we all remember the recent problems that the House of Lords has undergone with certain members being accused of taking inducements. Previously, the Lords has a reputation for trustworhiness that has been shaken. But importantly their intrinsic trustworthiness, be it high or low, has not changed, we have just readjusted our perceptions in the light of new information.

These three concepts inter-relate to guide the decisions that we make as people to place our trust within others.

THE ROLE OF TRUST IN OUR ECONOMY

So keeping these definitions in mind let's take a step back and look at the role of trust in our economy, business and brands.

Adam Smith believed that certain virtues, such as trust and a concern for fairness, were vital for the functioning of a market economy. The very basis for enlightened self-interest, through division of labour and the specialisation, and ultimately the professionalisation of tasks, is built upon our ability as human beings to trust and be trusted.

Before the rise of the free-market we would have grown the grain, then ground the grain and then baked the bread for ourselves relying on our own ingenuity and skills. But now we trust in the farmer, the miller, the baker, and with industrialisation, across national and global markets, we trust evermore in concepts, often called brands, because these professionals are strangers to us. What allows this system to work is our ability to trust not blindly but intelligently not just in those performers but also the system that monitors their trustworthiness, and ultimately allows them to build a reputation for good or ill.

This trust is good. It facilitates free-trade, lowers transaction costs, and creates employment. It feels good – inspiring loyalty and building morale. It is built most powerfully through personal interaction and familiarity. And is it fragile and asymmetrical taking a long time to build but can be broken by one quick act.

Professor Christine Ennew, from the University of Nottingham has shown through the work of the Financial Services research forum, that trust is alive and well in the way customers think. And given our economic model this is surely unsurprising. In the Trust Index survey many institutions were well trusted with a mean score of 72%. Banks and other financial services providers were amongst the most trusted institutions, scoring more highly than the NHS who scored 55% and the BBC who scored 58%.

DIFFERENT LEVELS OF TRUST

Now to us working in the industry this might seen counter-intuitive but should it be? Well, I think most of our customers trust us to do the basic, commodity functions of our businesses well. The ATMs work, statements mostly arrive on time, salaries get paid in, bills get paid, savings are safe; when you crash your car the insurance nearly always pays up; when you get a small piece of plastic out of your wallet to pay it almost always works perfectly.

Unfortunately however given the recent issues in the global financial market cracks have appeared at even these most basic levels of trust. Witness the run on Northern Rock and those customers queuing didn't even have this very basic level of trust. In the actions that the government took with Northern Rock and more recently, RBS and Lloyds TSB, trust in the system has had to replace trust in our individual businesses.

TRUST-WORTHINESS IN FINANCIAL SERVICES

However even if you believe that we are still trusted at some basic level this feels inadequate. These feelings, I believe, come from our need to be respected, perhaps, a craving for deference long past, we want our customers to see us as trustworthy.

But the average UK consumer, doesn't think we are trustworthy. For many, if not most consumers, financial services providers are seen as a "necessary evil". How many times have we heard in focus groups – "better not to move because better the devil you know." The average consumer thinks that if the average banker can have one over on him, he will.

Is our poor reputation for trustworthiness deserved? Is Fred the Shred the exception, and actually our industry is just a story of hard-working, decent, ordinary folk?

At a surface level, especially for those of us that are marketers or responsible for communications, we have a lot to answer for. We spend much of our advertising budgets either pillorying each other or trivialising. My recent campaigns at Capital One have been about parodying the uncaring "bank manager"; Nationwide's advertising has more famously featured the stupid and dishonest bank manager leading the consumer to the conclusion that trusting a bank would be madness. We see the flim-flam of a Barclaycard Waterslide or Halifax pushing a shallow inducement to switch bank accounts for no other reason than a £5 a month cashback.

But are the issues that undermine trust more than surface communications? We need to ask the toughest question: is our poor reputation for trustworthiness actually a reflection of the truth. The consumer sees:

Personal pensions mis-selling, endowment mortgages that don't cover original principles, Equitable life, PPI fines, split capital investments, 125% mortgages, call centres moving off shore, exposes on pressure selling in bank branches, Sir Fred Goodwin taking his pension, Lloyds TSB paying out bonuses. The list goes on and on.

Bad practise cannot hide, and will be magnified by an unbalanced media. Transparency and access are the largest consequences of our information rich age. The internet and modern communications has delivered a level of transparency, speed of information flow, and access never before encountered by our businesses. Our customers have many more ways to interact with us, find out about what we are doing and share this information. We have taken the cost-savings, that the information age has offered: internet and telephone banking, has replaced the bank manager, application forms for credit signed in front of representative of the lending institution have been replaced by "one minute response" internet advertisements and web forms. All of this has depersonalised banking and broken many of the human relationships between our businesses and our customers.

The frightening, or is it liberating, thought is that maybe the much discussed "collapse of trust" in our society, is actually a re-calibration to a more accurate view. If our politicians, our churches, or ourselves aren't worthy of trust then why should we expect it to receive it. The age of blind faith has been destroyed by the information age.

Sadly however the result of this transparency, information flow, together with an unbalanced media, often leave the consumer in the worst of all possible worlds, confused, unhappy and dissatisfied but still dependent.

<u>RE-EXAMINE OUR BUSINESSES</u>

In order to restore trust we need to re-examine the way that we run our businesses. The complex basis upon which we have generated profits, built on capital markets and financial engineering, will I suspect be less favoured going forward. What I hope can replace it is a return to the fundamentals. Understand your customers needs and wants, build a business model that makes you money when the customer uses the product to fulfil that need, communicate in a compelling way and deliver on what you say you will deliver. This is the basic formula for trust in any market. If we do it the consumer will trust us more.

We need to look as an industry at a commonsense regulatory framework which is easier for the consumer to understand. For example going back to a separation between consumer finance and investment banking would make sense to the consumer in a world where they don't want bankers "gambling with my money". This will help restore trust.

I hope that we can work with our regulatory bodies, our customers, perhaps even the media, to forge a new concept of communication that leverages and manages the information rich age we now live in. We should put the consumer back into a relationship where they feel more comfortable and happier with the products and services they use, understanding of both their opportunities and limitations, empowering them to make good decisions for themselves in an open and transparent market. Whatever you think of Martin Lewis and his Moneysavingexpert.com, he has proved that with compelling content targeted at a key need – saving money –engagement in understanding financial products can move into the mainstream, according to his website his weekly email covers nearly 1.5m people.

I think we also are seeing more positive changes that will help to rebuild trust. For example the trend in call centres moving offshore has become more balanced with many more of us choosing to repatriate or invest in new UK facilities such as Abbey, Esure and HSBC. Or changes in the way that we communicate, there are many more attempts, irrespective of whether you think they are good or bad, to present positive benefits, such as the recent Natwest Employee based campaign or the Co-operative talking overtly about their values.

RESPOND TO INCREASING COMMOD-ITISATION

Some have said that actually we should ensure that financial services providers are not trusted so that it will keep us on our toes. But actually I think this drives a negative "gaming" approach to making a profit where the consumer feels like they need to game the system and we are forced to create business models where loyal customers pay for those that game. This is well exemplified by the Balance transfer market where customers who stick around effectively have to pay in higher interest rates to pay for those that switch constantly.

The trust rejectors say reduce everything down to price, then leverage the comparison tables on, for example, Moneysupermarket. Here lies the path to fully commoditised financial services with little or no ability for us to generate a fair return for servicing customers well and earning their trust and loyalty.

EDUCATE THE CONSUMER

An alternative might be to work together as an industry together with government and the FSA to build an approach that can step change the level of customer empowerment. Moving to a more open and transparent dialogue; investing as an industry to support an educated, empowered consumer. Starting to build back in a face-to-face relationship with our customers that allows trust in us as individuals within an enterprise, rather than just the faceless brand.

And for those brands that succeed in restoring trust, perhaps winning some respect and a reputation for trustworthiness, a more open and transparent market will deliver increased preference and ultimately greater demand.

Attempting to address these big issues as an industry in concert with others will help to restore trust and clearly indicate that it is not a lost cause but rather a source of profitability for the coming years and decades.

So in conclusion I believe that I have outlined to you why I believe that restoring trust is fundamental to the strength of our industry; and given concerted and co-ordinated action, whilst not denying that it will be difficult, it is certainly not a lost cause. Therefore I would strongly urge you to reject the motion before us here today.

Thank you.

Closing speech: 5 minutes (3 minutes written, 2 min for specific rebuttals)

I am struck as I have listened to today's proceedings by the genuine sense that we are at a turning point in the development of our economy and our industry. It is undeniable that trust is an important source of support to our free-market economy. When trust goes out of the window, as has happened over the past couple of years, the system comes under threat of collapse.

However we must recognise that today we live in a flatter society. The age of deference has gone. Whether we like it or not, transparency and the view of the man on the street is more important than ever. We are seeing a democratisation of everything from information, to tools, to access; and this includes financial services.

And so in the confusing and changing world how do we respond? In my opening speech I hoped to give you a sense of some of the, perhaps difficult, but commonsense, moves that we could make to restore trust and therefore conclude it is not a lost cause.

But over and above these steps I think we need to reframe the challenge from the fatalistic and somewhat lazy – "is restoring trust a lost cause?" into one that puts restoring trust as an imperative to a new conception of the role of financial services providers in our society.

Through the crisis we are currently experiencing we have an opportunity to recast the financial services industry as a creator of social good, not just through tax contributions, and profit to pension funds, but directly through our innovation.

The issues facing us today as a globalised society are bewildering: climate change, peak oil, water crisis, natural resource depletion, all underwritten by uneven wealth distribution, poverty, crime, conflict, increasing urbanisation. These issues are moving more quickly and in a more interrelated way than ever before – it is often frightening. We have the opportunity to move away from an age of naked consumerism to something more balanced and sustainable perhaps putting individual happiness first.

Imagine a world where a conversation in the bank, with a bank manager, could actually assess whether a credit card to fund that new purchase, or a stretching mortgage to buy that bigger house, were actually discussed in a holistic context putting individual happiness at the heart of the discussion.

On the strategic level how do we use the unbelievable talent of our financial innovators to contribute to the solution of world problems whilst also turning a profit. The European Carbon Emissions Trading Scheme and the futures markets for protection of Amazon land, are all examples of financial markets contributing solutions.

Old and new models that are more sustainable and built on trust are being actively explored. Alastair Darling has signalled in favour of mutual societies and credit unions. Grameen Bank, banking for the poor, has built a healthy business in Bangladesh, built on trust, accountability and creativity. Zopa, the internet marketplace for loans from individual to individual, has created a growing business built on a new model, bypassing the banks, which sees lower charge offs for a given risk because of the accountability and trust they have built in their system.

And whilst this broader call to arms might seem ambitious and demand too much change, we have no choice but to change, for the model we have run over the past 25 years has delivered crisis and collapse. The choice is what to change into.

After all is said and done what our customers will trust are organisations that have values communicated through their actions, run by accessible and open people, businesses that value their loyalty, and seek to create profit by creating products which meet their needs transparently. They will trust brands that communicate openly and positively about the many benefits we provide. They will move from basic levels of trust when our businesses start to play for higher goals.

Far from being a lost cause, we have the exciting opportunity to respond to this crisis by putting trust at the heart of our actions in the coming years, both tactical and strategic, balancing both the practical and the pragmatic with new concepts.

The first step in what will be a long journey is voting against this motion before us here today.

Thank you.

REBUTTAL 1:

The argument you are rebutting:

Why you disagree / another way to think about it:

A piece of evidence contrary to the argument:

Summary of why you reject:

REBUTTAL 2:

The argument you are rebutting:

Why you disagree / another way to think about it:

A piece of evidence contrary to the argument:

Summary of why you reject: