Stand out for the right reasons

How financial services lost its mojo – and how it can get it back

We chart the decline of the relationship between the UK financial services sector and its customers, and consider what companies might do to rebuild trust with todays apathetic customer.

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Foreword

Financial services companies expect their customers to make a leap of faith: they want those customers to trust them with their money.

One legacy of the financial crisis, however, is a comprehensive loss of this trust. Worse, our research suggests that customers now feel they have nowhere to go. They feel frustrated and apathetic towards financial services companies because they think they're all the same.

Many customer-focused organisations will feel that perception is unfair. They may even be right. Nonetheless, tackling this apathy must now be an over-riding priority for all financial services companies. Those who don't change now, and those who don't make the right changes, risk going further down the road where today's politicians find themselves – the people they are trying to reach have stopped listening and will only pay attention again when something genuinely different comes along.

The implications of this are obvious. For those sitting on a large and apparently stable market share, the complacency risk is substantial. For those able to establish points of differentiation in the customer experience they offer, the opportunity is exciting. It is to break through customers' apathy and quickly establish a new, loyal and lucrative customer base. Who might do this? Potentially incumbents who find a new formula. But equally the change could come from the growing number of new entrants to the financial services sector – including start-ups and established brands in other sectors – that are not burdened by the same baggage as the incumbents.

Over the coming year, we will be publishing ongoing research on the risks, regulations and megatrends that are changing the landscape for financial services. And in particular we will explore the changing. demands and expectations of customers and other stakeholders; the opportunities and threats posed by demographic, environmental and macroeconomic forces; and the disruptive power of new technology.

In this point of view, based on extensive public research, we chart the decline of the financial services industry's relationship with its customers. More importantly, we also discuss how companies might begin to repair the damage and adapt their business so that they can once again stand out for the right reasons. It may be a long journey, but now is the time to start.

Methodology

This point of view is based on a recent online survey of 2,015 adults (aged 18+) in the UK. The results were weighted according to nationally representative criteria. The survey was carried out by Opinium Research (www.opinium.co.uk).

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Trust has been eroded

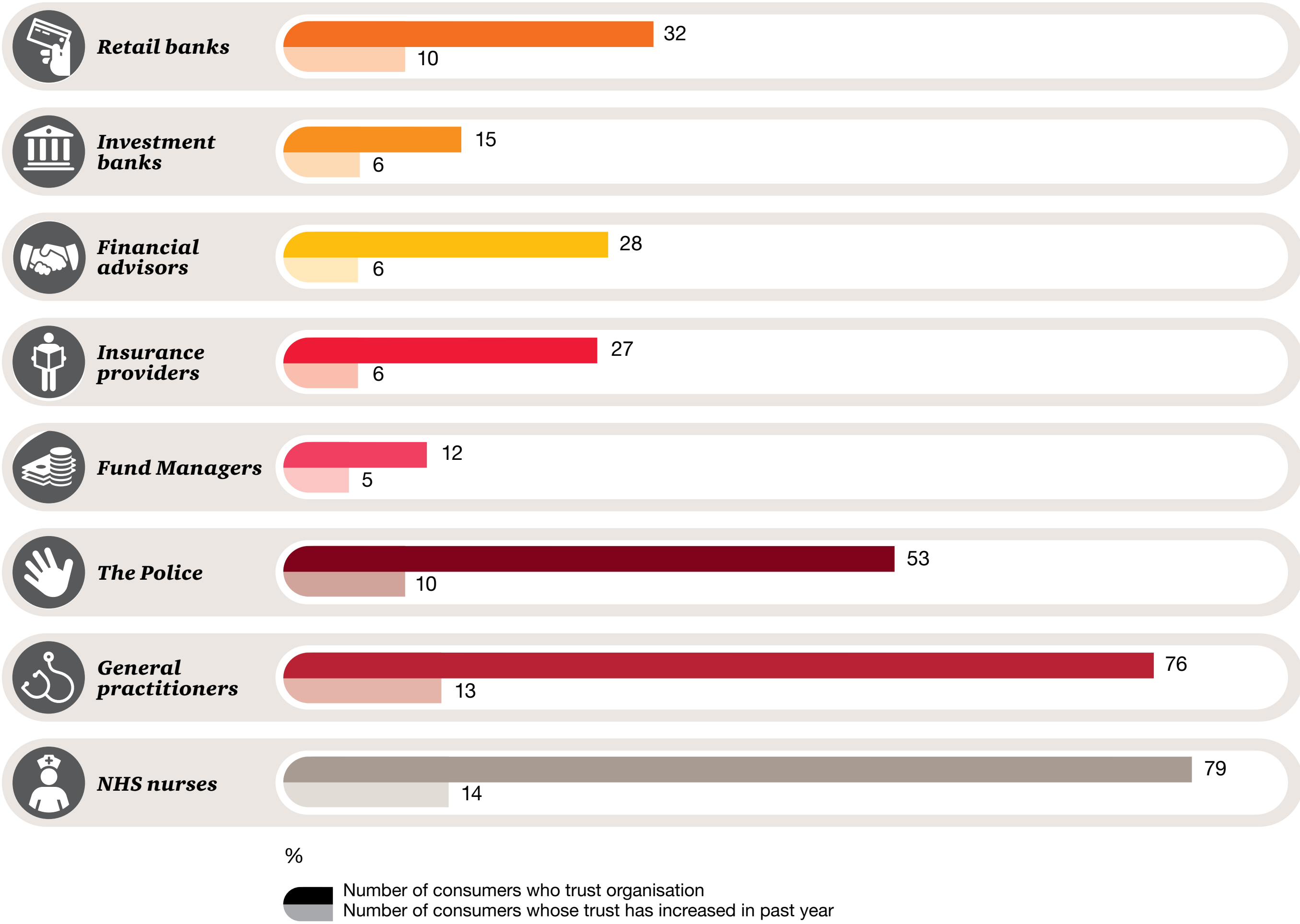
The financial services industry's customers have seemingly given up on it. After years of perceived poor service and a litany of scandals, one word sums up their feelings about banks, insurers, fund managers and other product providers: apathy. Specifically the type that stems from frustration. This is the worst possible state of affairs for incumbents – having a customer base that is both unresponsive and at the same time potentially volatile and unpredictable.

Our research reveals just how low trust in financial services companies has now sunk. For now, consumers' lack of trust is indiscriminate. As the data visualisation on the right reveals, fewer than than one in three consumers now trust their bank, while for other types of financial services company, ratings are even lower. The fact that certain types of institution have been at the forefront of industry issues in recent years has not prevented other organisations from suffering reputational damage. For example, fund managers, which played little or no role in the financial crisis, appear to be the least trusted of all financial services firms.

The message is that many consumers assume financial services businesses are 'all the same'. This is the challenge that companies must now confront – those that do so successfully have an opportunity to break through the apathy and win new customers. In our view, this will require genuine cultural change where the customer comes first and the product comes second.

Table 1: How trust in financial services firms has been eroded

How much or little would you say you trust each of the following organisations?



What's driving the apathy?

How has this happened? One answer is of course the financial crisis, but this isn't enough to explain the deep sense of apathy that now prevails. The more pertinent question, then, is what is driving this apathy?

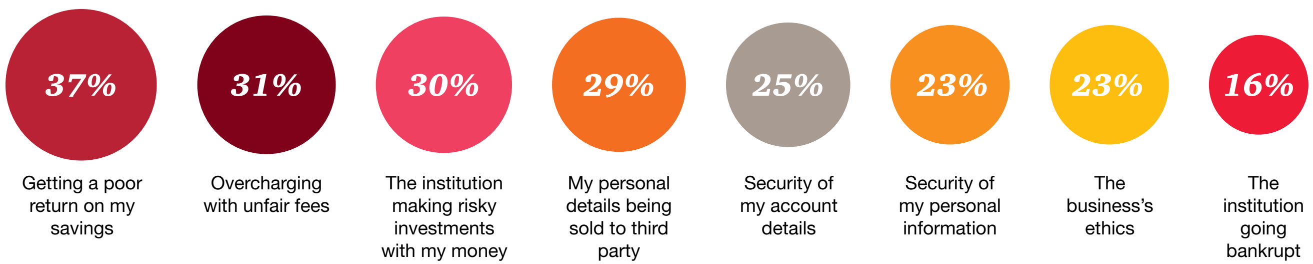
The obvious answers are the seemingly incessant wave of scandals; the general perception of overpaid financial services executives; the feeling that policies and regulatory responses have yet to deliver real change; and the absence of other remedies for customers to resort to. The usual customer sanction of withholding custom is not realistically available because providers are all viewed as being as bad as each other and, at the end of the day we all need bank accounts, pensions and, insurance cover.

This is where regulation is meant to come in. But even here, despite an explosion of new rules and the imposition of record fines and compensation awards, customers are hardly impressed. It all feels like punishment rather than rehabilitation. The greater the punishment, the greater the sense of wrongdoing and the more enduring the punishment, the lesser the sense that anyone is learning any lessons from it!

This is toxic – firms that get the point and are desperate to find a way forward are finding that their customers have stopped listening. Paradoxically, such is the intensity of regulation, and such are the sanctions for regulatory breach, that firms are hard pressed to remain focused on, and invest in serving the needs of the people for whom the regulators stand as proxy – customers.

Table 2: Consumers' most significant concerns

Which, if any, of the following would you say you are most concerned about regarding the way banks and the financial sector handle your money?



Our evidence for this is as follows: although almost one in two people (49%) believe regulation of the financial services sector has been strengthened in the wake of the crisis, a greater proportion (57%) do not believe the reforms that have been implemented are sufficient to ensure that history will not repeat itself.

As another example, a key public debate over regulation in recent times has been whether and how to isolate and protect retail banking from riskier banking activity. Whatever the merits of this, customers are unmoved: more than one in two consumers (58%) say their decision to use the services of a bank is not influenced by whether it operates in wholesale markets as well as in the retail sector.

The issues that worry people about the financial services sector are more fundamental and broader than regulation. As table 2 reveals, on the Prudential side, only 16% of consumers say that the possibility of their institution going bankrupt is a significant concern. While this figure is no doubt far higher than it would have been prior to the financial crisis, other issues are considerably more pressing. On the Conduct side, the emphasis on transparency and disclosure doesn't seem to hit the mark either: rather, customer concerns are on a broad spectrum of value-for-money, service quality and trust issues.

At the root of all this, it appears consumers do not trust financial services companies to serve them well and protect their interests. Poor returns are the most common concern for consumers and while this may partly be a reflection of the current low interest rate environment, the same cannot be said of high charges and unfair fees, the next most frequently cited worry.

These anxieties are driven in a number of ways, as table 3 reveals. Consumers' personal experience with financial services providers is generally the most significant factor in determining the level of trust (the exception being for investment banks, where consumers have little direct contact with the sector).

Equally, however, other people's opinions are crucially important. Press coverage is cited as a major influence by almost a third of consumers – this is bad news for the financial services sector given the ongoing and relentless drip of negative articles about its activities. And with the views of friends and family also cited as important by large numbers of people, there is a danger of the spiral of trust erosion developing further, as the financial services sector's customers constantly reinforce each other's negative opinions.

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Table 3: Influences on people's trust in financial services providers

What are the most influential factors affecting whether people distrust financial services providers?

Repairing trust and overcoming apathy

The scale of the challenge may appear daunting given the lowly trust ratings that the financial services sector currently scores with its customers, but this is a battle to be fought on many fronts.

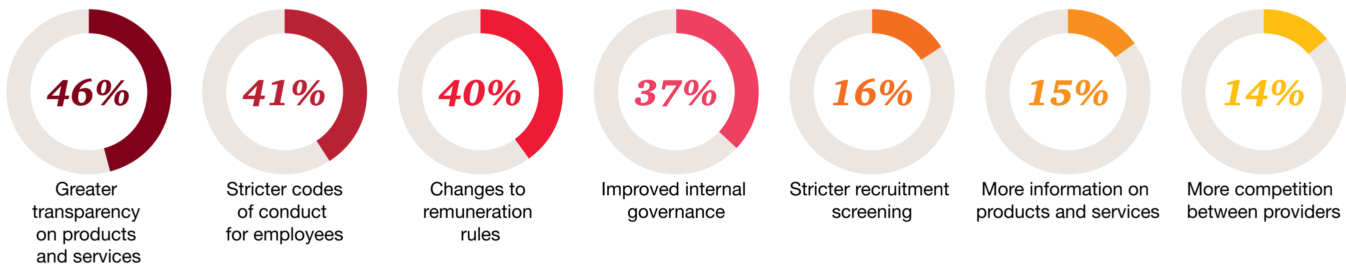
The financial services industry's traditional response to concern about consumer mistrust has been to stress goals such as greater transparency and improved financial education. However, table 4 suggests the impact of further work of this type might be relatively limited, at least in isolation. Though greater transparency is the single improvement most likely to rebuild consumer trust in financial services, even here fewer than one in two people (46%) would be impressed by such changes.

This low score may reflect a number of factors. For one thing, many consumers do not believe they need greater transparency or better information to understand the financial products they have. As table 5 reveals, large numbers of customers already believe they have a good understanding of their products.

In any case, consumers are not inclined to seek advice from product providers or to trust the information they receive. Table 6 reveals that fewer than one in two consumers would turn to product providers for advice, while fewer than one in three trust these companies to be impartial. Insurance providers score especially badly on these measures.

Table 4: Factors that might improve consumer trust

Which of these changes would make you more likely to trust financial services providers?



If not transparency alone, however, where should the focus be for financial services companies that are seeking to repair their battered reputations? Well, the first point to make is that despite the headline findings on how well consumers understand financial products, there is still a role to play for better financial education – and particularly for providers to engage with their customers more effectively. The answer is not to push out more and more product disclosure, but to guide customers through their choices in a way that is relevant and meaningful to them. Customer engagement and empathy over product disclosure is the point here.

Moreover, the lack of trust in the financial services sector partly reflects a failure of providers to articulate the value they are offering, leading to suspicions that their overwhelming priority is to make short term profits. Overcoming this suspicion is particularly difficult in the case of products and services which are inherently transactional or where customer touch-points are limited – annually renewable insurance policies are a good example – but providers must find new ways to explain the services they are providing, encourage consumers to voice their goals, priorities and expectations, and to respond to these.

Taking genuine and conspicuous steps to satisfy these goals etc., especially where there is no obvious short term gain – or even a clear cost – to the provider, is a response we're starting to see more of.

Table 5: Consumers' understanding of financial products

How well do you understand the financial products you currently have?

Product	Understand (%)	Do not understand (%)
Personal loan	90	7
Savings account	88	9
Credit card	88	9
Current account	87	10
Direct stocks and shares	86	11
Home contents insurance	86	12
Buildings insurance	85	12
Cash ISA	85	12
Motor insurance	84	12
Electricals/mobile device insurance	84	12
Stocks and shares ISA	82	15
Mortgage	82	13
Health insurance	81	14
Life insurance	80	17
Private pension scheme	73	25

%

Understand
Do not understand

Building closer links

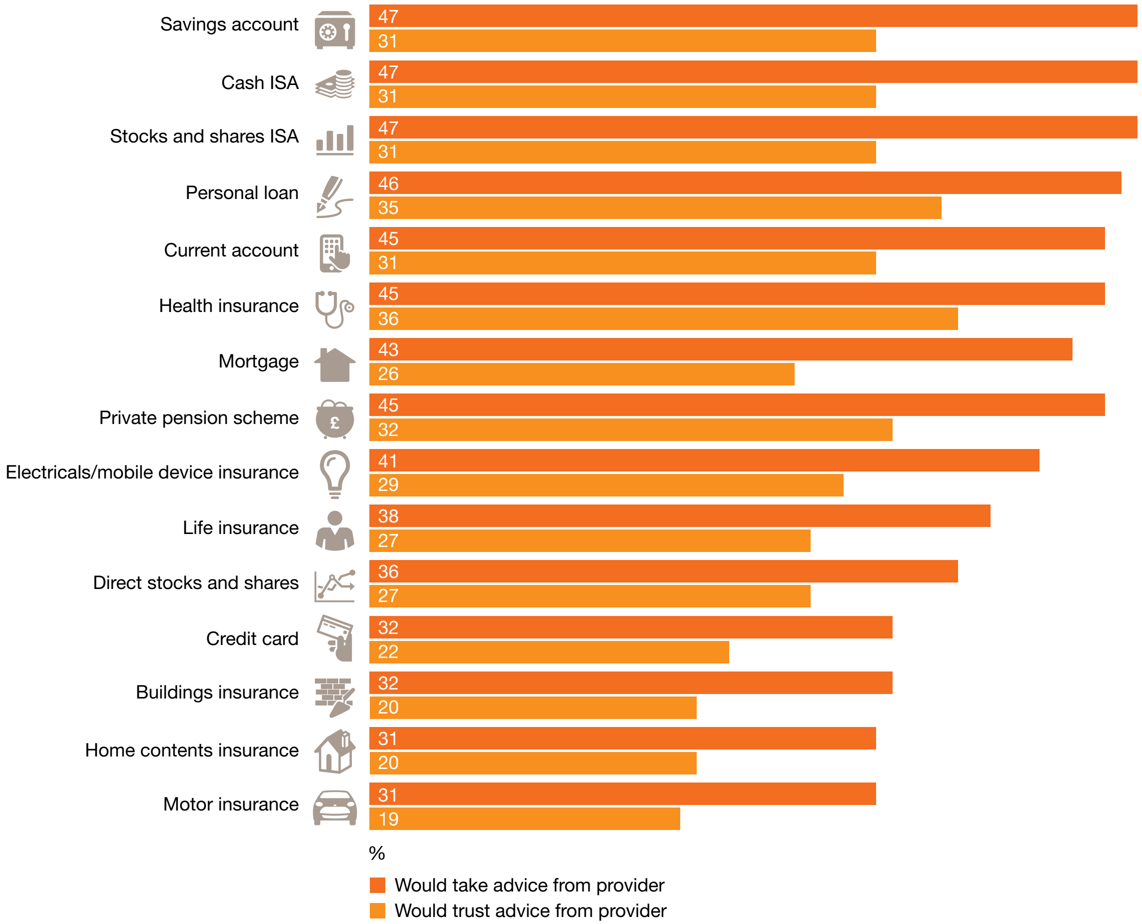
One leading life and pensions provider used this year's Budget announcements to help it move closer to customers, contacting all those who had recently bought an annuity. It warned them that they might wish to reconsider in light of the Chancellor's reforms and offered them the opportunity to do so without penalty or cost.

Similarly, a bank has established a system of warning customers when they're at risk of becoming overdrawn and suggesting remedies, rather than waiting for it to happen and hitting them with a fee.

Financial services companies must also do a better job of explaining their business practices. The evidence of this research is that consumer perceptions are heavily influenced by factors such as business ethics, executive remuneration, and governance, so companies must work harder to explain their approach to these issues.

Table 6: Sources of advice for consumers

Where do you look for financial advice and would you trust the advice given by product providers as impartial?



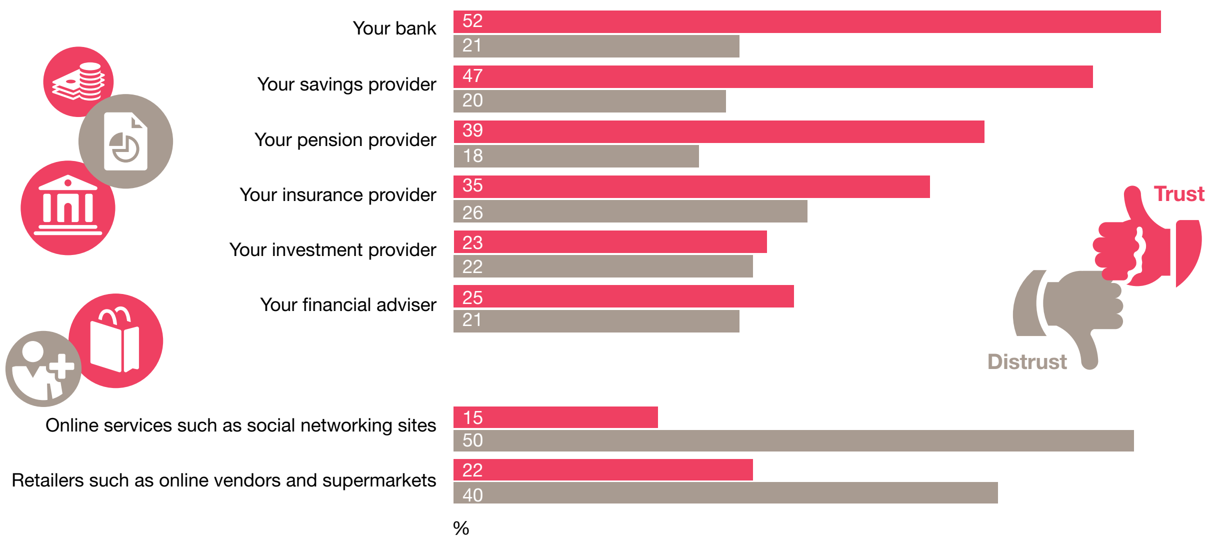
It will also be important to look for new ways to develop stronger relationships with customers, building on areas where they are relatively well regarded. For example, data privacy and security may represent a particular opportunity for financial services companies to rebuild trust and facilitate greater customer engagement. Digital commerce is clearly a growing phenomenon – to which financial services are well suited – and this is likely to be a key battleground going forward both between incumbents and also for challengers. As table 7 reveals, people consistently rate financial services companies ahead of businesses such as retailers on their data practices. The opportunity here is for financial institutions to deploy their existing reputations as relatively trustworthy custodians of customer data in this particular battle.

A safe place for data?

One large US bank has been working on a project that would see it serve as a trusted intermediary between customers and all their password-protected online contacts, providing a single, secure point of entry to these site – and boosting its value to customers.

Table 7: Financial services companies are more trusted to securely hold data

Which of the providers that acquires information on you do you trust to hold this data securely?



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Give and take on data

Customers are prepared to share data with banks where they believe they have something to gain. One bank has begun testing a technology that monitors the GPS signal from customers' phones in order to check they are actually in the location where their card is being used to make a purchase. If not, the retailer is told to decline the transaction.

Utility versus added value

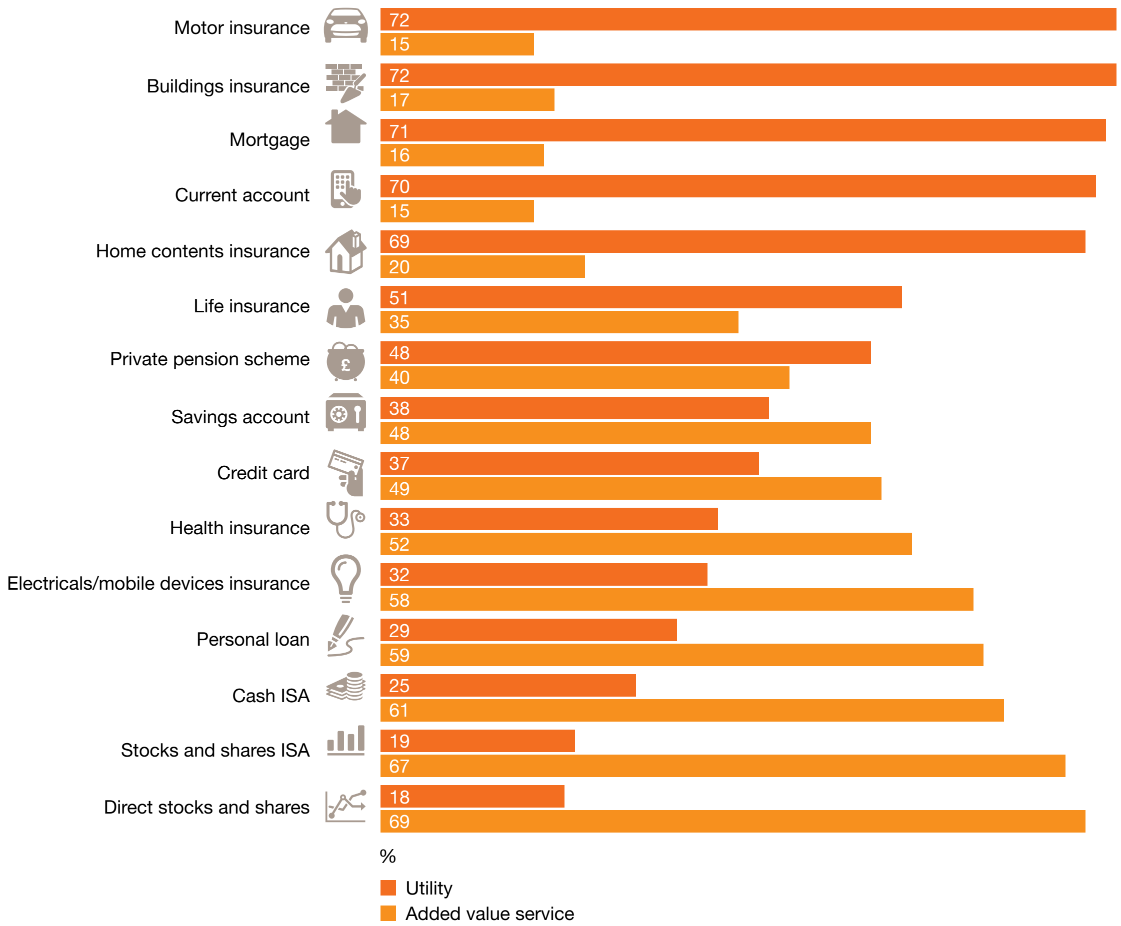
Making these shifts will not be easy – not least because different customers want different things from different types of product and service at different stages in their lives. As table 8 reveals, consumers regard financial services through different lenses: in some cases viewing them as basic commodities to satisfy life's basic every-day needs (utility); and in other cases viewing them as more discretionary or offering more scope for quality differentiation (added value service).

Products such as basic insurance contracts, current account banking and mortgages are typically seen as utilities, necessities required in order to cope with everyday life. At the other end of the spectrum, savings and investment products are more likely to be seen as offering scope for added value through being configured to individuals' needs, for example.

At one level, this can give some clues as to where to try to build differentiation and offer premium or bespoke services. And where to just focus on price. But this is too simplistic and, worse, it betrays a still product-centric (or product profitability-centric), as opposed to customer-centric (or customer value-centric), mindset. To state the obvious, financial products and services only create value for customers insofar as they generate or facilitate a net positive outcome or experience. This could just as easily result from a bit of care and attention in the delivery and

Table 8: How people view financial services products

Do you see the following products as utilities that are essential for everyday life, or added value services?



aftercare of a 'utility' product that actually matters a lot (a mortgage, for example, or a health policy) as from some cleverly constructed premium wealth product that is more discretionary. In the mortgage example, the payoff to the provider may go well beyond the profit margin in the product, driven by the loyalty or advocacy that results from the customer's experience. And it may amount to more than is captured in the premium pricing of the wealth product.

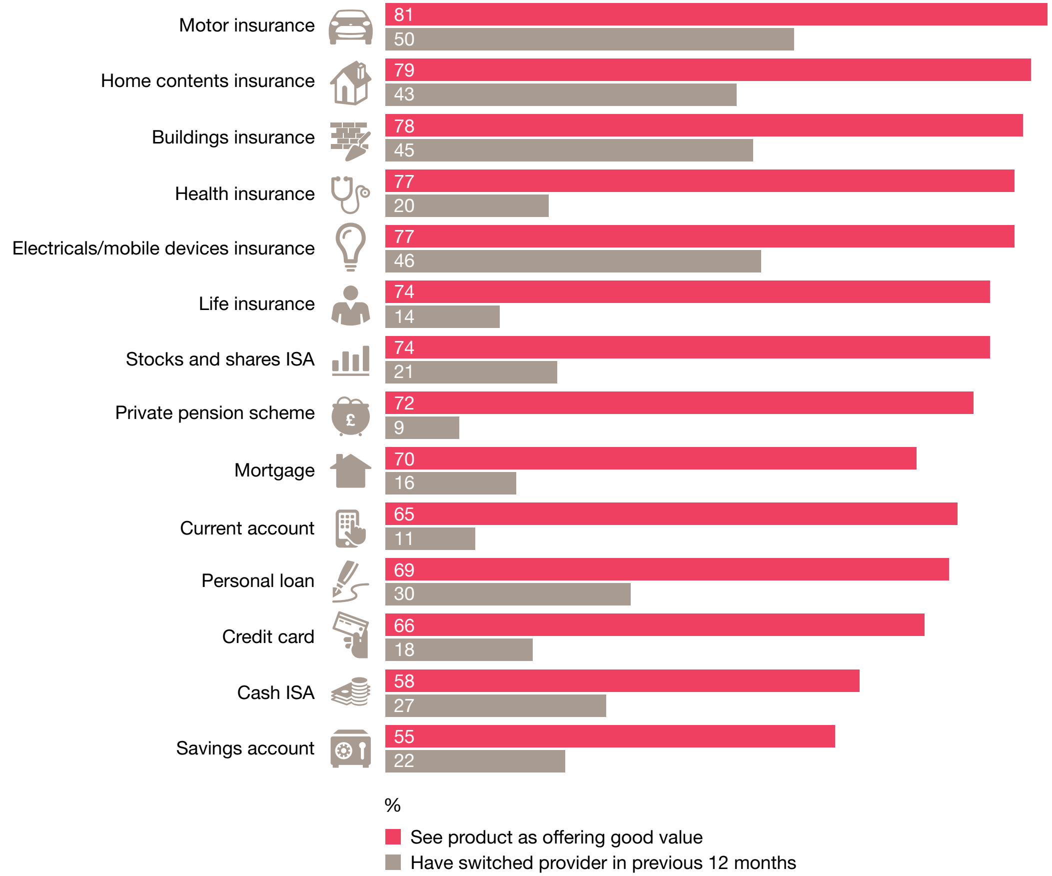
Although the human element is an important ingredient in this, it doesn't have to mean a return to high touch, heavily staffed and therefore high cost operating models. A bit of ingenuity in design and delivery can go a long way, as in the simple example of adding breakdown cover to a motor insurance policy. Here, the point should be to try to make customers' lives a bit simpler as they go about providing for the possibility, or dealing with the reality, of a motoring mishap. (If you view this as an example of leveraging sales effective or cross-selling product you have probably missed the point).

At a more mundane level, just taking steps to bolster the basic quality attributes of existing products and services – such as accessibility, security, usability and dependability, as well as price – would be a good start in turning the customer experience around.

The goal must be working out what will cut through the apathy. Very sizeable numbers of consumers believe the products and services they procure do not offer good value – between a third and a quarter in the case of most of the products and services in this research – yet they rarely change providers.

Table 9: Poor value doesn't persuade people to switch

Do you see the products you hold as good value and have you changed provider within the last 12 months?



The highly commoditised general insurance sector is the exception to this rule, but in most cases, customers are not yet acting on their unhappiness. Almost a third of consumers (30%) believe their current account does not offer good value, for example, yet only 11% have changed banks in the last 12 months.

One issue may be that providers are too focused on price – another symptom of the product-centric mindset where customer value is viewed in terms of competitive product pricing. Asked what it would take to persuade them to switch provider of products such as savings accounts and mortgages, consumers often demand quite sizeable savings or gains – a sum between £25 to £100 a month is the most common answer. This can be viewed as the monetary expression of their apathy.

Nor are consumers prepared to spend a great deal of time researching the market. In the case of most products, at least 40% of people would not be prepared to spend more than two hours looking into alternatives to their current providers.

One implication of this is that competing on service – more so than on price – should be the main priority in winning customers over, for incumbents and challengers alike. It also implies that, when it comes to service, the criteria for what constitutes quality service should be defined broadly.

Take table 10, for example, which looks at the reasons why those people who have switched current account provider in recent times chose to do so. Price was a factor for just over quarter of these customers, but exactly the same number listed customer service, while the online offering of the new bank was even more important. Other significant factors included the number of branches the bank could offer and the other benefits available with the account. Personal recommendations were important too.

Table 10: Price is just one part of the outcome

Which three factors were most important in your decision to change current account provider?

31%	Ease of online banking service
26%	Better rate of interest
26%	Quality of customer service
22%	Change in personal circumstances
20%	Recommendation from friend or family
19%	Number of branches
17%	Better additional benefits
14%	Bank's ethics
7%	Cheaper overdraft

Delivering and articulating better customer outcomes

Price does not equal value in financial services and consumers increasingly understand that. Two-thirds (66%) of people say, for example, that they are aware supposedly free banking services often carry additional costs such as higher penalty fees or lower interest rates.
The challenge now for financial services companies is to do a better job of articulating the value that they do offer – and of explaining themselves in situations where there is scope for disappointment.

The issue of complaints provides a good example of the latter. As table 11 shows, fewer than one in two consumers who have complained to a financial services company about mis-selling or another problem said they were satisfied with the way the problem was handled and the result. While the research shows that complaints in the sector are generally acknowledged and dealt with quickly, the high dissatisfaction rate suggests that the emphasis is on processing and discharging complaints rather than fully resolving customer concerns and addressing root causes.

One common industry gripe is that customer concerns often reflect unrealistic expectations, implying that better communication and education could help rebuild trust. However, there is a chicken and egg problem here: for now, fewer than half of consumers are likely to accept financial advice from product providers – people do not expect the sector to offer impartial information, or even see it as an obvious source of product information. This must change: companies must be perceived to have their customers' best interests at heart at all times and in everything they do.

In this context, it is significant that so many people cite personal recommendations as important in their choice of financial services provider. This reflects the difficulty of comparing an existing provider with a new one – where online comparison services are useful for comparing price, they are far less useful on other criteria.

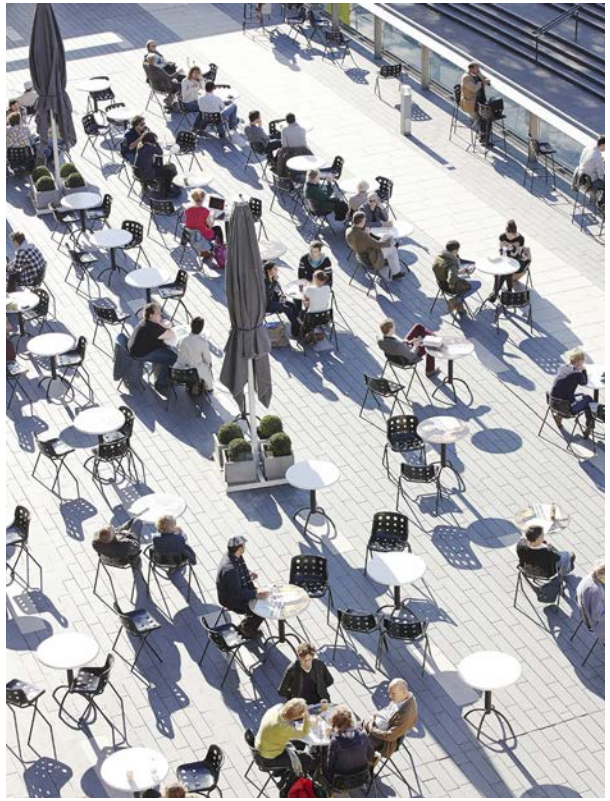
Providers are just beginning to find ways to address this issue, but more work is needed here. One possibility might be for partnerships between providers and independent assessors of attributes such as service quality, in order to generate more information for consumers making buying choices.

Table 11: Complaints failures highlight the lack of trust

Were you satisfied with the outcome and handling of your mis-selling case or complaint?

Sharing customer experiences

One leading insurer is currently asking all its customers to review their experience of the company and then sharing these reviews, whether good or bad, online for other customers to see – much as the travel industry has been doing for years. This openness about its relationships has substantially improved the company's approval ratings with customers.



Conclusion

All is not lost. Given the torrid time the financial services sector has suffered in recent years, the residual level of trust in the industry might be regarded in a more positive light. The historic relationships that providers have built with consumers – who still trust them as guardians of their finances, if not as customer-focused service providers – endure, and offer a foundation on which to build for the future.

The high scores of financial services companies on data are a case in point: trust in the industry may have been seriously eroded by crisis and scandal, but the residual confidence should not be underestimated. Financial services companies may no longer be expected to offer good value or service, but they are at least trusted as reliable custodians.

In fact, digital technology can be a game changer. It is not just that consumers value the new services and experiences that it is possible to provide via these tools – though they very much do – but also that digital channels offer the industry quick and affordable options for testing new ideas that may help them to restore trust, and to continuously adapt to the feedback they get from customers.

At the same time, digital also represents a huge threat to incumbent financial services providers. The advances of the last decade have powered a new generation of would-be challengers to the established players, in fields ranging from peer-to-peer finance to supermarket banking. With no baggage from the financial crisis or regulatory scandals, these new entrants have an opportunity to win the consumer trust that the traditional financial services sector has lost.

Trust in the industry may have been seriously eroded by crisis and scandal, but the residual confidence should not be underestimated.

Ultimately, this all translates to the quality and resilience of financial institutions' brands, not in the sense of logos and colour schemes, but in the sense of the expectations that exist in the minds of customers and other stakeholders of consistent, superior service provision. With the traditional barriers to entry becoming eroded – or becoming harder and more costly to sustain – brand has becoming the critical strategic asset of the future, and financial institutions must therefore rediscover their mojo with customers to stand out for the right reasons.

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Stand out for the right reasons

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Protect

Adapt

Repair

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We support you in four key areas.

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- We help you to prepare for issues such as technical difficulties, operational failure or cyber attacks. By working with you to develop the systems and processes that protect your business you can become more resilient, reliable and effective.

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- Even the best processes or products sometimes fail. We help repair any damage swiftly to build even greater levels of trust and confidence.

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