James Daley, Fairer Finance "improving accountability to consumers"

I want to start today with a statement – a statement that I hope many of you will agree with, and something that I believe so strongly that it led me to set up Fairer Finance 18 months ago.

Every major scandal in the retail financial services industry over the past two decades has – to a greater or lesser extent – been caused by the prioritisation of shareholder over customer interests.

If you're the CEO of a PLC – the corporate structure that's most common in the financial services industry – your job is to maximise profits to shareholders.

In a perfectly effective retail market, you should only be able to do that by looking after your customers and winning their loyalty. Sainsbury's keeps my business as a grocery retailer by offering me convenience, good customer service – and if my shop could have been bought more cheaply at Tesco's, it even sends me a voucher for the difference. Sainsbury's knows that I know the price of the key items in my shop – and that if it tries to rip me off, I won't hesitate to take my business elsewhere. So it fights hard to keep it.

But financial services is far from being an efficient market. Its complexity means that most consumers do not understand anywhere near enough to make the best decision for their needs. Unlike their grocery shop, where they buy the same products week in week out, they may only make some financial purchases once. So they have no idea what good value looks like.

If you go to Moneysupermarket to buy a life insurance policy, you may assume that the selection of prices represents all your options. In fact, MSM takes a hefty commission, which you wouldn't have to pay if you bought from a discount broker. But how is the average customer going to know that? They will probably only buy life insurance once in their life.

So we start with inefficiency. And to that, we add the toxicity of the stock market, where quarterly reporting puts pressure on boards not just to deliver profit, but to deliver quarterly increases in profit, and double digit returns on capital each and every year.

Faced with such pressures, most companies take the easy road – exploiting their customers' lack of knowledge, and their apathy.

It does not start quite as cynically. The CEO does not sit round the board table like Blowfeld, stroking his pedigree cat, and cooking up plots to abuse his customers. But he sets the ball rolling by incentivising his senior managers to go forth and do whatever it takes to deliver his targets – incentivising them in such a way that means they will profit to a great extent personally if they succeed.

They in turn pass down the targets to their product and sales teams, and at each level, staff are incentivised to maximise revenue.

At the lowest points in the financial services industry's history, this culture resulted in products being sold to millions of people for whom they simply weren't suitable.

If they were suitable, they were grossly overpriced.

This is not just PPI. This is mortgage endowments – where people with low appetites for risk were sold high risk products to meet an essential need. If it were not for the fact that property prices have increased so greatly over the past two decades, the fallout from this scandal would have been 10 times worse.

Card protection policies – insurance policies that protected people against card fraud – a protection that they already had for free, enshrined in regulation.

Precipice bonds. Investments that promised the earth – but only if the unthinkable didn't happen. And of course the unthinkable did happen – and people lost thousands of pounds.

Perhaps the first lender who sold PPI had the best of intentions. But as the second and third lender caught onto the idea, each modified it in ways that maximised their profits, rather than increased the utility for their customers.

In any efficient market, people would realise they were being charged too much, or understand that they didn't need what they were being sold. But not in financial services.

Over the long run, perhaps they come to discover the truth. But even when they do, many customers feel that all financial services companies are the same – and figure that it's just not worth switching. They don't even bother to register their discontent by voting with their feet.

So this is an industry where you can not only get away with behaving badly - but you can be rewarded for it.

This conflict between shareholders and customers is a real problem – and was never more evident than during the financial crisis of 2008, when banks such as Northern Rock, Bradford & Bingley, RBS and HBOS all but went bust after playing roulette with their customers' money.

With such a backdrop, it's astonishing to me that the mutual sector has not been clearing up over the past few years.

As banks and insurers have been discredited by scandal after scandal, trust in the financial services sector as a whole has sunk to all time lows– and the mutual sector has been best placed to take the moral high ground and show that its

freedom from the shareholder/customer conflict allows it to do things differently.

Why has it not been able to capitalise on this advantage?

Sadly, in many cases, it was because mutuals had been busy dipping their toes in the same waters that the banks had been playing in.

Although mutuals don't have the same conflicts between shareholders and customers, the culture in the private banking and insurance sectors leaked over into many insurers – with many executives moving over to the mutual sector, and expecting to be rewarded with similar incentive packages to the ones that were common at their previous employers.

Mutuals naturally need and want to make money – to sure up their capital positions, and to offer ever better deals to their customers.

But in some cases, management lost sight of the bigger picture, and prioritised profit over customer outcomes.

Five years ago, I spoke at the Building Societies Association conference and named and shamed a number of organisations that were selling poor quality structured deposits – which promised much more than they delivered.

The credit Suisse ones were by no means the worst – but what was so surprising about these was that they were mostly being sold by building societies.

They typically offered returns of up to 60% over six years – but what they didn't shout so loudly about was that to achieve those returns, the stock market had to increase in 12 consecutive six month periods. A quick check back in the history books and - yep, you guessed it – that has NEVER happened.

I was all but booed off the stage by delegates who were furious at my insinuation that they weren't acting with integrity. Customers had told them that they wanted a product that offered stock market returns without the risk of the stock market and here was the solution.

It's no surprise that customers want to have their cake and eat it. But the right thing to tell customers who put forward demands such as these would be to explain that high returns do not come without risk – and refer them to a financial adviser. The right solution was not to create a product which looked like it did what they wanted – but which was unlikely to ever achieve the returns that it boasted – and which could leave them with a quite hefty negative real return after 6 years.

Last year, the largest of the offenders that I named that day – along with the big investment bank who was providing the product – were both fined by the FCA for the way the products had been marketed. I wonder whether some of the other smaller mutuals may also be hauled over the coals in due course.

Anecdotally, things do seem to have improved in the mutual sector over the last few years. Nationwide – which I think lost its way for a while towards the end of the last decade – seems to be living and breathing the virtues of mutuality, and succeeding as a result. It's making much more of its ownership structure in its advertising – and it has produced some products which demonstrably offer better value to customers than those offered by their competitors. Tangible benefits of mutuality.

Outside of banking, LV and NFU Mutual have also been making progress – winning awards for their customer focused approach, and slowly picking up more and more customers as a result.

Last month, we updated our ratings at Fairer Finance. And I'm pleased to say that mutuals put in a strong show at the top of our tables. Indeed, Coventry Building Society is top of both our new savings and mortgage tables. While LV is top of travel insurance – and Nationwide, NFU Mutual, YBS and others put in good shows across multiple categories as well.

Our ratings look at customer perceptions of the business, complaints data as well as what we call our transparency analysis. That's basically a walk through the purchase journey looking at whether companies are telling customers what we think they need to know – and that includes an analysis of their documentation.

Mutuals are doing well – but they are not head and shoulders above their competitors.
On complaints, companies like LV, NFU and Royal London still have as many as a third of insurance complaints being upheld in the customers' favour at the Ombudsman. That's a worrying statistic.

By the time a complaint gets to the Ombudsman, a company has already had its chance to put things right. It may be impossible to get uphold rates down to zero – but it's surely possible to get them down to low double digits. Every customer who fights a complaint all the way to the Ombudsman and wins is another detractor who is not singing the praises of the mutual sector.

Many mutuals also still have compliance driven cultures that produce documents that would make no sense to the average consumer. Even where I have no doubt about their integrity and priorities as an organisation, they are rarely living and breathing this at every turn.

Often there's a feeling that as long as we're doing right – then the paperwork is secondary.

I think that's a short sighted view. Mutuals have a vital role to play in helping rebuild trust in the financial services sector – but by relying on the same confusing and complex small print as their competitors, they look no different from their shareholder owned peers.

The window of opportunity may be closing. The regulatory landscape is changing – and the FCA is starting to be much more proactive in its drive for transparency and fairness.

One of the ways that we make our money at Fairer Finance is by working with companies to review and even rewrite companies' terms and conditions. More and more companies are starting to invest in this part of their business – committing to finally creating literature which is presented in a language and format that their customers can understand.

It's not hard to see a world where mutuals are playing catch up here – rather than leading the way.

Customers are rightly sceptical of financial services organisations. If mutuals are to press the advantage afforded to them by their ownership, then they must ensure that they are treating the customer well at every single touch point.

That's not just about how you present the small print – although that is important. Up to 16 million adults have the reading skills of an 11 year old – and some of them are your customers. How many people in this room can say that all their documents are accessible to an 11 year old? I'd wager that none of you can make that boast.

But treating your customers fairly and being transparent is also about going further and giving consideration to where your customer is on their financial journey. Is this the first or 10th time they are buying a product – and if it's the first – what are you doing to help them make the right decision?

Even if it's the 10th time, what are you doing to clearly set customers' expectations?

To be an organisation that truly treats customers fairly, you need to be able to say that you have done everything to help your customer make the best decision for their circumstances.

If you know that no one reads the small print, then what else have you done to try and get your message across?

There's a point at which the responsibility shifts to the customer– but that point only comes when you can truly hold your hands up and say that you did everything you could to try and help the customer make the right decision. Everything.

This is an important time for mutuals. The FCA is a different regulator to the FSA. It's much more proactive and is busy pushing the industry to do better. Mutuals have already missed an opportunity to take advantage of their lack of conflict. And if they don't press this advantage soon, they may soon find they never get the chance again.