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# viewpoint

Keeping you connected to today's UK financial services market

**Welcome to the fifth edition of *viewpoint*, Harris Interactive's UK financial services newsletter.**

In this edition of viewpoint, we revisit 'Consumer Perceptions of the Industry'. We uncover who they now blame for the current economic crisis, how we make them feel, as well as the concerns we could help them address.

We also take a look into the future, assessing the potential impact of the Virgin Money acquisition of Northern Rock.

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## What's happened 2010-2011

**Jan 10**
- FSA publishes new rules to combat mortgage debt
- Will Santander challenge the big banks

**Feb 10**
- RBS faces FSA complaints inquiry, as financial complaints rise again
- 'Printing error' exposes Skipton account details of customers

**Mar 10**
- UK budget - aims to boost UK business
- Moneymadeclear launched
- Metro Bank gets official go-ahead
- Mortgage approvals drop sharply

**Apr 10**
- UK economic growth slows to 0.2%
- Brown admits mistake over banks
- Former Northern Rock bosses fined
- UK savings 'lowest in 40 years'

Just over two years ago anti-capitalist protestors ravaged the streets of London protesting against the practices of the financial services sector. They protested about the size of bank bonuses, bailouts and blamed the sector for the financial crisis.

Since then, we have survived the recession but if the experts are to be believed we are teetering on the edge of a severe depression.

Instead of the anti-capitalists ravaging the streets of London we have had them camping outside of St Paul's, and occupying buildings protesting against the same issues they had two years ago.

But in the minds of the everyday consumer, what has changed? How do we make consumers feel today? And what can the industry do to create a brighter future?

## Perceptions are still overwhelmingly negative

Across the industry as a whole, the consensus amongst the general public is still overwhelmingly negative. Over a third still blame the sector outright for the current economic climate, but it's not just what people think that is the challenge, it's how we make people feel.

Although over the past two years feelings of disappointment and annoyance have started to dissipate, feelings of scepticism, powerlessness and frustration have proved more difficult to shift.

There is no doubt, given some of these deeply entrenched emotions, these figures not will change until we do.

## How Financial Institutions Make People Feel

Which of the following words would you use to describe how financial institutions (banks, building societies, insurance companies, credit card providers etc) make you feel?

| Negative | 2011 Net 76% | 2009 Net 83% |
|---|---|---|
| Sceptical | 39% | 43% |
| Powerless | 37% | 40% |
| Disappointment | 37% | 48% |
| Annoyed | 35% | 44% |
| Frustrated | 35% | 38% |
| Angry | 28% | 34% |
| Disgusted | 27% | 32% |
| Worried | 27% | 35% |
| Resentful | 25% | 27% |
| Bitter | 17% | 21% |
| Hostile | 16% | 20% |

| Positive | 2011 Net 13% | 2009 Net 10% |
|---|---|---|
| Secure | 5% | 2% |
| Satisfied | 5% | 3% |
| Confident | 3% | 1% |
| Reassured | 3% | 2% |
| Optimistic | 3% | 3% |
| Grateful | 2% | 2% |
| Valued | 2% | 1% |
| Happy | 2% | 1% |
| Appreciated | 1% | 1% |
| Proud | 1% | 1% |
| Sympathetic | 1% | 1% |

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## What's happened 2010-2011

**May 10**
- Northern Rock 100% savings protection guarantee ends
- PPI heads complaints to the financial ombudsman
- Prudential provides details of £14.5bn rights issue to buy AIA

**Jun 10**
- EU agrees bank bonuses limit deal
- JP Morgan in record FSA fine for risking clients' money
- Drunk trader banned for buying seven million barrels of oil
- Osborne gives Bank of England top regulatory role

**Jul 10**
- FSA tightens bankers' pay rules
- Metro bank opens
- Cable looks to boost lending by banks
- Seven EU banks fail stress tests

**Aug 10**
- Co-op confident on future growth as profits rise
- Payday loans 'are very expensive' deem Consumer Focus
- Bank of Ireland reports £1bn loss
- Northern Rock returns to profit

**Sep 10**
- Virgin Money to base new HQ in Edinburgh
- UK banking sector grows at fastest rate since 2007
- Global bankers agree new capital reserve rules

**Oct 10**
- UK Budget - new levy on banks to rise to £2.5bn
- Banks take on FSA over 'illegal' PPI rules
- CBI says bank bonuses 'toxic' amid government jobs cull

**Nov 10**
- FSA to act on warranty sales
- FSA claim mis-selling costs customers £500m a year
- PPI heads complaints league
- AIG loses £2.4bn in quarter

**Dec 10**
- Snow delays Osborne meeting with banks over bonuses

The drive for shareholder value, greater efficiencies and profit has come at a significant cost. We have distanced ourselves from our customers for years, because it seemed mutually beneficial:

- Consumers wanted quicker access to products and services as well as the ability to self serve at a time convenient to them and remote access provided this
- We wanted to cut costs and drive up margins and sales, to be fair, we delivered.

And whilst customer satisfaction with the transactional aspects of banking has increased, the lack of connection between the industry and its customers has led to consumers feeling sceptical, powerless and disappointed.

The financial services industry sells dreams of better futures, and in a significant number of cases all we have provided are nightmares with stories of malpractice and lost life savings.

Nor should we kid ourselves that this is a recent phenomenon. For decades there have been stories of malpractice and incidences where we have not treated customers fairly, from the pension mis-selling and endowment mortgages in the late 80's to, more recently, the irresponsible lending, ATM charges, overdraft charges and PPI claims.

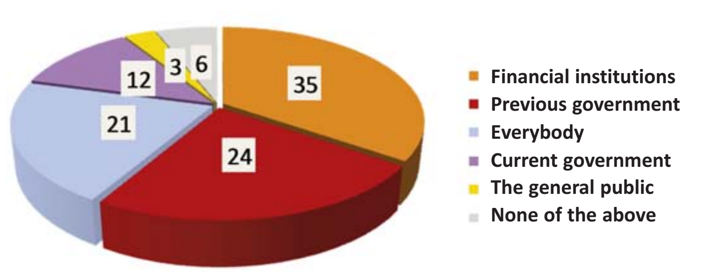
Just take a look at the timeline on the left hand side to see the amount of negativity that has been in the press for the last two years. Is it a suprise we are still in the position we are in?

We have to remember that for any organisation to succeed they need to offer products and services that are mutually beneficial to both themselves and their customers. For too long I believe our industry has lost sight of that.

Even in the last two weeks there have been stories of how consumers have got themselves into trouble by borrowing from payday loan companies.

It is great to see the OFT is launching an investigation to see whether companies are adequately checking whether customers could afford to repay these debts or that they have explained the terms of the loans clearly.

**Who do you think is most responsible for the current economic outlook in the UK?**



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## What's happened 2010-2011

- The FSA Chief Executive, Hector Sants blamed bosses for the financial crisis

**Jan 10**
- Banker pay data called for by Treasury Committee
- Banks challenge PPI compensation rules in High Court
- UK CPI inflation rate rises to 3.7%
- Prudential pulls out of AIA deal

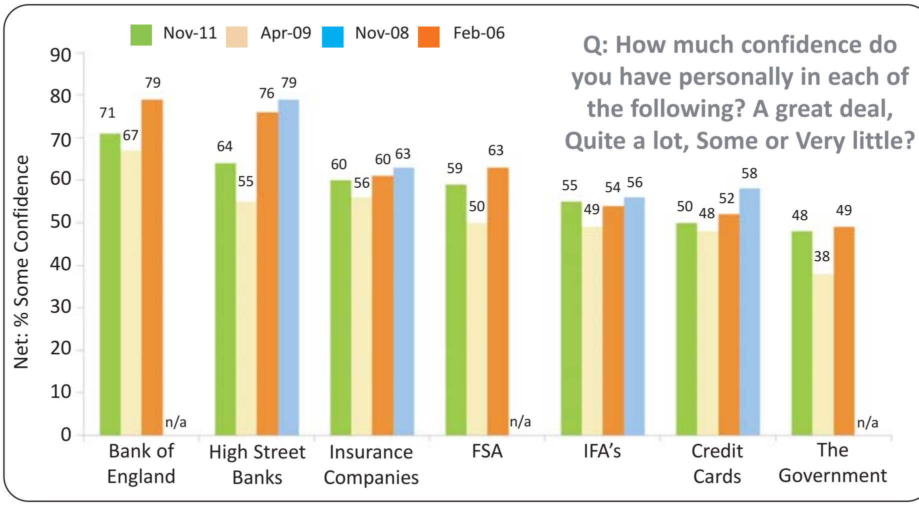
**Feb 11**
- Complaints to ombudsman rise by 15%
- Lloyds returns to profit to make £2.21bn
- Lehman Brothers' $11bn case against Barclays fails
- PPI complaints still rising

**Mar 11**
- Revenues at Co-operative Financial Services rise by almost 25%
- UK inflation rate rises to 4.4% in February

**Apr 11**
- UK banks lose PPI challenge
- Gordon Brown admits 'big mistake' over financial crisis
- The Money Advice Service launched
- Retail banks not competitive, says Treasury Committee

**May 11**
- Hector Sants unveils banking regulations
- Post Office mutualisation plans move closer
- Banking industry gives up on PPI mis-selling battle
- Lloyds to pay £3.2bn for mis-selling PPI policies

**Jun 11**
- Straw says eurozone 'will collapse'
- HSBC given extra time to deal with PPI complaints
- Money Advice Service launches Health Check




## But it's not all doom and gloom

However, solace can be taken from the fact that the public do not solely blame the financial sector for our current woes. The previous government also has to take responsibility (Ed Miliband take note), alongside everybody else.

An overoptimistic interpretation could actually be that just under half do not see the financial services sector as the principle architect at all. As the European crisis deepens it will be interesting to see how this changes!

We can also take comfort from the fact that confidence, in part, has returned. There is still significant work to be done, but the green shoots of recovery can definitely be seen. Looking at the six monthly confidence data (available on request), the industry has stabilised. Consumers also have significantly more confidence in the institutions they deal with, as 82% stated they have confidence in their own bank.

Unfortunately, the same cannot be said for the current government. After an initial rise following the election, confidence has been in steady decline since Nov'10.

## We need to be open and honest, treating customers fairly

So how can we speed up the rate of change and improve perceptions of the finance industry?

Ultimately we need to act honestly and in a transparent manner. HSBC should be applauded for the way they have handled the NHFA fiasco.

Over time reforms such as the RDR and the pension reform should help, but where every financial institution can help is by ensuring they treat customers fairly and treat them with respect. In our survey, less than half of the consumers agreed that the financial companies they deal with treat them with respect.

We also have to find ways of rewarding customers for what ***they***

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## What's happened 2010-2011

**Jul 11**
- Santander profits hit by PPI mis-selling costs
- Financial sector sees fastest job growth since 2007

**Aug 11**
- PPI mis-selling payouts hit £215m in first half of 2011
- UK CPI inflation rate rises to 4.4% in July
- Rise in bankers entering financial industry

**Sept 11**
- NBNK confirms bid to buy Lloyds TSB branches
- Barclays heads UK complaints list among banking brands as complaints surge
- UBS 'rogue trader': Loss estimate raised to $2.3bn

**Oct 11**
- Packaged bank accounts face FSA action
- Credit Suisse fined £6m by FSA for advice failings
- PPI complaints to Ombudsman see sharp fall

**Nov 11**
- Bank levy to rise as revenue falls short
- Northern Rock sold to Virgin
- Private bank Coutts fined £6.3m by FSA

**Dec 11**
- Bank break up law by 2015
- Lloyds names Co-op as preferred buyer of bank branches
- FSA 'admits to bank failings' over RBS
- HSBC bank fined for mis-selling to elderly
- New mortgage lending rules set out by FSA
- Payday lenders face OFT penalties
- Complaints regarding Payday loan companies double

News items compiled from BBC News: http://www.bbc.co.uk/news/

consider to be ***their*** loyalty. 65% of consumers disagreed that the financial companies they deal with rewarded them for their loyalty.

Consumers generally perceive loyalty as longevity of the relationship and if we manage to find a way to reward customers for the length of their relationship, we may actually start to see gains in the average number of products held and customer value.

We also need to help address consumer concerns, interacting with them in a caring and empathic way, demonstrating that we have their interests at heart. When reviewing the top ten concerns, what is clearly evident is the need for sound financial advice which in turn will also help to instil sound financial discipline.

Currently 30% of the UK population are finding it a constant stuggle to keep up with their bills and other repayments.

| Consumer Concerns | % |
|---|---|
| Inflation | 53 |
| Paying household bills | 42 |
| Value of pension | 31 |
| Interest rates on savings | 31 |
| Value of savings/investments | 29 |
| Job security | 26 |
| Meeting repayments (loans mortgage and credit cards) | 19 |
| Property prices going down | 18 |
| Safety/security of money / deposits held by banks/ building societies | 16 |
| The cost of borrowing | 14 |

Given the nature of the products and services we offer, we do have a social responsibility and a role to play in increasing financial capability.

Innovation will also help people get more engaged with the industry, which can only be a good thing.

However, whilst innovations such as mobile payments may significantly change the way we pay for goods, I do not think it will fundamentally change what consumers think of the industry. Did chip and pin?

We need to get smarter in the way we communicate, making the tone more inviting, less formal (as much as regulations allow) and use language the everyday consumer understands. We also need to ensure the direct mail we send is relevant and make much better use of social media.

IFAs and providers are going to have a particularly tricky time trying to convey the benefits for the RDR. Upfront fees are going to be a significant mind shift for the majority of consumers. It will be interesting to see how they live up to the challenge.

It is not just our communications that need an overhaul. The look and feel of bank branches also needs to change.

I totally agree with Brett King's view that branches need to become education centres, but to do that they need to become places where consumers want to go.

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In fairness this has already started, and with the acquisition of Northern Rock by Virgin Money I hope this can act as a catalyst for change across the board. The Virgin Money Lounge is a new and fresh approach, with customers being able to pop in for a coffee, use ipads and there is even a children's play area. Whether it will be successful or not I am unsure but it will be interesting to see how they refurbish the 70 branches they acquired from Northern Rock.

Hopefully the acquisition will also bring other benefits to the financial sector. Over a third of consumers feel the acquisition was a positive thing for the sector with 30% saying neither positive nor negative and a quarter unsure. Less than 1:10 thought it would be a bad thing.

Consumers tended to see both Richard Branson and Virgin as being reputable, trustworthy and reliable. They also saw benefits such as increased competition, better service, bringing stability to Northern Rock and returning the organisation back to the private sector.

They also appear to be waiting in anticipation to see what Virgin have to offer. Over a third of the population would be interested in switching a product to Virgin Money, the most interesting of which is the 13% who would consider switching their current account (three times the current annual switching rate).

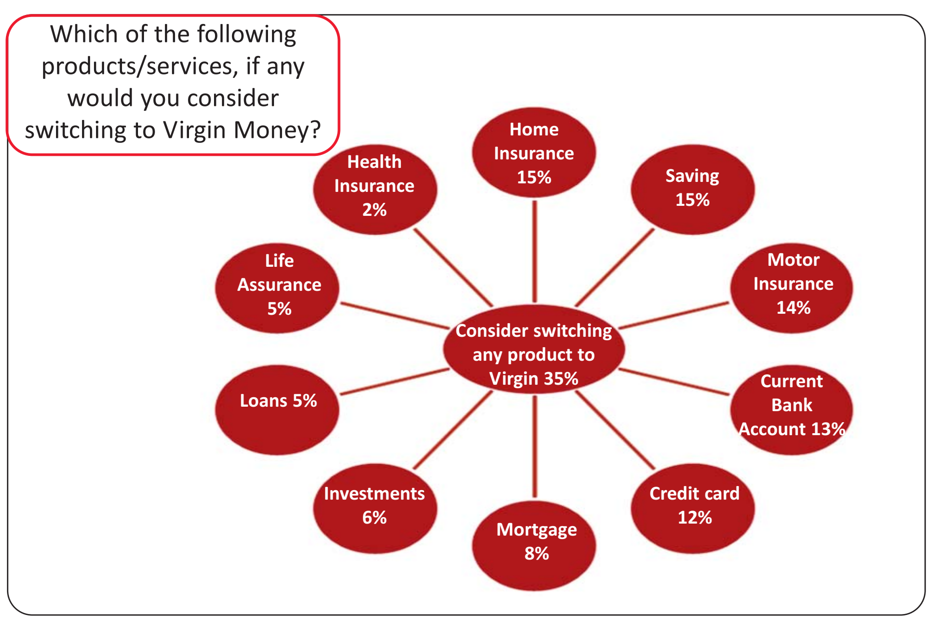
There were also a number of negative perceptions, in particular 13% of those aware of the acquisition perceived that Northern Rock was sold too cheaply, some accusing Branson of 'ripping off' the taxpayer. He is also accused of cherry picking the best bits of the bank and leaving the public with the rotten parts alongside those who thought the Branson empire was becoming too big, a monopoly.

Overall though, it is clear to see, even before the marketing madness starts that consumers are looking forward to seeing something different and the Virgin brand provides that – an ethical, consumer centric organisation.

With the Lloyds branches being sold to the Co-operative, despite the many challenges they will face, alongside Virgin Money's acquisition of Northern Rock could this now be the new day and the new dawn that financial services has been waiting for?

A colleague of mine once wrote 'Love your bank- you cannot be serious'. In part, I have to say I agree. Although this does not mean we should stop trying to at least gain their affection. It's that mentality that led us to this situation in the first place.

I do wonder how many marketeers working in London's financial district have gone and talked to the protestors outside St Pauls and listened to what they have had to say, admittedly some of it may be naive but you never know, we all might just learn something.



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Positive and negative views of UK consumers reacting to the news that Virgin are opening a high street bank.

It will bring a fresh approach to high street banking that is likely to make the Big 5 nervous.

The purchase, backed by the Branson name and reputation will give the high street another sound banking experience.

Branson is likely to do something interesting without ripping off the customers. The public considers the sector bankrupt.

More competition is needed on the high street, more emphasis needed on customer needs rather than the needs of big organisations.


Richard Branson is more ethical than most business owners and I think he'll turn company's fortunes around and instil confidence in the consumer.

Virgin money at least offers an alternative to the high street that isn't currently there and they've done so well in other sectors. I would hope they do the same in banking.

Richard Branson generally improves or innovates services with his companies. I look forward to hearing what he plans to do with Northern Rock.

Branson is a sound businessman, whatever one might think of him.

The more profitable sector has been sold for a little over half of what we paid for the whole thing, leaving the taxpayer as the "owner' of the toxic-debt ridden remainder.

Much as I admire him as an individual, I feel that Richard Branson's empire is turning into a monopoly of lots of different industries.

I am tired of these rich men who want to own everything at the expense of the tax payers who are out of jobs, and are being thrown out of their homes.

Because I believe it is wrong for the Government to have sold the company at a great loss without our consent.


Because a public "asset" was sold at a knockdown price to a rapacious entrepreneur.

Because they are only buying the "productive" parts of the bank, and leaving the taxpayer out of pocket, and lumbered with the rotten parts.

He did not pay the right amount for it so the public has lost out and bad because the Virgin train service is terrible so I don't have high hopes.

Tax payers have been 'done out of money' and Richard Branson is just going to make it another cash cow for him.

**Source:**
***Verbatim comments from Research conducted November 2011 online via the Harris Poll Omnibus.***

**For further information related to this article, such as the background data, or to suggest new topics for inclusion please email financial@harrisinteractive.net or call +44 (0)161 242 1360**