Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Consumer Confidence in the Financial Services Industry

Paper 2/2005

Consumer Panel Research Paper

Consumer confidence in the financial services industry

Findings from the Financial Services Consumer Panel survey 2004

A key part of the work of the Financial Services Consumer Panel has always been to seek to understand consumer behaviour, and how this should be reflected in regulatory policy and practice. To this end, we commissioned BMRB to carry out a major survey of consumer attitudes to financial services, and their experiences in buying them. This is the second in a series of briefings based on the data from the survey.

In this briefing, we turn to the question of consumer confidence in the financial services industry, and whether a lack of trust deters people from buying financial services they need. This question is hotly debated:

> 'It is widely accepted that a lack of consumer confidence in parts of the financial services industry is now deterring many households from saving as much as they might otherwise choose to.' *Treasury Select Committee 'Restoring confidence in long-term savings', July 2004*

> 'Savers and Non-Savers have equal levels of trust in the pensions industry, suggesting that for Non-Savers trust is not the major obstacle to long-term saving it is perceived to be.' *Scottish Widows press release 'UK Pensions Report reveals flaws in current thinking around pensions crisis', June 2005*

Consumer confidence matters because of current concerns about inadequate saving for retirement, and in the wake of a series of problems with various financial products, from endowment mortgages to split-capital investment trusts. Consumer confidence is also an important measure of the Financial Services Authority's effectiveness. The FSA has a statutory objective of maintaining confidence in the financial system, and it is also currently running a project to encourage firms to 'treat customers fairly'.

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Key findings

1. We asked consumers how strongly they agreed with a range of statements about financial services firms.

   - Twice as many people gave a negative response overall than a positive one. However, this was no knee-jerk reaction: consumers tended to give a measured response, with relatively few people expressing extreme views either way.

   - About half of the people surveyed thought most financial firms treat their customers fairly; one in five disagreed. However, only 30% thought financial services firms have their customers' best interests at heart while 41% disagreed.

   - Perceptions of financial services as a sales-driven environment continue to linger. 46% of consumers think financial services firms put you under pressure to buy, while 32% disagreed. Similarly more than half thought they sell the product that pays the most commission and only 19% disagreed. 53% also thought financial products have hidden charges – just 21% disagreed.

See fig 1

2. Press and media coverage clearly has some impact on consumer views, but people who cite the media as an influence have only slightly more negative views than people in general.

   - Past experience, either personal, or that of family and friends, is an important influence: around one in 20 people spontaneously mentioned pensions and endowment mortgages as sources of influence, and their views were more likely to be negative than average.

   - One in seven people who were dissatisfied with a product bought in the previous five years were also more likely to have negative views.

   - By contrast people who had bought a financial product through an independent financial adviser in the past two years were much more likely to have positive views.

See fig 2 and 3

3. Consumers' perceptions of the industry were also strongly linked to their personal circumstances and attitudes.

    - People with negative views of the industry are less affluent, less likely to be in the AB social group, and more likely to have high debts. They were also likely to have little knowledge or interest in financial services, find financial literature difficult to understand, and have little confidence in their ability to navigate the financial market place.

    - People with positive views of financial firms were more likely to have bought financial products recently, more likely to take financial advice, and more likely to undertake activities such as planning for the future. However, it is not clear whether their behaviour is a result of their positive views, or whether their positive views arise from engaging with the industry. Instead of trying to resolve this chicken and egg paradox, we think it is more useful to observe how poor images of the industry, and poor experiences, seem to reinforce consumers' reluctance to engage with anything other than basic financial services.

4. Consumer awareness of financial regulators is rising.

    - Unprompted awareness of the FSA rose to 23% of adults, compared with 12% in 2000, and spontaneous awareness of the Financial Ombudsman Service is 13% compared with 8% in 2000.

    - Purchasers of products regulated by the FSA have more positive views about the industry than average, but this may be due in part to their relative affluence and knowledge. However, knowledge of regulation clearly contributes to more positive views.

    - People who were aware of the availability of redress for unsuitable advice were more likely than average to have positive views. The industry scored relatively highly for telling people about changes to products they have bought (as required under the Banking Code, for example). However, it is worth noting that only a quarter of respondents (23%) thought they were likely to get compensation if a firm advised them to buy a financial product that was clearly unsuitable and that led to a financial loss.

Challenges for policy makers

1. The link between mistrust and a lack of engagement with financial services is not a myth – although it is not a simple matter of cause and effect. A poor press does have an impact but this is not the whole story: bad personal experiences linger, and so do those of family and friends. The industry and regulators need to act to avoid problems, and complaints need to be dealt with swiftly and effectively.

2. Our findings suggest a strong link between a lack of confidence in the marketplace, a lack of confidence in one's own abilities to deal with finance and a reluctance to engage in the financial market place. These need to be tackled together, through the FSA's 'treating customers fairly' programme and through consumer education related to the financial capability initiative. Consumers need to feel in control and must be helped to exercise an appropriate degree of caution when buying financial services – blind trust may cause just as many problems as distrust.

3. However, we believe that increasing the availability of high-quality, objective advice is also important as a means of breaking the cycle of mistrust and lack of engagement. Our previous briefing reported that consumers particularly value independent advice, but we are concerned that many consumers do not have access to this and would like to see significant extra provision of generic advice. We have also highlighted consumers' need for advice about non-sales related issues, which firms find uneconomic to provide – for example, how to address a shortfall on a mortgage endowment. A lack of advice on such issues may reduce confidence and reinforce barriers to engaging with financial planning.

4. Financial firms also need to bear in mind that dissatisfaction with one part of the industry can taint consumers' views of the industry as a whole, whether or not it is justified. In particular, the link between negative images of the industry and high debts suggests that you can't sell credit on one hand and urge consumers to save on the other. Since less affluent consumers are more likely to mistrust the industry, firms need to look at the way they interact with this group. Effective relationship management means striking the right balance between professionalism, approachability and fairness.

5. Consumers have long memories: people still spontaneously mention the previous financial regulators, particularly FIMBRA and PIA, even though they were superseded by the FSA in 2000. It will take time to build confidence in the 'new' regulator. Although the FSA has been urged to introduce 'light-touch regulation' we believe this would be premature while many thousands of consumers are still recovering from a time when the industry regulated itself.

6. Although awareness of the FSA and the FOS has increased, many consumers may not be aware what this means in practice. In particular, the low expectation of availability of redress for poor advice does not suggest the UK is the in grip of a 'compensation culture', as is sometimes claimed.

About our research

The survey was designed to provide information about the attitudes and experience of all adults, but also to provide more detailed information about recent purchasers of financial services. 1,073 interviews were conducted by BMRB between 9th November and 19th December 2004 with adults aged 18+ living in the United Kingdom. The survey was conducted face-to-face in respondents' home using random location sampling. 753 interviews were carried out as part of a sample designed to represent the general adult population. A further 320 interviews were part of a 'boost' sample among adults who had purchased specific financial products (savings, investments, life assurance, mortgages and personal or stakeholder pensions) in the previous two years.

Current levels of confidence

In our first briefing, we reported a finding that recent purchasers of some products were more likely to have a positive image of the industry, and less likely to have a negative image, than the general population.

To quantify consumers' views, we asked whether people agreed or disagreed with various statements about financial services firms, and then combined the answers to come up with an overall measure. Consumers' responses to these questions did not suggest an automatic or unthinking reaction: they 'tended' to agree or disagree with the various statements, rather than having a strong reaction. Even so, more people had a negative than a positive view of the industry.

First, respondents were asked how strongly they agreed or disagreed with the following general statements:

- 'Most financial firms treat their customers fairly'.
- 'You can trust financial services firms to have their customers' best interests at heart'.
- 'Most financial services firms will mislead their customers if they can make more profit by doing so'.

Around a quarter of respondents neither agreed nor disagreed with these statements, and only about one in ten people had strong views either way. See Figure 1.

Half of respondents felt the industry did treat them fairly, but responses to the other two statements elicited a stronger negative response that suggests the industry has a problem with consumer confidence. In particular, almost one in five people (19%) felt strongly that most firms are prepared to mislead them. The impression is almost of a battle between consumers and firms, with the industry's interests being in opposition to those of consumers.

This negative impression was compounded when we looked at consumers' perceptions of buying financial services, by asking whether financial firms and advisers:

- Put you under pressure to buy.
- Sell the product that pays the most commission.
- Have hidden charges.

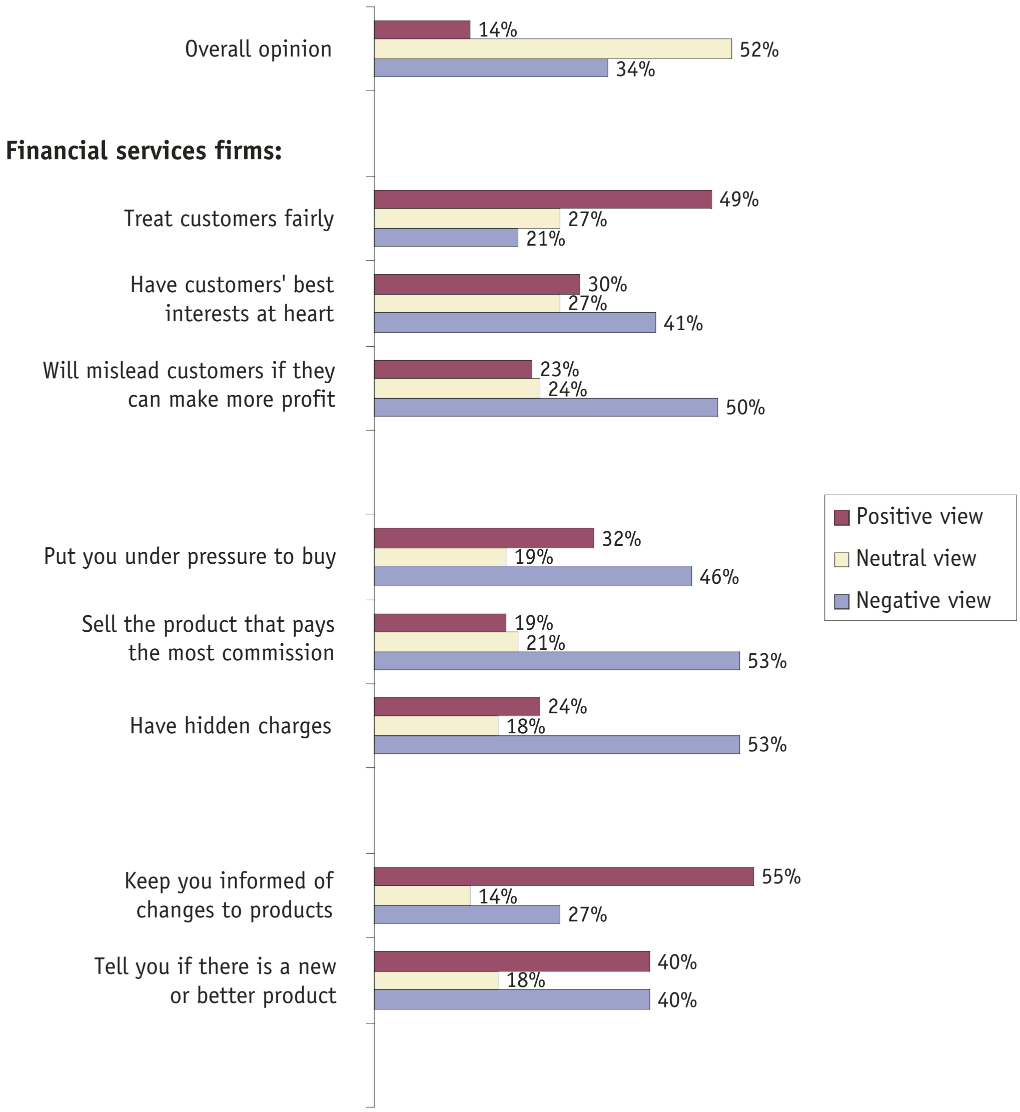
To avoid influencing the answers, these questions were asked as a set of opposing statements (e.g. 'firms put you under a lot of pressure to buy' and 'firms do not put any undue pressure on you). Respondents were asked to say where they would place their response on a seven-point scale between the two extremes.

We found that although one in five people had no opinion, neither agreeing nor disagreeing, more people (around half) held negative than positive views. Note that this question was asked of all respondents, whether or not they had bought a financial product recently. Whatever consumers' actual experiences when buying, their responses suggest that perceptions of financial services as a sales-driven environment continue to linger.

Finally, a composite measure of these six statements was constructed to give a picture of consumers' overall opinions. It is not surprising that, on this basis, half of the respondents did not have a clear overall view; for example, agreement with one statement might be cancelled out by disagreement with another. Even so, we found that a third (34%) had a negative view of the financial services industry overall, more than twice as many as the 14% who had a positive view.

Figure 1: Consumer views of financial services

Base: 1,073 adults



What affects consumer confidence?

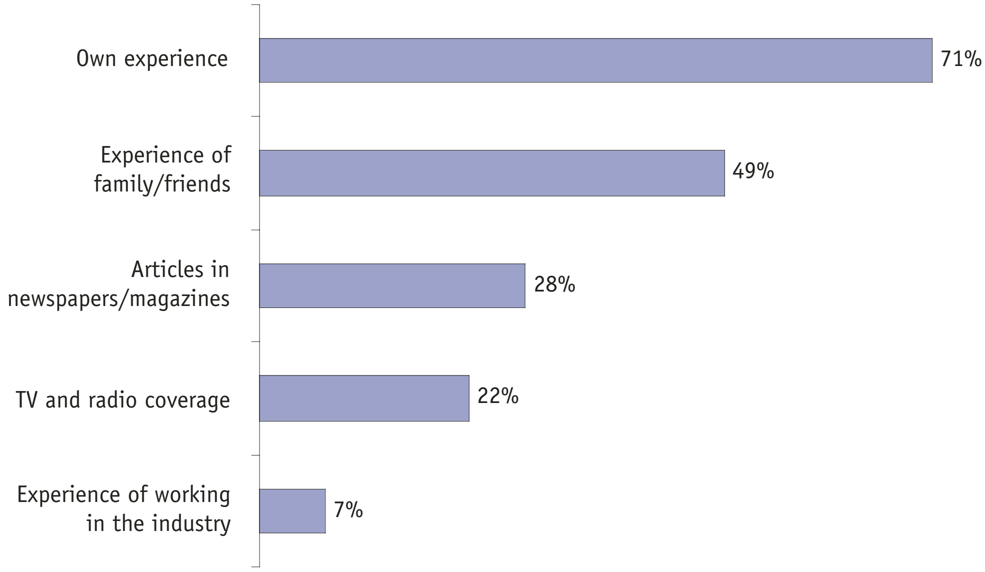
As shown above, a significant proportion of the population has a negative view of financial services – ranging from a fifth to a half, depending on the measure used. Industry figures often put this down to an unjustifiably negative picture painted by the media, and our data suggest that media images do have an impact.

Consumers acknowledge the influence that the press has on them – see Figure 2. However, those who cite the press as an influence are only slightly more likely to have negative views of the industry (37% of people who are influenced by print media and 39% of those influenced by TV and radio, compared to 34% of all respondents).

As this suggests, consumer mistrust cannot be blamed solely on the media. Personal experience, the experience of family and friends, and personal characteristics are also important.

Figure 2: What consumers say influences their views

Base: 1,073 adults



The effect of personal experience

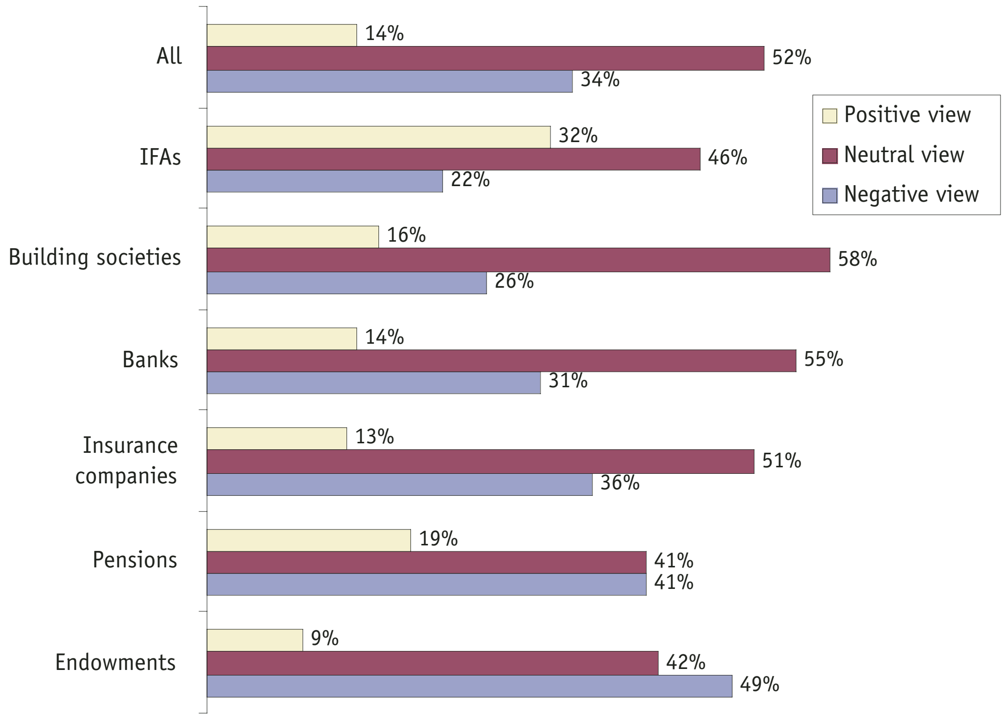
As Figure 2 shows, more people said they were influenced by their own experiences and those of family and friends, than by the media. And although people are more likely to justify their perceptions by citing practical experience than admit to being influenced by the media, the importance of personal experience is borne out by other findings.

Survey participants were asked an open-ended question about what types of financial firms or products influenced them. The problems with pensions and endowment mis-selling clearly cast a long shadow, as around one in 20 people spontaneously mentioned these products as sources of influence – although their views of the industry were not always negative.

Figure 3 shows how a bad experience with one product can leave consumers with a more negative view of the industry overall. For example, almost half of those who said endowments had influenced their views had a negative opinion of the industry, compared with a third of people in general. By contrast, people who were influenced by independent financial advisers (IFAs) were more positive than normal. As our first survey briefing found, IFAs were rated more highly than other types of adviser.

Figure 3: Views of the industry by sources of influence

Base: All adults (1,073); of people who cite as sources of influence IFAs (87); building societies (186); banks (441); insurance companies (264); pensions (69); endowments (57)



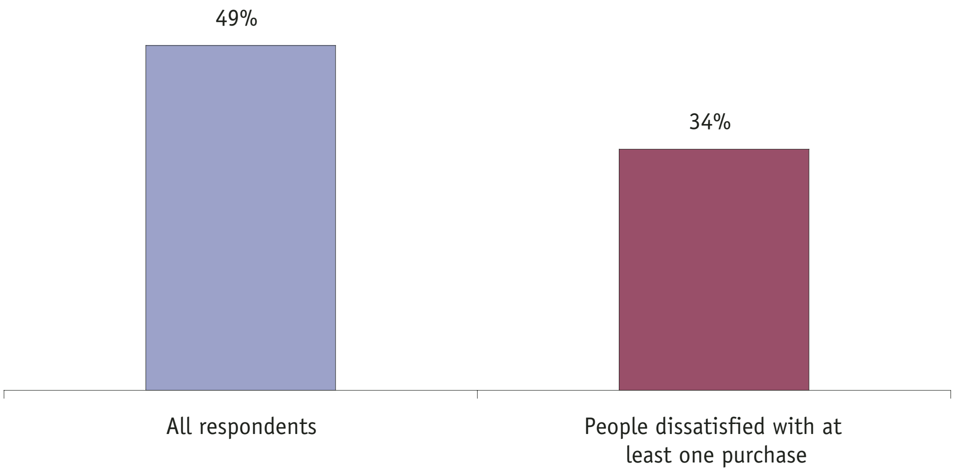
Other data from the survey also show a link between dissatisfaction with a financial purchase and negative views of the industry. Consumers who had bought a savings or investment product, personal or stakeholder pension, mortgage or life insurance in the previous five years were asked whether they were dissatisfied with any of their purchases. One in seven (14%) were dissatisfied, but this was mainly because of poor investment performance. Almost one in five people (19%) who bought investments were dissatisfied.

The possibility of poor performance is an intrinsic risk with investments, but it seems to have coloured these respondents' views of the industry. Only a third of those dissatisfied thought the industry treats customers fairly, compared to half of respondents in general. See Figure 4.

Personal experience may also explain why negative views were particularly common among people aged 45-60[1]. People in this age group owned the largest number of financial products, and were most likely to have been dissatisfied with a purchase in the past five years.

Figure 4: Percentage who agree the industry treats customers fairly

Base: 1,073 adults; people dissatisfied with product purchase in past five years (104)



1 See Table 1 in the Annex.

The effect of personal characteristics

Although personal experience and media images influence people's views of the financial services industry, these are not the whole story. There are clear links between people's views and their own circumstances.

As Figure 5 shows, people with higher levels of savings, and more investments, were twice as likely to have positive views of the industry as less affluent consumers. There is also a socio-economic link, with people in the DE group being almost twice as likely to have negative views as those in the AB group.

So, those who have the most limited contact with savings and investments seem to have the worst opinion of the industry. This does not necessarily mean their mistrust arises from a lack of contact – all but 2% of respondents had some contact with financial services firms, such as banks – but their views may be coloured by the type of contact they have.

For example, people with high debts were more likely to have negative views, and it is possible that problems with credit sour their view of the industry as a whole, particularly since major lenders are often also major providers of savings and investments. This possibility is strengthened by recent FSA research.

Many [consumers] would feel that it is unfair for banks to be making huge profits whilst their advertising and sales tactics are still leading consumers to take on debt they cannot afford.

FSA Consumer research paper 38: *Treating customers fairly; the consumer's view*

Consumers' confidence in the industry is also linked to their financial knowledge and confidence in their own abilities. Mistrust is higher among people who lack confidence that they are in control of their finances, know very little about financial services, do not enjoy finding out about financial products and find financial literature difficult to understand. However these factors were also associated with lower savings and with social grade. For example, 63% of people in the DE social group find it difficult to understand financial leaflets and materials, compared to 38% of ABs.

To sum up, those with particularly negative views of the industry are less affluent, less likely to be in the AB social group, and with little knowledge of financial services or confidence in their ability to navigate the financial market place.

'One of the key themes which differentiate financial services from most other industries when it comes to fairness: the extent to which consumers feel dependent on providers and the impact this has on their feeling of disempowerment.'

FSA Consumer Research paper 38: *Treating customers fairly: the consumers' view*

Figure 5: Views of the industry by personal characteristics

Base: all adults (1,073); with household savings below £2,500 (271) or above £30,000 (204); in AB group (274) or DE group (250); with high debt (266) or low debt (804); with many investments (136) or none (320)

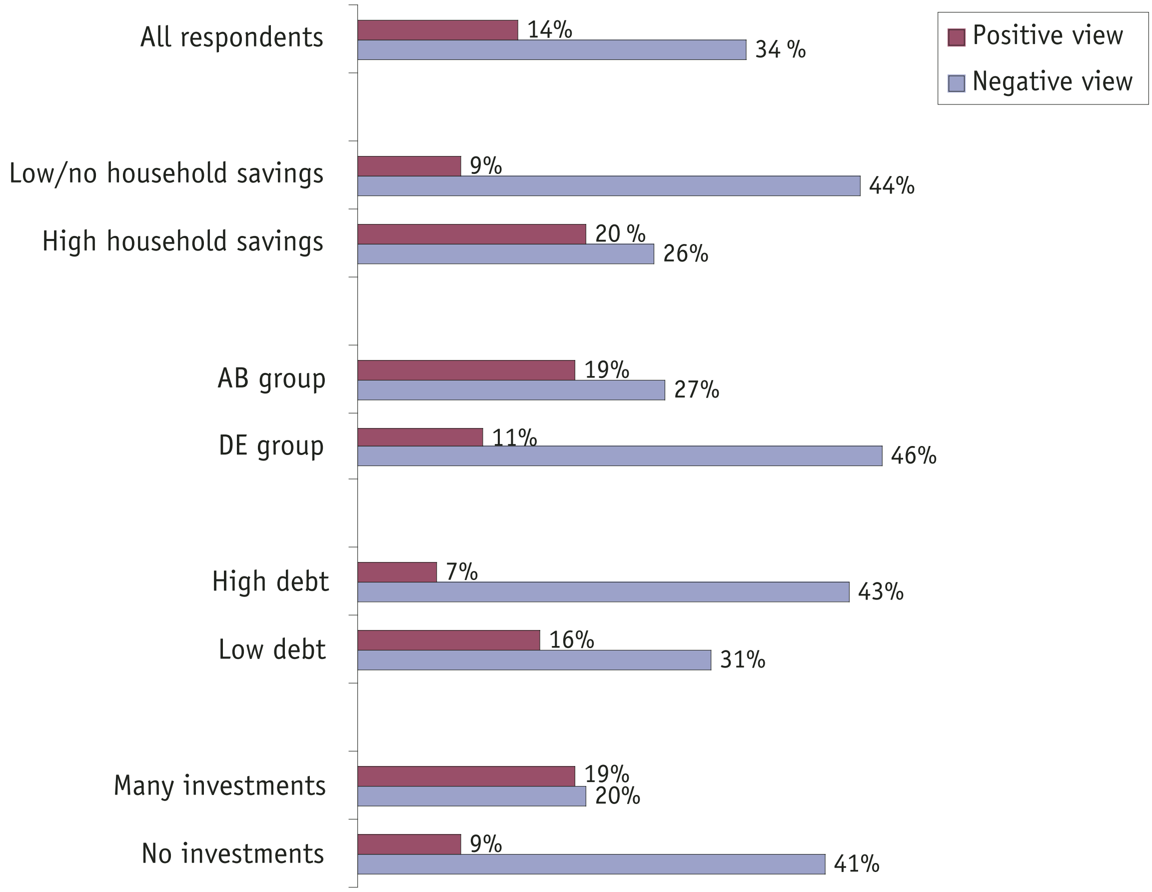
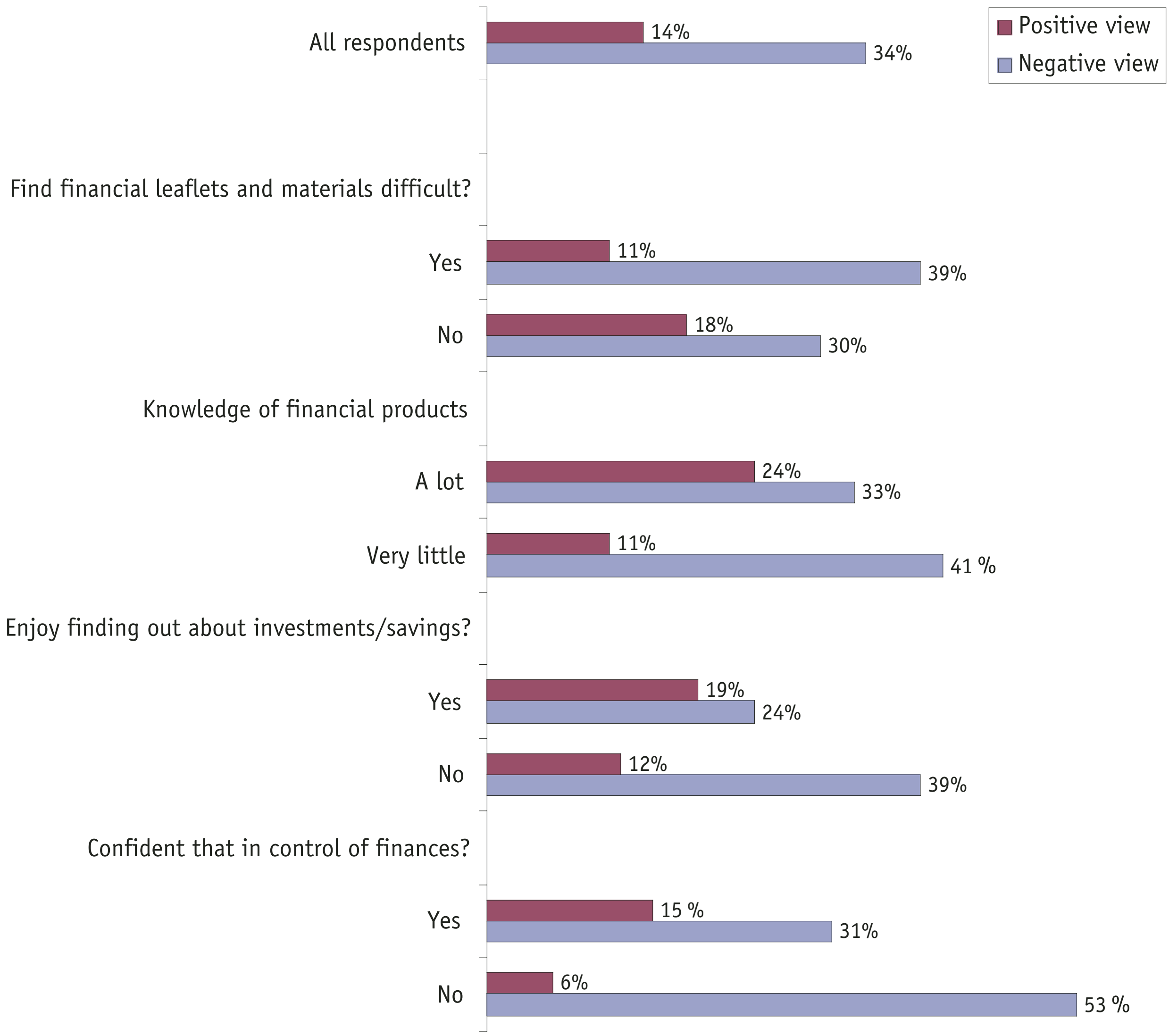


Figure 6: Views of the industry by consumer attitudes

Bases: all adults (1,073); financially confident (942) or not confident (126); enjoy finding out (307) or not (477); know a lot about products (88) or very little (190); find financial literature difficult (526) or do not (351)



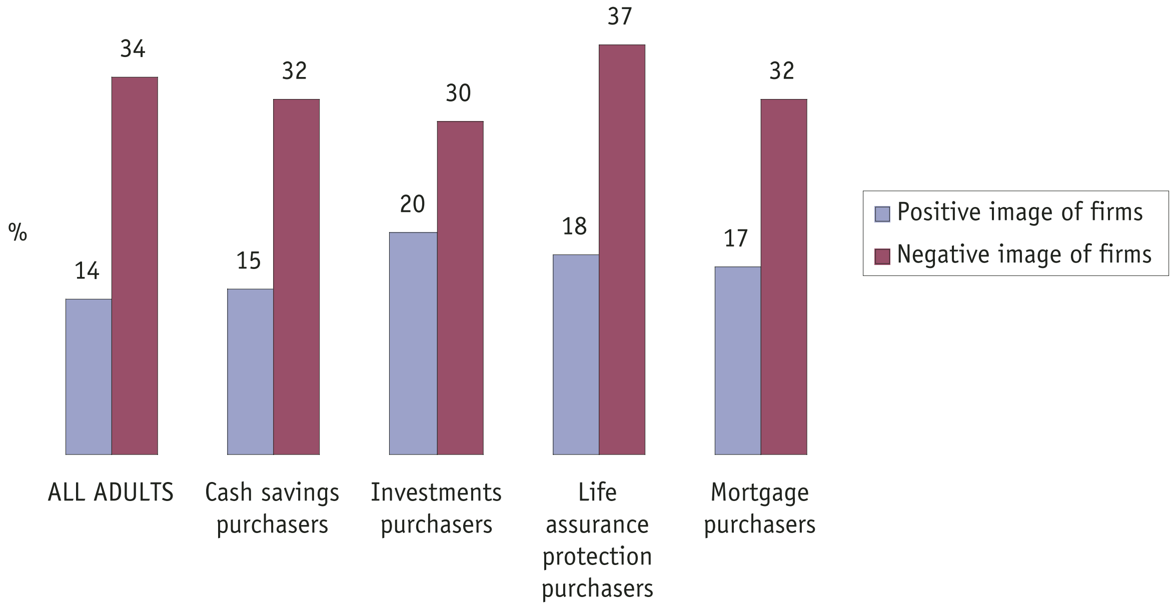
Links between mistrust and behaviour

A reluctance to take too much on trust may be healthy if people are buying complicated products for the first time. However, unnecessary mistrust is a problem if it deters people from buying a financial product they need.

This survey has found links between having negative views of the industry, and buying financial products, but the link is only strong for certain types of financial product. As figure 7 shows, recent purchasers of cash savings accounts were only marginally more positive than the population as a whole – but since 4 out of 5 people have cash savings accounts, this is not surprising. However, purchasers of investments were particularly likely to have positive views of the industry. With the exception of people who bought life assurance protection products (i.e. term insurance and whole life insurance), recent purchasers were also less negative. It may be the desire to protect one's family may drive some people to buy life insurance protection, even if they feel negative about the industry as a whole.

Figure 7: Recent purchasers' views of financial firms

Bases: all adults (1,073); purchasers in previous 2 years of savings (339); investments (151); life assurance protection (115); mortgages (167)



Unfortunately not enough people in our sample were recent purchasers of personal pensions or stakeholder pensions for us to analyse their views, but other data from the survey show that people with a negative view were less likely to have private pension provision than the population in general (41% of those with no pension had a negative opinion, compared to 36% of the population in general). A stronger link is found with inadequate pension provision – 56% of those with a negative view thought they would not have sufficient income in retirement, compared to 36% of the population as a whole. This could suggest that, even if these people have some private provision – perhaps through their employer - they do not really feel they will get much out of it.

Having a negative view of the industry was also linked to a reduced likelihood of seeking advice. When we asked a hypothetical question about what someone would do if they received an unexpected legacy, most people said they would seek advice. People with a negative view of the industry were more likely than average to say they would not seek advice (28%, compared to 23% on average). However, the link was comparatively weak – personal characteristics such as people's financial knowledge had a greater impact.

Financial planning was also related to trust in the financial services industry. Consumers who had a positive image of the industry were found to engage in more financial planning activities such as reviewing savings levels or retirement planning than those who had a more negative image.

A cycle of mistrust?

It is difficult to distinguish cause and effect in trying to come up with an explanation of the links between mistrust and behaviour. For example, are people with a positive image more likely to buy, or does the process of buying improve their opinion of the industry? And is wealth a more important determinant of behaviour than trust?

Rather than searching for simple cause and effect, it is more helpful to look at the picture in terms of how poor images of the industry, and poor experiences, may reinforce consumers' existing reluctance to engage with a wider range of financial services.

The fact that non-purchasers of savings and investments are more likely to have negative opinions suggests that these opinions are not grounded in personal experience. However, even non-savers are likely to have other contacts with the financial services industry, so it could be that bad experiences with other parts of the industry – such as concerns over debt – may taint views of the industry in general. Similarly, affluent people may well see a more positive face of the industry – paying interest on their savings, rather than charging them to borrow. This suggests that financial services firms need to look at their customer service in the round.

It is not clear that a poor image puts people off buying financial products per se, given that 79% of people already have some form of savings account. Also there are some products that people either effectively must have (e.g. current accounts) or are given – such as an employer's pension. This may help to explain why recent research from Scottish Widows[2] found that savers and non-savers have equal levels of trust in the pensions industry. If it is easy to engage with the industry through an employer, lack of trust may not be a disincentive to saving.

A more important question is whether lack of trust stops consumers choosing to move beyond cash saving to other forms of financial service. Many of the people who have a poor image are less affluent and so would not buy the more complicated 'elective' products anyway. However, taken together with the findings that people who are less positive are also less confident and less knowledgeable, the picture that emerges is one of a vicious circle where limited personal experience fuels mistrust – which then makes people more cautious about entering the financial marketplace. People in this position need to be helped to engage, and the high ratings of independent advisers (reported in our first briefing) suggest that a source of objective advice would help. An effective consumer education campaign might also help them to feel more confident.

Conversely, people who do break out of this cycle of mistrust and enter the financial services marketplace may find it not as bad as they expected, and their view of the industry may improve. As our first briefing showed, recent purchasers tend to be quite satisfied. However, if this improved trust is betrayed by mis-selling, or if people's expectations – however unrealistic – are not met, consumers may once more enter the cycle of mistrust and disengagement. The spontaneous mention of pensions and endowments as an influence, and the increased negativity among people who mentioned them, supports this view.

2 *The Scottish Widows UK Pensions Report*, June 2005. This found that 76% of those saving adequately had access to a defined-benefit occupation pension scheme.

The contribution of regulation

A strong argument for regulation has been its potential for improving consumer confidence, and our data does find that purchasers of products regulated by the FSA generally had more positive views than average. Certainly, people with regulated products were much more aware of the FSA than average (69% of people with many investments had some awareness, compared to an average of 43%) and this may give reassurance. However, their positive views may also arise because people who buy these products are generally more affluent and knowledgeable.

'Greater public knowledge of the FSA's role in protecting their interests would help restore confidence. The FSA should launch a publicity campaign for its role in regulating financial services.'

Treasury Select Committee recommendation from their report Restoring confidence in long-term savings, July 2004

A more significant finding is the general lack of knowledge of the availability of redress for poor advice. Only a quarter of respondents (23%) thought they were likely to get compensation if a firm advised them to buy a financial product that was clearly unsuitable and led to a financial loss. Almost three-quarters (70%) thought it was unlikely, and as one might expect, these people were likely to have slightly more negative views of the industry than average. People who thought redress was likely were more positive.

In spite of the lack of knowledge of redress for advice, general awareness of financial regulation is clearly on the rise. Figure 8 shows the organisations currently operating that were most likely to be mentioned spontaneously when people were asked whether they knew of any financial regulators or watchdogs. The FSA (23%) and the Financial Ombudsman Service (13%) have clearly established themselves in consumers' minds as the key bodies, and awareness of both has risen since our last survey in 2000. With prompting, awareness of the FSA rose to 46%, compared to 34% in 2000.

However, the contribution of regulation to consumer confidence in the industry can go beyond general reassurance. For example, as Figure 9 shows, more people (55% positive to 27% negative) responded positively than negatively to the statement 'they always keep you informed of changes to products you have bought' – a requirement of the Banking Code. People with low or no savings were more likely to disagree, and this may be in part because the notification requirements of the Banking Code do not apply on accounts with less than £250.

On the other hand, people were less positive (40% were negative) when asked if they thought that financial firms tell you if a new or better product is available. This has been a contentious issue, with many cases taken to the Financial Ombudsman Service.

Figure 8: Spontaneous awareness of financial regulators

Base: financial decision-makers aged 21+ (2004 figures were rebased to allow comparison); 2000 (1,122); 2004 (982)

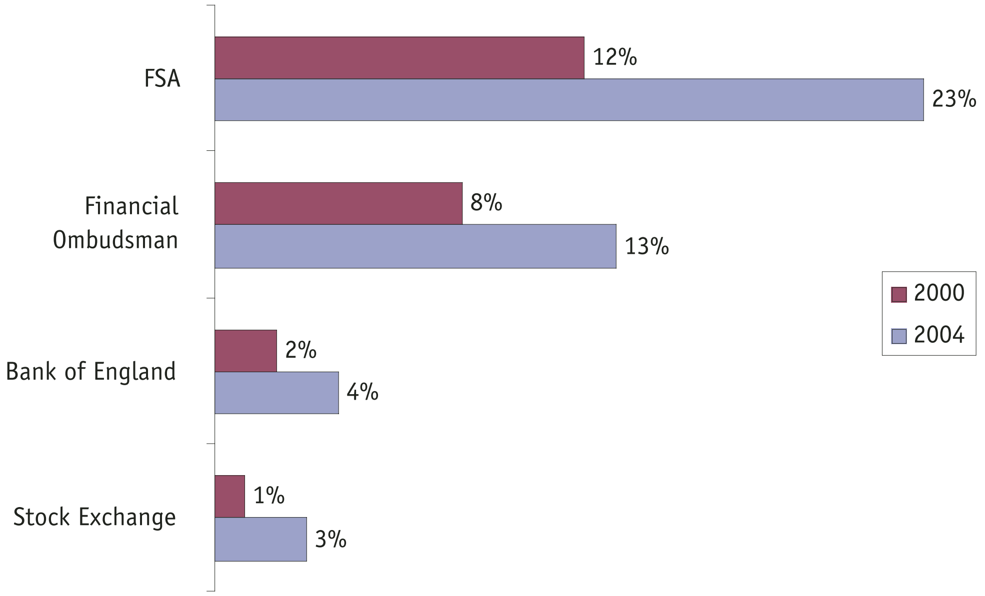


Figure 9: Financial firms always...

Base: all adults (1,073)

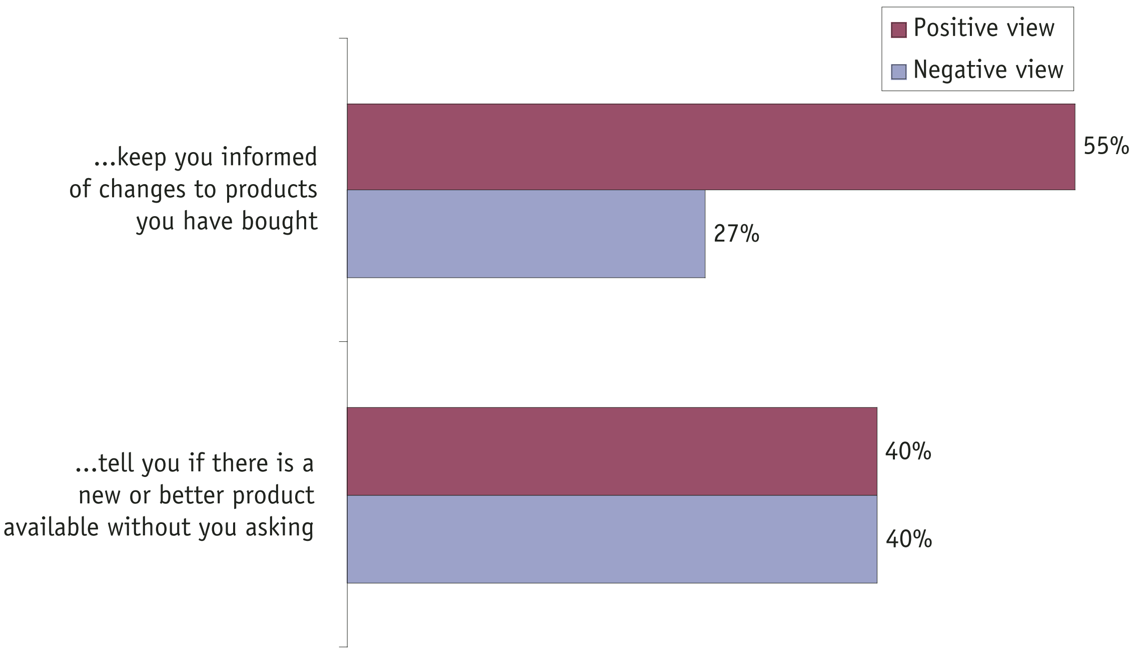
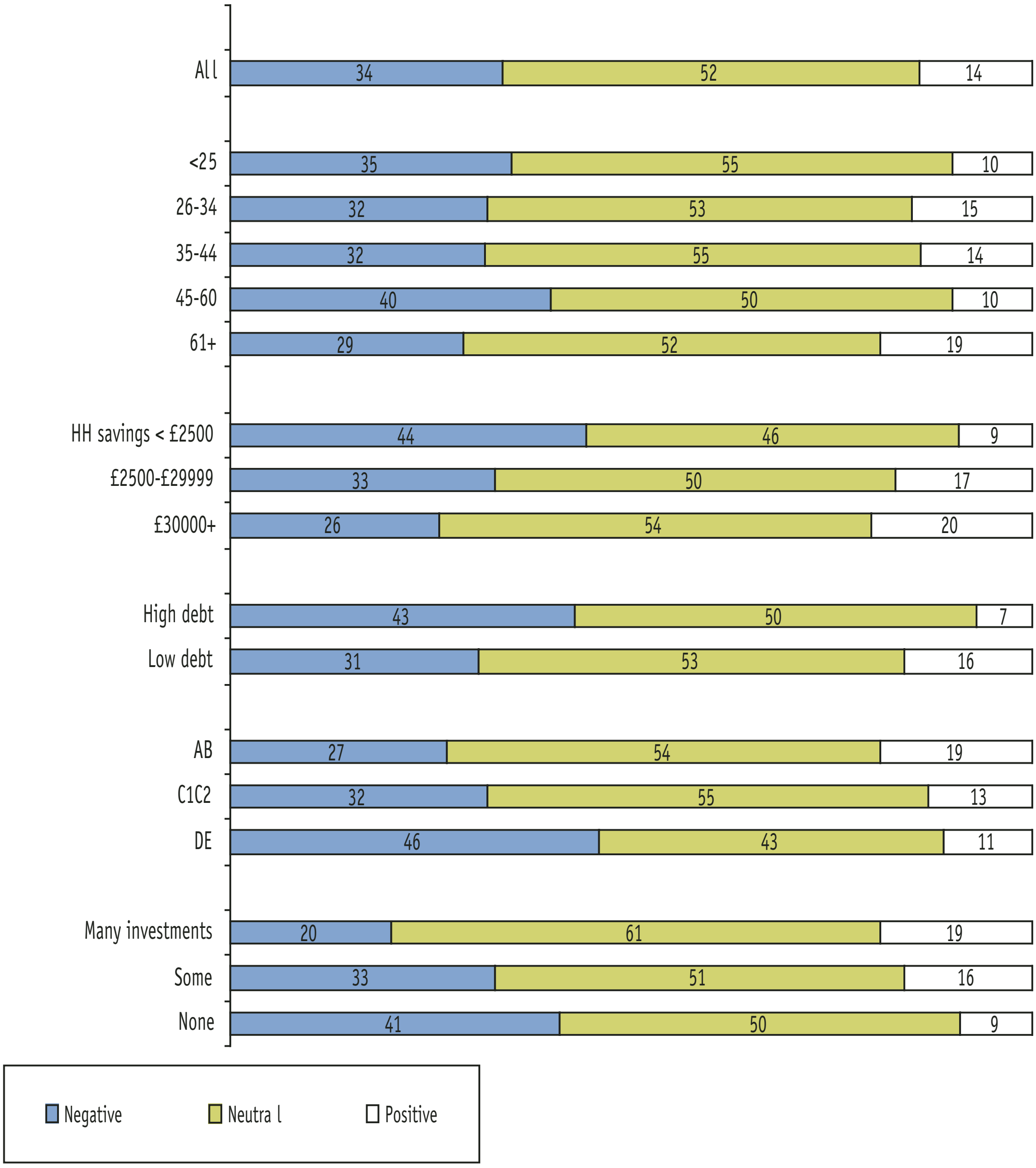


Table 1: Index of trust by various subgroups

Bases: All adults (n=1073); < 25(128) 26-34 (181) 35-44 (213) 45-60 (274) 61+ (275); Household savings < £2500 (271) £2500-£29999 (276) £30,000+ (204); high debt (266) low debt (804); AB (274) C1C2 (532) DE (250); many investments (136) some (598) none (320).



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