Lack of return is the key

Anthony Hilton, Evening Standard
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AFTER the pensions mis-selling* scandals, the underperformance of endowments* linked to mortgages, the collapse of the stock market and the travails of Equitable Life, it became fashionable to pronounce how the greatest challenge facing Britain's savings industry was to regain the trust of its consumers.

The likes of Sir Edward George when he was Governor of the Bank of England mentioned the problem in speeches; others have picked up the ball and run with it so that now we have a whole industry devoted to the restoration of trust.

Like Crossrail, it is a project that yields a good income to all those involved without anything ever having to be built. It can, and probably will, go on for years. Unlike Crossrail, it would be utterly pointless to start building.

But the pro-trust movement has such momentum it refuses to be reined in and, like some obscure American cult, becomes ever more convinced in the rightness of its cause.

The Treasury Select Committee published a report entitled Restoring Confidence in Long-Term Savings. The think-tank Tomorrow's Company also produced a paper, albeit one with a wider focus than just savings. Both are pinning their hopes on solving the trust issue by creating an industry forum that would be transparent, accountable and consistent in the pursuit of its goal of putting the customer first.

Unfortunately, the world has already moved on and all this smacks of being yesterday's solution to last year's problem. People may not trust the savings industry but they are buying its products again, as new business figures from Legal & General, Aviva and Prudential fully demonstrate. We should not be surprised. People don't trust car salesmen but they still buy cars.

The pro-trust supporters will, of course, say that young people are not saving for their pensions, but then young people never have saved for pensions - witness the Pearl Assurance advertisements of the 1950s that tried unsuccessfully to show feckless young men the error of their ways.

And if they were going to save - having paid off their student loans - they would be mad, given the uncertainties of modern life, to lock up their money in a pension plan when they might need it to cover unemployment or a down payment on a house. It was ever thus.

All the bleating about savings gaps from the Association of British Insurers and others is so much hooey - the savings ratio is close to its long-term level for this stage in the economic cycle and will rise only if we go into recession.

There is not enough in the pot to pay long-term pensions because we are living longer and returns have collapsed. Saving more would, in fact, drive returns down even further and make things worse.

The real problem for the savings industry now is not trust or lack of it. It is return or absence of it. It is the fact that it is very difficult for any savings product to deliver a worthwhile return while interest rates and equity returns are as low as they are currently. They do not offer sufficient value to compensate for the sacrifice saving entails.

Customers understand this, just as they understand that when borrowing is so cheap and credit so freely available, there is little point in saving. Creating an industry forum to focus on treating customers fairly is a waste of time.

Customers invest to make money. If they can't do that, nothing will seem to be fair and trust will be as far off as ever.

Mutual* edge

IF trust is the issue, there seems little doubt that mutual organisations have the edge. Customers like mutuals - they seem to find them more accessible, less threatening and confer a belief that the organisation will not take advantage of them.

Building societies regularly score more highly with consumers than banks and Nationwide tends to emerge in polls as the most popular and liked institution.

But the question, which was explored in a lecture last night by Daniel Hodson, former professor of finance at Gresham College, is whether there is something in the governance of mutuals that makes them unsuited to the modern world. Do they have the unity of purpose and ability to take tough decisions that is essential to keep pace with changing times?

The issue is also being looked into by Paul Myners at the request of the Treasury, of course, but intuitively there does not seem to be anything inherently superior in the governance structure of a quoted company.

There are enough disasters among listed companies to persuade one that good management is what matters and if mutuals can attract and retain good management, the fact of mutuality gives then an edge.