

# Keeping it simple

By Tom Stevenson, 18 November 2009

## **Why simplicity, transparency and choice are the key to rebuilding trust in financial services.**

The last couple of years have been extremely difficult for investors. For at least two reasons it would be surprising if they had not lost some faith in both markets and in the financial services industry itself.

Extreme volatility – first a savage bear market, then a sharp rally that many investors will have missed – has undoubtedly caused some to question whether markets can really help them to meet their financial aspirations.



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Perhaps more importantly, however, the financial crisis that lay behind the market gyrations has cast doubt on the integrity of the industry that we all depend on for the success or otherwise of our savings and investments.

Rebuilding trust matters for many reasons, not the least of which is that as a country we are not saving enough. Lack of trust is not the only reason people are putting away inadequate amounts for their retirements and other financial needs, but it is an important one.

It is vital that people regain a degree of faith in the industry for another reason too. The fact is that risk assets such as shares and corporate bonds have been, and there is no reason to think they won't continue to be, the best home for long-term savings. If people turn their back on these, they risk jeopardising their financial security through misplaced caution.

There are many things that can be done to rebuild bridges. Some are up to the industry, some are the Government's responsibility, others are up to individuals. Here are some of them:

- Government can support long-term saving by making the tax incentives for individuals to save clearer. Encouraging whole-of-life saving by making it easy and advantageous to transfer money from rainy day savings such as ISAs to retirement pots in the form of pensions should be a priority. Although there are existing tax incentives in place they are not as successful as they might be at persuading young and less well-off people to save. Any measures that encourage new saving, rather than shifting existing savings around to gain a tax advantage, should be encouraged.
- A joint challenge for Government and the industry is to improve the relationship between financial advisers and consumers. Fortunately, the Government is stepping in the right direction via an ongoing review of the way in which investment funds are sold in the UK. The Retail Distribution Review (RDR) and a similar review of the European directive (MiFID) on the same subject should mean that consumers no longer have to ask themselves whether an intermediary is acting on their behalf or on behalf of a financial product provider. New rules will make it clear whether they are dealing with an adviser or a salesman and that is a good thing. Advisers

wanting to call themselves independent will be obliged to consider all products and not just a careful selection that suits the seller of a product better than the buyer.

- Another step in the right direction triggered by the RDR is greater transparency about fees. The real cost of financial products has been very opaque in the past, but changes in the pipeline mean that in future consumers will have to be told very clearly what they are paying for advice and what for the management of the funds they buy. The days of disguised salesman's rebates are history. This should ensure that investors are no longer sold a product because it offers them a big, and hidden, commission to the adviser. And it will make real comparisons between products easier.
- In all areas of life, choice is trumpeted as a desirable thing. But it is only so if the choice is real and understandable. In financial services there is more choice than ever before. Fidelity's FundsNetwork platform, for example, offers investors hundreds of funds from many different providers, with tools and filters to help them identify a small number of suitable investment choices. Other platforms offer a more limited investment choice. Both are valid approaches and will appeal to different types of investor. But they only work if the consumer is confident that they know which type of platform they are using. Transparency is key.
- If we have learned anything from the past two years it is that complexity and innovation are not necessarily a good thing for savers and investors. The value of simple, easy to understand products has become apparent during the financial crisis, with its alphabet soup of complex derivatives and guaranteed products that failed to do what they said on the tin. If you make the wrong choice, the value of even the simplest open-ended investment fund can, of course, fall. But at least you will not be taken unawares by risks that you had not even considered.

The sharp recovery in financial markets since the spring suggests that restoring investors' faith in financial markets might be the easy part of the challenge. Rebuilding trust in the financial industry is a bigger ask. Simplicity, transparency and choice are easy words to say but if the industry is to regain the confidence of its customers it must make them all a reality.

*Note the value of an investment and the income from it can go down as well as up, so you may get less than you invested. The ideas and conclusions in this column are the author's own and do not necessarily reflect the views of Fidelity's portfolio managers. They are for general interest only and should not be taken as investment advice or as an invitation to purchase or sell any specific security. Past performance is not a guide to what may happen in the future. Investments in small and emerging markets can be more volatile than more established markets. For funds that invest in overseas markets, changes in currency exchange rates may affect the value of your investment.*