



McInroy & Wood

PERSONAL INVESTMENT MANAGERS

*“Others there are
Who, trimm’d in forms and visages of duty,
Keep their hearts attending on themselves;”* OTHELLO

Just before breakfast a few weeks ago, a woman’s voice wafted about with the bathroom steam. She was being interviewed on Radio 4’s Today programme, it emerged, on immigration policy. Her parting shot in defence of the policy proposal was that immigrants would still have access to “a high quality appeal.” Heaven help the wretched impostor who would be entitled only to a low quality one. That was a month ago; that was Beverley Hughes.

Dangerous places, these relativist quicksands and there are plenty more shifting uneasily on the ground where once stood the immigration minister. Like the company chairman, roasting on the spit of his shareholders’ outrage, pleading that market forces obliged him to hand out those astronomical increments to his already handsomely paid colleagues. No matter that, while average earnings in the UK over the last ten years are up 45%, directors’ pay has risen 288% - boardroom pay needs to keep pace with, why, other directors’ pay, of course.

Or like the high street bank denying culpability for selling a flawed and risky financial product to a frail old Scots lady of 82, on the ground that its own categorisation of the risk was “common across the industry”.

All three inhabit the twilight zone of relative values where a neighbour’s shadow shrouds their own ghastly contortions. It is much easier that way. Absolute standards throw up failures, stupidities, blacks, whites; they rub against the rock of truth. Relative ones afford a permanent escape tunnel through the yielding ground of human appetite and error.

For investors, savers, pensioners and borrowers, this Alice-in-Wonderland world is a recurring nightmare. The service they receive, the product they buy, isn’t the one they thought they were getting. Still less is it the one they would have sought had they known what they needed or what was available. Time after time they end up with what they can be persuaded to accept under the guise of illusory promise and feigned disinterest.

There are two reasons for this. One is simply that savers in the UK have inadequate access to sources of education about financial matters. Buyers cannot beware if they do not know what to beware of. Adults cannot, of course, be forced to inform themselves and a lazy streak runs through most of us. And as legislators and regulators arrogate to themselves more and more responsibility for safeguarding customers’ interests, the less inclined we are to inform ourselves. But schoolchildren can be more or less coerced into learning and, even now, the inadequacy of general financial education at state secondary schools makes a mockery of any pretension that our children are being equipped to make sensible choices.

The second reason for savers’ disillusionment is that the adoption of relative standards of behaviour and “performance” enables the financial sector (and other service providers) to replace a sense of personal accountability, ultimately the customer’s only real protection, with a regimen that can be adapted and – dare one whisper it – contrived to fit the requirement of the hour, the sales target for the month. Given the choice between a rod that disciplines and a magician’s wand that crumples when it meets resistance, most will prefer the latter.

Spokesmen for financial institutions protest, of course, that “higher service standards”, “closer regulation”, “mission statements” and all the usual flummery protect customers as never before. Strange then that, over the past 12 months alone, the financial regulator has imposed fines of around £10 million on those same bodies, the vast majority household names. Until financial businesses tear down the idol of growth at any cost and begin to ask themselves what their existing customers truly need and expect, they will be unable to shake themselves loose from a seductive and compliant regime of standards devised to suit themselves.

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One might think it perfectly obvious what most savers need. An average borrower with a £100,000 mortgage needs an economical savings vehicle that will pay off his loan for sure; not maybe, not late, not with oodles to spare if a warm wind blows from the south every day for the next twenty years.

Take pensioners with a modest nest egg, maybe set aside for a rainy day or to pass on to their children. Most simply want to preserve its real value, that is after allowing for inflation, hopefully plus a bit. That was what the 82 year old lady wanted when she fell prey to the bank assurance salesman and his “High Income Bond” - and wouldn’t we all just love some of that “high income”. But it wasn’t High (non-existent actually), and it wouldn’t have been Income anyway, as she understood it.

Even the richest families need strive for little more than to protect their wealth for future generations. Yet many come to rue the day when they succumbed to the allure of “higher returns”, to promises cloaked in a multitude of colours and a myriad disguises but serving the one end of converting sufficiency into need and contentment into appetite.

At the service production end, it takes guts, of course, to claw a way back to the world of real needs and absolute service standards from the mood-enhancing glow of an anything-goes-that-fits culture. Murdoch McKillop, president of the accountants institute in Scotland, has got what it takes. Talking of his members’ responsibilities recently, he said this. “The authorities say that legislation was needed to force us to recognise our public interest responsibilities. Unfortunately, there’s some truth in what they say do more of us add to the perception of a wider problem when, for example, we are party to highly complex tax or financing schemes which, although legal, stretch or obscure the economic substance of transactions?”

Financial service providers need a wake-up call like McKillop’s to remind them what savers want from them and why customers have grown mistrustful. Put it at its plainest. We need to remember that £1 lost for a client is a failure: not a relative success despite lousy markets; not a lucky escape from bigger losses with the manager up the road; not the result of a common misapprehension; but an absolute failure which is the provider’s responsibility alone. Savers do not expect every investment decision to work out gloriously, every manager to be a Warren Buffett, every financial institution to be a charity. But they are far more likely to indulge the inevitable misjudgements if they understand that their provider or manager is doing his best to pursue their real interest rather than straining after some mistaken ambition that carries the risk of substantial loss and shattering disappointment.

In looking at the compromised and self-serving culture that the financial sector has developed for itself, one begins to understand how the gap between need and provision in other more vital public services grows ever wider. Healthcare planners, unable to meet even the most basic requirements – clean, bug-free wards, palatable hospital food - seek refuge in pseudo-standards and management speak whose main purpose is to cloak underlying failure and divert responsibility for it. Thus even the basics go by default.

Local authorities conjure up performance tables contrived to deliver positive results while the holes in the road, the vandalised cars, the litter in the streets goes unrecorded.

In the end, it is the voters’ standard that counts, the patients’, the customers’, the savers’. They will have the last say, whether that means turfing out a government minister, the NHS planners, or the board of a financial institution. The tragedy is that it’s all so unnecessary. It is no more difficult to ensure a hospital ward is cleaned properly than it is to give the old lady sensible financial advice.

If only the providers in each case would return to address the needs of their customers, shred their flags of convenience, and replace them with standards recognised as authentic by those they serve, their fortunes would be transformed. So would the health and wealth of millions of patients and savers alike.

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McInroy & Wood Ltd, 46 Court Street, Haddington, East Lothian, EH41 3NP.
Tel: 01620 825867 Fax: 01620 826295 DX 540742, Haddington www.mcinroy.wood.co.uk email@mcinroy-wood.co.uk
London office: 30 Hillersdon Avenue, London, SW13 0EF. Tel: 020 8392 1156
Directors: Alan R McInroy, Victor N U Wood,
N Douglas Brown, J David S Cumming, Antonia H Fraser, J Campbell McAulay, I Roderic Primrose, David H Shaw Stewart, Tim A U Wood,
Douglas H Gordon (non-executive)
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