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Transcript

Communications, Communities and Citizens

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Amanda Mackenzie:

Good morning.

Who would have imagined that it would be a gigantic financial crisis which would so vividly demonstrate the globalised interdependent world we now live in?

We have conducted one of the largest pieces of financial services research in to what consumers are thinking…before the crisis and validated last month. That's what I am delighted to be here to talk about. Thank you to Chatham House.

Earlier this I year joined Aviva as its first ever Executive Director with global responsibility for Marketing. As the fifth-largest insurer in the world, we have a total of 45 million customers in 27 countries around the world.

My job is to better understand those customers. To identify what's going on in their world. How they feel. What they want. Who they trust. And then to make sure as Aviva we do what is needed to help people - market by market.

Since 1696, Aviva has looked to help customers achieve prosperity and peace of mind. I make no apology for a very brief commercial: Our famous customers through the centuries included Sir Robert Walpole (Britain's first Prime Minister) Sir Isaac Newton, Sir Winston Churchill and President of the United States John F Kennedy. I would love to tell you that the US president elect is a customer too but data protection won't allow.

We have insured iconic structures too - from the Titanic to the Sydney Opera House. (Obviously 1912, the year the Titanic sank, wasn't a good year for business!)

In its 300 year history, Aviva has also endured significant economic peaks and troughs, from the Great Depression, world wars, terrorist atrocities, to the more recent earthquakes, storms and floods. In that time we have managed risk for millions of people and hundreds of thousands of businesses.

Unlike the last 300 years the last two to three months graphically demonstrate that the world is more inter-linked, and therefore more uncertain than ever, and the pace of change in our globalised world has left many people anxious and confused.

So it is consumers' attitudes in this changing world that I want to focus on this morning. My words today are not to be confused with solutions for the credit crunch. Inevitably some of the language is similar but what I am going to talk about today is how customers are thinking and what they are doing with their money as a result.

So since 2004, we have worked with The Futures Company, (many of you may know it better as the Henley Centre), to develop our Global Consumer Attitudes to Saving study.

Earlier this year, we completed five years of this research, one of the biggest in financial services, anywhere in the world.

In total, more than 100,000 people in 25 countries have now taken part.

To coincide with today's Chatham House Annual Conference, we've published some of the key conclusions from this work, highlighting the major trends, and exploring what they mean for governments, policy makers, the industry and consumers around the world.

You may be thinking that given the year we have had this could be out of date but it isn't. Just last month we updated it.

There is a huge paradox facing consumers' financial future in today's world.

Consumers are more anxious than ever before that their savings are insufficient but feel less likely than ever before to do something about it.

As I go through the findings, it's for all of us to look at these problems together. And I mean everyone in this room.

Let's have a look at the major consumer attitudes that stood out for us, and explore the impact of the recent financial turmoil on peoples' thinking.

Of course, the responses from our research threw up many differences around the world.

In Canada, a half of people said they felt it was the responsibility of the government to provide for the elderly, compared to nearly massive 90% of people in Russia.

And in Singapore, nearly two thirds of people would LIKE (yes, like) to work, either full time or part time, after their normal retirement age. In France, less than a third of people wanted to. (Just proving 'Joie de vivre' is live and well!)

Of course there will always be differences in consumer attitudes and behaviours around the world driven by culture, economics and politics. Differences are always beguiling but in the global economy where we are more interlinked than ever, it is through the similarities between us that potential solutions will emerge.

So it is those shared consumer attitudes from around our world that I want to focus upon which transcend background and culture.

These shared attitudes are here and I will briefly summarise each one: Forgive me, there are a lot of fractions coming up but the overall trend is unequivocal.

Firstly, short termism. More than two thirds of people could not think about their finances beyond five years. And this short-termism is growing.

Next was financial vulnerability. Many people are feeling financially exposed, and only one in four people felt they had enough savings to cope with the unexpected.

Third was the importance of access to money. Many people did not want to lock their money away for the long term. More than half of people said they preferred to feel that their money was easy to get at, rather than out of reach.

Next was a low level of confidence in money matters. Less than half of consumers felt they had all the information they needed to make sound financial decisions.

Fifth, regular saving towards retirement was limited - across the globe 75% of people are not regularly setting aside money for when they retire.

There was widespread anxiety about the future. Nearly two thirds of people were concerned they wouldn't have enough money when they retired to provide an adequate standard of living.

Next the relationship between the State and citizen is shifting and people realise it - less than one in four pre-retired people felt that their Government would provide them with an adequate level of income in retirement.

Eighth, we found that people are starting to reframe retirement. Their attitudes with regard to when, and how, retirement might happen are changing. In this year's survey, more than half of people thought they may have to work beyond their normal retirement age to just fund their retirement.

There remained a high level of risk aversion in terms of personal saving. Less than a third of people said they were prepared to accept a higher level of risk on some of their savings and investments in exchange for a higher possible return. This high level of risk aversion has been maintained throughout the five years of the research.

And finally, the perceived risk of losing money in financial markets was the third biggest barrier to saving. Most people preferred the idea of products which offered safety and guarantees ahead of higher potential (but higher risk) products.

I hope you are not feeling too depressed!

So these were the major findings of our five year study. I hope I have clearly demonstrated this paradox between anxiety about the future and not yet doing enough about it.

In order to try and understand the impact this autumn's financial turmoil may have had on these findings, Aviva commissioned a refresh last month. We asked 6,000 people in six markets - the US and UK, Germany, Ireland, Spain and Singapore – to tell us what they thought about saving and investments in the current climate.

This actually amplified the findings of our five year study. Unsurprisingly, people's outlook seems to have become even more short-term; there were higher levels of anxiety about having insufficient savings in retirement; and even greater risk aversion.

And also in the recent research, a lack of trust in financial institutions was cited as a factor that prevents people from saving and investing more.

So the lesson of the last two to three months is that we must first and foremost restore confidence in the security of global financial markets – so that people know their money is safe, whenever and wherever they save.

And whilst Aviva is not a bank regulated entirely differently with a strong capital position as one of the leaders in the insurance business we must play our part in helping this.

So consumers have more concern than ever, less likelihood to do anything and less trusting of banking institutions with which to do it.

So it may seem strange when I say we are actually optimistic. Why? People intuitively believe that saving is a good thing. In 2008, more than half of people said that they believed regular saving was the key to a comfortable retirement.

We are convinced that when markets stabilise and confidence returns, there is a receptive audience out there.

And this receptive audience is made up of millions of people with similar uncertainties and anxieties, and with similar needs to satisfy. There will be local tailoring but fundamentally similar products to satisfy those needs.

So restoring confidence is vital to kick start that behaviour change.

And confidence is not something you can merely tell people to have. They have to feel it by the actions you take. Like building a brick wall a brick at a time, it's the cumulative effects of lots of right actions that will make people confident again.

So on the basis of our research I would like to suggest four additional areas of focus for public policy and further discussion.

These are: Improving consumer understanding of risk. Encouraging a culture of personal responsibility. Transforming the relevance of financial services products. And tapping into consumers' changing sources of influence.

I'll briefly go through each of these in turn.

First of all there is a need to educate people of whatever age on the role of risk in society.

Yes, in times of economic uncertainty, many more consumers will play it safe and avoid exposing themselves to too much risk.

But throughout the five years of our research even when economies were performing well, people felt the same. So is it that no-one ever wants to take on risk? Or is it that people need to understand it more?

Building that understanding will begin at school. I (as I am sure you were) was taught probability at school but sadly in the abstract. So when I read recently that sale of safes had increased by 25% I thought: 'gosh people must be putting money and valuables under the bed in a safe', I have not been taught to think and to weigh up: 'I bet there is more chance of a fire or a theft at home than losing money in a financial institution'. Relevant, timely, engaging education. In language that everyone can understand.

In all of this large insurance companies - like Aviva - have an important role to play. With a big focus on generating more clarity, simplicity, certainty and confidence for consumers in the products we offer. (Not surprisingly we're working hard on that.)

The second major challenge we see is encouraging a culture of personal responsibility. If you recall 90% of Russians believe the State will provide for them in old age. Culturally it's understandable but is it sustainable?

It's good news that we're all living longer. It's bad news that it will come at an expense! The State won't be able to pay for ageing populations, so individuals will have to fund much more of their own retirement, almost certainly with the help of the private sector.

Consider for a moment how you might fund a retirement that may well span several decades!

And how much is 'enough' when it comes to retirement saving? Let's have a show of hands: how many people in this room can confidently say that they know how much money they will need when they retire?

The reality is that those that do not save privately will create real challenges for governments, as well as for their own families, who will have to fill the financial gap in some way and/or act as carers.

What if as an industry we made it much, much easier for people to take that personal responsibility? With strong, trusted brands underpinned by a solid financial system no jargon transparent products and simpler sales processes?

A lot of work has been done already but as the saying goes 'there is still much to be done'.

So the third challenge is for industry and policymakers to rethink product design and the tax and regulatory framework surrounding them.

As lifecycles have changed the timing and sequence of major life events - education, work, house purchase, marriage, children and retirement - is different now compared to the past.

Aviva is already rethinking what 'retirement' will actually mean for our customers in the future. We can see that the next generation of retirement products will need to be flexible and adaptable to extended working lives, and semi-retirement.

However, traditional pension rules require people to put regular savings out of reach, typically as a condition of the tax breaks available. Yet people nowadays do not want to commit money for the very long term, evidenced by our survey.

They also want guarantees, to protect down-side risk.

What if new products were completely flexible, and incentivised all and any kind of saving? What if they encouraged people to make the gradual transition from short-term to long-term saving - a stepping stone approach to retirement saving? What if they helped people to accumulate, and then decumulate, a broader range of assets, not simply savings?

The private sector cannot deliver such a step-change alone: we will need to work with government and regulators to bring new products to market that challenge the established way of doing things – and we need everyone to approach reform with an open mind.

And finally. We need to rethink how collectively we get our messages across to consumers, and through which routes.

Peoples' sources of influence vary from country to country. For example, in Asia Pacific, people tend to use informal sources of information and advice - such as friends, family and colleagues - when coming to financial decisions.

And interestingly people in the Asia Pacific countries are the ones setting aside money for their retirement - particularly in Hong Kong, Singapore, Malaysia and China. (So much for the internet.)

And people in many Asia Pacific countries feel better prepared than most in coping financially with the unexpected and being able to ride out financial shocks.

Of course we do understand some of the more obvious cultural, societal and political reasons underpinning these important differences in attitude and behaviour. But we also realise we need to look beyond them.

Is this because the growth in Asia Pacific has given people confidence? Is this because in taking advice from families, there is a shared responsibility which nurtures a collective understanding of risk?

Is there an intrinsic optimism or appetite for growth, enterprise and risk which is part and parcel of that region?

To conclude, peoples' lives are more complex and less predictable now, and bear little or no resemblance to previous generations. Traditional products are increasingly ill suited to today's needs.

Because, for many years now, people could get what they wanted, when they wanted it, peoples' day to day priorities have squeezed out financial planning for the future.

Too few of us think about and plan for the long term. As a result, millions of people are worried about how they'll cope financially when they're old.

And not least, what a shame for people, if - after a lifetime of work - they end up falling back into a subsistence level of income in their old age!

But there are huge public policy implications here. Surely, the world cannot afford for these trends in risk aversion and financial under-provision to continue unchecked?

To quote Nietzsche once said: "A man has no ears for that to which experience has given him no access."

The past few months have given us all a very vivid experience and maybe now 'we have the ears'. The attention of the world needs to have new thinking on all sides.

World leaders will be discussing the future structure and governance of financial markets at the Washington summit this weekend. I suspect workers on production lines at motor vehicle manufacturers will this weekend be discussing their worries about losing their jobs. You could add builders to that list. And high street retailers. The world's problems are real, inter-connected and they are touching millions of peoples' lives.

What better time to act constructively and creatively to tackle these challenges together. And we all have a role to play.

I hope I have given you some food for thought. Aviva is committed to bringing our findings to policymakers and opinion formers, and ask that together we can act on some of the issues I've raised today.

Thank you.