Richard McCreery's Business Blog

Can You Trust Your Banker?

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Riviera based Independent Investment Adviser, Richard McCreery, has joined the expanding *RivieraLife.tv* team as Business Editor. Richard publishes a weekly Financial Editorial every Friday with informed comment on topical financial matters relevant to residents and businesses on the Cote d'Azur.

Having been responsible for orchestrating the recent financial crisis and then bailed out with taxpayers money, it is hardly surprising that those working in the banking industry today are treated with the sense of loathing that is usually reserved for crooks, politicians and the French football team. The whole idea of 'bankers bonuses' is difficult to comprehend for most people if you are on a fixed salary that might, if you are lucky, rise by a few percent each year to stave off the ravages of inflation and many find it incredible that such catastrophic stewardship of the financial system was rewarded with outrageous bonus payments only a few months later.

Even though these bankers are the ones vilified in the media the majority are rather more ordinary. Most people deal with typical bank managers and bank clerks who seem a world away from the brash investment trader but even at this everyday level of banking it pays to be careful. The French banks generally came through the financial crisis with their reputations largely intact because most of them managed to avoid significant losses caused by sub-prime investments but they've managed to come up with some worrying scandals of their own.

The Caisse d'Epargne is currently facing charges for using misleading advertising in its promotion of an investment product that purported to double your money in 6 years when in actual fact all investors got back was a return of their initial capital. In the meantime the bank earned their fees on the product. This might not seem too bad to those investors invested in the stock market for the last few years and who are still waiting for their capital to recover but if you had pulled your money out of a savings account, lured in by the promise of much more racy returns, only to find that you get nothing at the end of 6 years then you might have a different point of view.

The product attracted 240,000 investors and legal action against the savings bank has begun. The Direction Générale de la Consommation, de la Concurrence et de la Répression des Fraudes, the government body charged with consumer protection, has criticised the product marketing material for putting the emphasis firmly on the high returns being offered without sufficiently highlighting the 'losses' that savers may experience, even if the capital is supposedly guaranteed. Adverts making grand claims are not uncommon and headline figures are often very impressive but it clearly pays to read the small print.

The Caisse d'Epargne isn't alone. A few years ago two members of my family received a phone call from the banker they shared at the local branch of Credit Lyonnais asking if they would like to buy shares in a French toll road company that was about to float on the stock market. As neither of them had ever had any inclination to trade individual stocks before it was quite natural that they declined the offer. You can imagine how surprised they were to then find that the banker had gone ahead and bought some of these shares without any kind of authorisation. The first they knew of it was when the shares appeared on the next bank statement. When they inquired they were told that the shares could be sold if they didn't want to keep them and the small rise in price since flotation would cover the charges. They didn't lose any money and having trusted their bank manager for many years they didn't pursue it.

Shortly after this happened the Financial Times ran an article describing how Credit Lyonnais was one of two banks who had underwritten the stock market flotation of the toll road company and had used customer money to buy the shares, effectively ensuring that all the shares were sold and declaring the float a success. The bank admitted that this had happened in just one or two cases where a banker may have been a bit overzealous and they had refunded the customers any out of pocket expenses but the fact that I personally had witnessed two occasions where this happened suggests it may have been possible that the bank was downplaying the extent of its actions. One could be forgiven for thinking that the bank was possibly playing with a lot more customer money than it was letting on to.

The moral of this story is that you should always treat the handling of your money with great care and attention. This sounds obvious but not everyone does. My experience of working closely with my clients financial matters has taught me the following:

a) Always check your statements for errors. They occur more frequently than you might think and could cost you a lot of money if they were to go unnoticed.

b) Don't invest in something you don't understand and if it sounds too good to be true, it probably is.

c) Seek independent fee-based advice. If the person promoting the product will earn a commission from your investment then they are a sales person, not an advisor.

d) Don't be afraid to complain if you think your bank is treating you wrongly.

Even today the most heavily regulated industry in the world still needs treating with care because most financial companies make their living from selling you something. They are not public services and they are not there simply to help you, their goal is to earn as much money from their customers as possible. However, there are organisations in place to protect the consumer and I would urge you to use them. The financial industry is extremely powerful and influential so it is important that we demand improvement.

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