

ICI VIEWPOINTS

MAY 6, 2015

GMM Policy Forum: “It Always Comes Down to Trust”

By Todd Bernhardt

Over the 75-year history of the modern mutual fund industry, funds have helped to democratize investing, providing a tremendous array of investing options at a reasonable cost for millions of people. And given rapid advances in technology and the efficiencies that they can bring, the future looks even brighter, said Walter W. Bettinger II at the opening session of ICI’s 57th General Membership Meeting (GMM).

But “we must remember that the core of the financial-services industry is trust,” said Bettinger, president and CEO of the Charles Schwab Corporation. Some industries can get by without relying heavily on human interaction, he said, “but our industry is different—we must remain committed to serving people.”

Know Your Limits

Bettinger participated in a wide-ranging dialogue with ICI President and CEO Paul Schott Stevens during the GMM Policy Forum, which opened the three-day annual meeting being held in Washington, DC, from now through Friday, May 8. They started the conversation by focusing on the investor.

Stevens noted that Schwab’s business model has always been customer-centric, and asked Bettinger if he had seen changes in investor behavior since the financial crisis. Bettinger replied that the single most important thing he had observed was that investors need to truly understand their risk profile to be able to comfortably reach their goals. Because people learn best from experience, he said, the market downturn actually helped many investors learn about their limits, and encouraged them seek out someone who could help them build a reasonable plan.

It’s important as an investor “to know yourself and your limits before a market downturn hits,” he said, because it’s hard to recover or create a new strategy in the middle of a crisis. But if “you know yourself and your risk profile, and follow your plan when the market experiences ups and downs,” you can succeed over time, he explained. “The people who suffered were the ones who got out of the market and who then didn’t get back in.”

The Importance of Human Interaction

The ability to keep focused on your long-term goals and strategy during a crisis often requires encouragement and advice, which is one reason Bettinger stressed the importance of human interaction in financial services. Like some other firms in the industry, Schwab has recently introduced an online advice solution—popularly known as a “robo-advisor”—and Bettinger praised the many efficiencies that such automated systems can provide.

But robo-advisors don’t “act as a psychiatrist when the market goes down 40 percent,” he said with a smile. “It’s going to be interesting to see how they perform during a down market. That’s why Schwab waited until we could provide 24-hour person-to-person support before we introduced our automated solution.”

Technology should be “a means to an end,” helping make people’s lives easier, he said. “But I reject the notion that technology will eliminate the need—and responsibility—to have personal relationships with investors,” he stressed.

A Big Believer in Choice

This focus on the investor carries throughout Schwab's culture, Bettinger explained. "We look at every idea through the client's eyes," he said. "We ask, 'Will it make people more likely to do business with us and recommend us?' This approach helps clarify a lot of things when creating a strategy."

Bettinger recalled that when he was named head of Schwab's retail division, he worked with his team to craft and distribute a set of guiding principles. When others asked why he created a set of "rules" that would restrict himself and his team, he replied that the guidelines actually *encouraged* freedom—that the clarity they provided empowered employees to make choices on behalf of their customers.

Choice is important to Bettinger. Whether he was responding to questions by Stevens about the relative merits of exchange-traded funds (ETFs) vs. mutual funds, the debate over active vs. passive investing, or the Department of Labor's recent proposal to impose new fiduciary requirements on brokers who offer retirement savings advice to customers, Bettinger came down firmly on the side of choice.

"We're big believers in choice," he said. "That's the backbone of what Chuck [Schwab] has tried to do for the last 40 years." He stressed that both ETFs and mutual funds work well for different people with different needs at different points in their lives, and that the same holds true for active and passive investing. Regarding the fiduciary proposal, Bettinger said, "This is a complicated proposal and issue. Let's make sure that clients can still be self-directed and have choice."

He said that the treatment of tax-deferred and taxable accounts should be consistent, and urged the Department of Labor and Securities and Exchange Commission to work together toward a common solution, to reduce the potential for confusion. "The important thing is for the consumer to have one set of rules," he said.

People First

In wrapping up the Q&A session, Stevens asked Bettinger about his management style. Bettinger replied that "it all has to do with people. We're people first, and business people second." He told a personal story about Schwab's support for him and his family when he first joined the company and was going through a tough transition, saying that "the loyalty that this created was enormous."

He took this lesson to heart, and said he does his best to make sure that the more than 14,000 employees at Schwab receive that level of support every day throughout their career. Over the years, he said, he's learned that true leadership is built from personal commitment, honesty, and authenticity, which he explained is "at the core of all trust."

He wrapped up the session by telling the audience, "Just be true to yourself. That's all you need to do. You're good enough."

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Todd Bernhardt was senior director of public communications at ICI.