Centre for Risk, Banking and Financial Services

The University of Nottingham

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Research Note: Trust in Financial Services: Benchmarking Insights from a High Perfoming Firm

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Summary

- Trust remains a key issue for the financial services sector, especially given the recent scandals in the banking sector related to the fixing of interest rates and foreign exchange markets by a number of major institutions.

- The Centre for Risk, Banking and Financial Services collects comprehensive data on consumer perceptions of trust for a number of types of provider and different facets of trust and aggregates these to produce a Trust Index.

- The Trust Index shows important trend data as well as comparisons between types of provider.

- Consumers' perceptions of trust in the financial services sector has shown a modest but sustained improvement over the past 18 months. This is the case for both base level, or functional trust, as well as high level, or affective trust.

- Analysis shows that even in a sector renowned for challenges in being trusted, it is possible for a firm to break away from the pack and benefit from extremely high levels of consumer trust, with the obvious attendant relationship and other commercial benefits that this entails.

CRB &FS

Introduction

More than six years after the onset of the financial crisis, the issue of trust and being seen as trustworthy remains as challenging as ever for the financial services sector. Scandals continue to come to light, most recently those related to proprietary traders in large banking institutions. These traders were manipulating foreign exchange markets for the benefit of their employers' bottom line (and their personal bonuses) and to the detriment of customers and other traders in the market[i]. A number of banks were fined a total of £2.7 bn and the scandal itself had close similarities with the earlier "Libor Scandal"[ii] It is no wonder that regulators are fast losing patience and have stated that banks in particular are running out of time to rein in bad behaviour[iii] Recent regulatory developments include efforts to implement the recommendations of the Vickers Report in terms of ring-fencing and ease of switching, a Parliamentary Commission on Banking Standards (which made more than 100 recommendations) and industry efforts to improve the professionalism and standards associated with the sector in form of the Banking Standards Review Board. Meanwhile, in the market for financial advice, the retail distribution review has been fully implemented, not least to deal with the issue of the potential for sales and recommendations to be biased by upfront and on-going commission payments. Another key element of the RDR is to increase general levels of qualifications and professionalism in the advice sector.

Given these and other developments, it is little surprise that arguments abound that the need to improve levels of trust remain as pertinent as ever[iv]. Improving levels of trust in the financial services sector is seen as key in increasing levels of engagement and provision and in reducing the high levels of apathy towards the sector on the part of consumers[v]. Trust is a nuanced and complex concept with many definitions, however, regardless of precisely how it is approached, it undoubtedly has a key role to play in building confidence in the sector, facilitating relationships between firms and consumers, in simplifying choice and in reducing levels of perceived risk on the part of consumers.

In this paper, a brief analysis of how trust has developed in the sector will be presented, prior to focussing on a particular firm that has managed to engender extremely high levels of trust in its clients on a consistent basis. The aim is to draw out pertinent lessons and insights. In the next section, the Centre for Risk, Banking and Financial Services Trust index will be introduced and explained before data from the Index is analysed in more detail.

The Centre for Risk Banking and Financial Services Trust Index

The Centre for Risk, Banking and Financial Services (CRBFS) has been collecting comprehensive data of consumer perceptions' of trust in financial services providers since 2005. Until 2012, this was under the auspices of the Financial Services Research Forum, which then merged with the Centre for Risk and Insurance Studies in 2013 to form CRBFS. Currently, data is collected on an annual basis[vi] and is directly comparable back to 2009, the height of the financial crisis.

Data is collected using a nationally representative sample of well over 2000 participants. Data collection takes place online, in conjunction with a major market-research company and data is gathered for seven types of financial provider:

- Banks, Building societies, General insurers, Life insurers, Investment companies, Brokers/advisors and Credit card companies

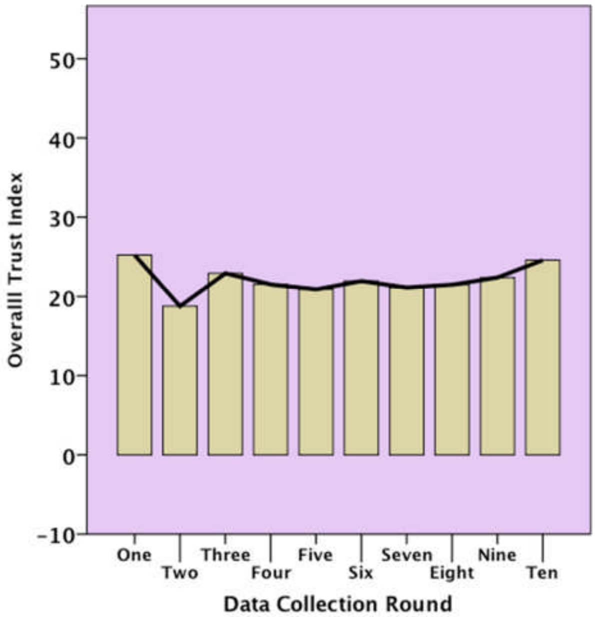
The following Trust related measures are collected using measurement scales that have been confirmed as valid and reliable:

- ***Base level trust –*** A belief about firms as to their the competence, honesty, reliability and dependability: Will it do what it says on the tin?
- ***Higher level trust -*** degree of emotional connection between customers and firms: Can I trust them to act in my best interests?
- ***The Trust Index –*** a combined measure of base and higher level trust
- ***System Trust -*** The extent to which consumers believe that the regulatory environment and business system provides adequate protection for them

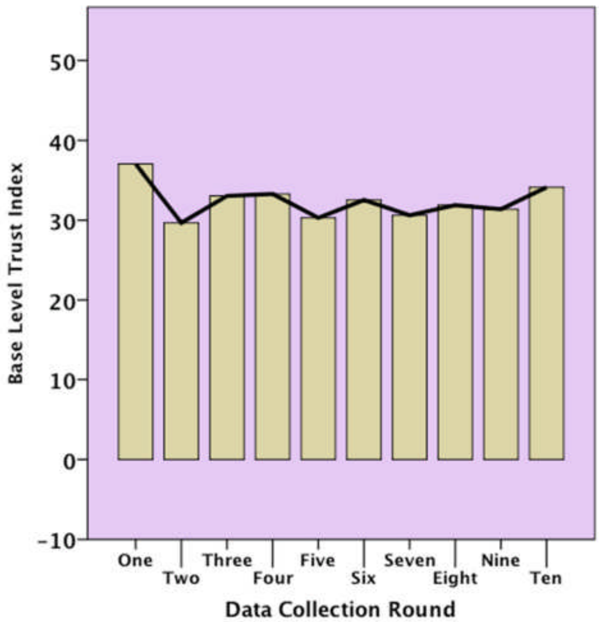
In the full dataset, data is collected on "Narrow-Scope" Trust (My bank, My advisor etc.) and "Broad-Scope" Trust (Banks, Advisors, etc.). Here, data for narrow-scope trust is reported.

Data is collected using a 1 to 5 scale labelled Strongly Disagree – Strongly Agree. In many cases this is converted to an "Index score" for each measure, which ranges between **-100** and **+100.** A score of **zero** represents a neutral viewpoint, indicative that consumers perceive that financial institutions are neither trustworthy nor untrustworthy. Scores greater than zero indicate more positive assessments of trust and those below more negative assessments.

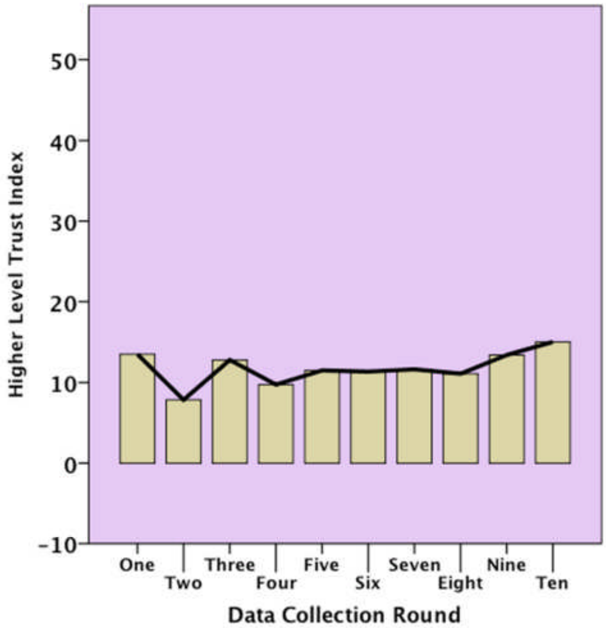
Thus far, there have been ten waves of data collection as follows: Wave One Late 2009; Wave Two Early 2010; Wave Three Late 2010; Wave Four Early 2011; Wave Five Late 2011; Wave Six Early 2012; Wave Seven Late 2012; Wave Eight Early 2013; Wave Nine Late 2013; Wave Ten Mid 2014



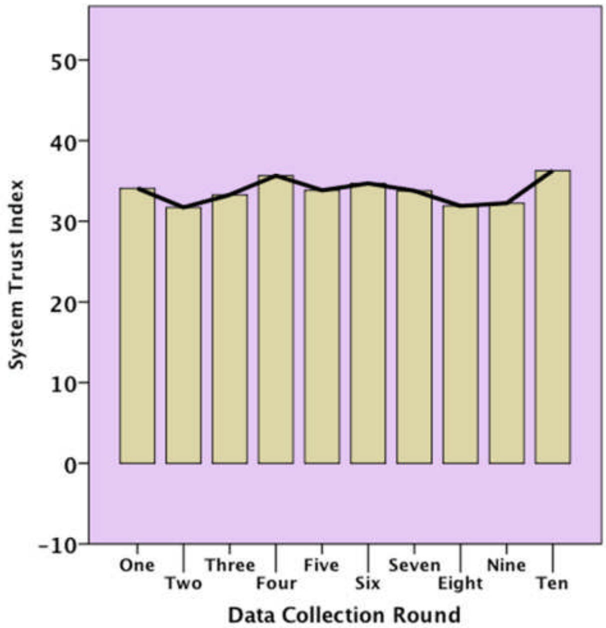
Data for the **Overall Trust Index** for all providers combined shows that perceptions of trust generally have been improving since wave seven of data collection in late 2012. There was a particularly noticeable increase between the last two data points and the current level is almost back to where the Index was when data was first collected in its current from in 2009. The Index shows overall ratings in the +20 to +25 area, indicative of weak positive perceptions of trust for a respondent's own provider.



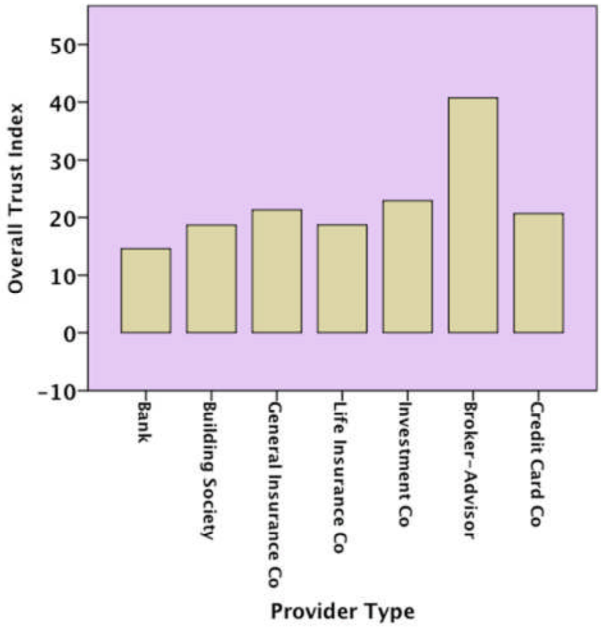
Base Level Trust provides an insight into consumers' perceptions of the basic competence and reliability of financial services providers. The recent picture here has been more mixed, but with a marked increase recently. It should be noted that overall ratings for base-level trust are far higher than the average for trust overall, varying roughly between +30 and +40 over the period of data collection. In terms of Base Level Trust, ratings are still some way behind 2009.



Higher Level Trust provides an insight into perceptions of the degree to which financial providers are perceived to truly have the consumers' best interests at heart. It is here that the most marked recent improvement is in evidence, over the past three surveys, from the start of 2013 to mid-2014, deeper, more profound aspects of trust are improving and such developments will be welcomed by firms. That said, overall levels are lower than ratings for trust general and significantly lower than for base level trust



System Trust has remained remarkably resilient throughout the period of data collection considering the degree of turmoil and consistent stream of bad news and scandal in the sector. The overall ratings are not dissimilar to those for base level trust and the data show a pronounced recent increase in ratings system trust. It is perhaps somewhat surprising that ratings of system trust have remained relatively robust in a period of extreme turmoil.



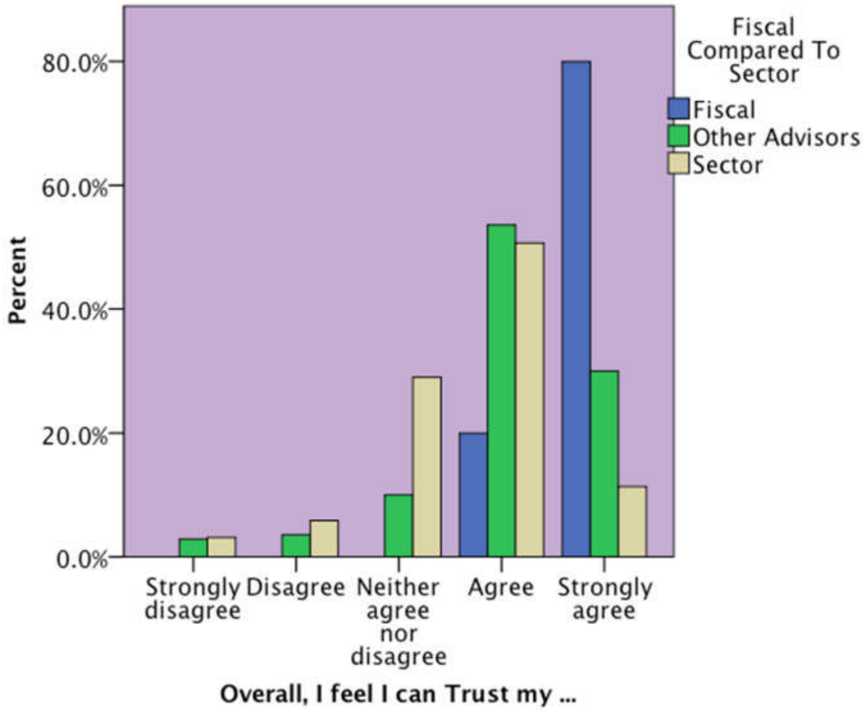
Using the most recent data, it is possible to compare the **Overall Trust Index Ratings** for different types of provider. For those who have followed our coverage of trust for some time, it will by now be a familiar refrain that brokers/advisors are perceived as significantly more worthy of trust than any other provider. At the other extreme, banks are the least trusted of all provider types. This unwelcome accolade used to belong to credit card providers, by but their position has improved markedly over time.

Benchmarking a High Performing Firm: Fiscal Engineers

CRBFS has a large body of data that has been developed in accordance with the highest standards of academic rigour, and maintained over a sustained time period. Whilst the benefit and value of this project has been of particular relevance to those interested in aggregate, industry level trends, this paper outlines an additional benchmarking exercise whereby trust analysis can be put to practical use by individual firms within the industry. Under this benchmarking analysis programme a particular firm perform a customer survey to mirror the outputs of Trust Index, or elements thereof, enabling comparisons to be made. This type of exercise was first completed in 2008 for a large national Building Society and a specialist mutual provider

The benchmarking exercise was again performed during 2012 for a financial advisory boutique firm; Fiscal Engineers Ltd. Fiscal Engineers offers financial planning and wealth management advisory services for HNW clients and family offices. Latterly data has been collected once again for Fiscal Engineers, allowing further benchmarking analysis to take place. In each case, the sample size for Fiscal was roughly 50 respondents that are broadly representative of its wider customer base.

Benchmarking is an imperfect science and it is always difficult to control for the range of factors which may influence a construct as complex as trust. Nevertheless, the ability to benchmark against competitors provides a means of understanding an individual organisation’s position and can be used as a starting point for drawing out pertinent lessons and insights.



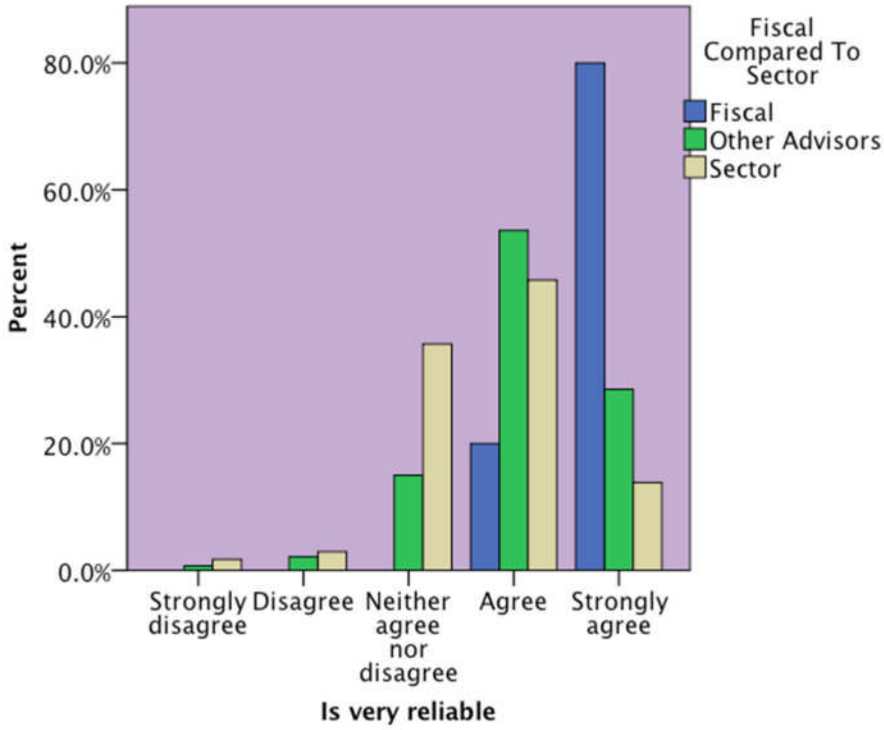
Overall Trust Benchmarking

The graph above shows data for the question "Overall, I can trust my ….." for Fiscal Engineers compared to brokers/advisors from the general Centre data and the average responses for the financial sector as a whole. The table shows the percentage of respondents choosing a particular response (strongly disagree, disagree etc. etc.) compared to the total responses for that category.

The "ideal" response pattern would be for 100% of responses to be accounted for by the column in the far-right, namely strongly agree, however of course in practice this would never be the case.

As we can see from the graph advisors generally have far more agree/strongly agree responses than the sector in general, although perhaps somewhat surprisingly even the sector as a whole is skewed towards the right hand side of the graph, indicative of a balance of positive perceptions.

However, when it comes to overall trust, the case of Fiscal shows that it is possible to far exceed the performance standard pertaining to a particular type of firm. The data show that clients of Fiscal have far greater levels of trust than for clients of advisors in general and that 80% of Fiscal's clients strongly agree with the statement. The remaining 20% all agree with none in the neutral or negative categories. This is an impressive outcome and one which indicates that greater levels of trust can be generated with the correct approach.

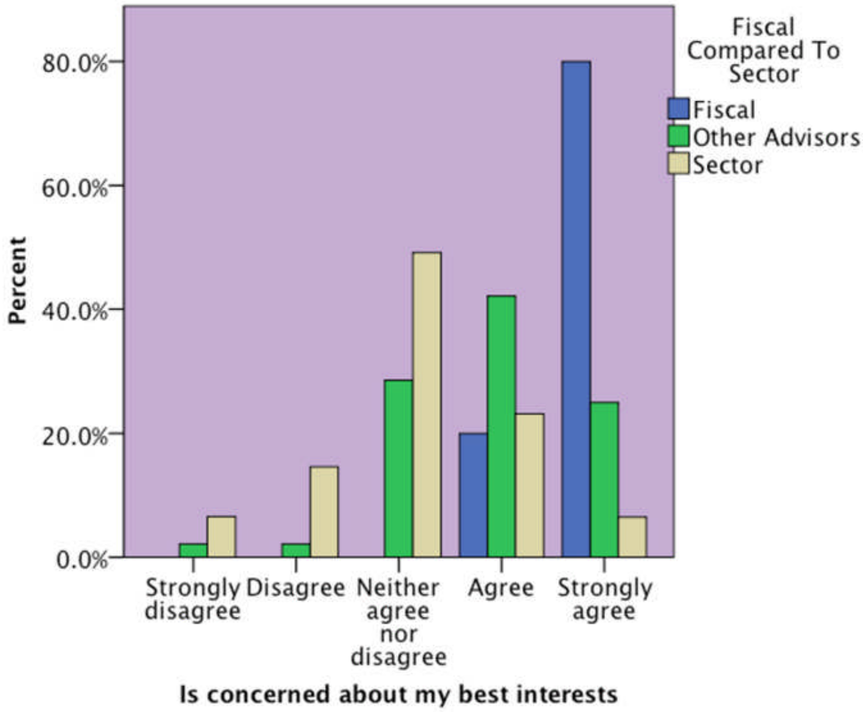


Base Level Trust Benchmarking

The graph above shows data for the question relating to perceptions of reliability. Reliability is a key element of base level trust, a functional element of the service in terms of the firm doing as expected by consumers and getting things right most of the time.

Financial services firms generally fare remarkably well in ratings of reliability. Only very small percentages of customers disagree in any way that their provider is reliable and none of Fiscal's clients fall into these categories. For financial services firms in general, roughly 60% of customers either agree or strongly agree that their provider is reliable and for the broker advisor category this figure rises to just over 75%.

However, in terms of reliability, 100% of Fiscal's clients either agreed or strongly agreed with the statement, with an impressive 80% stating that they strongly agree. Clearly, the ability to be reliable and provide accurate and dependable service is one key driver of the high levels of trust enjoyed overall by Fiscal.

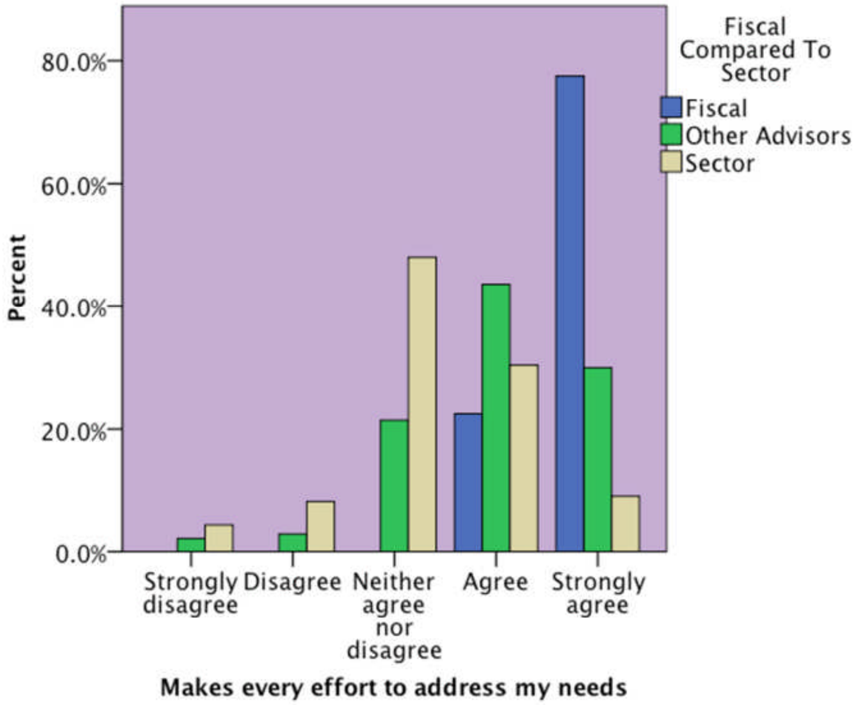


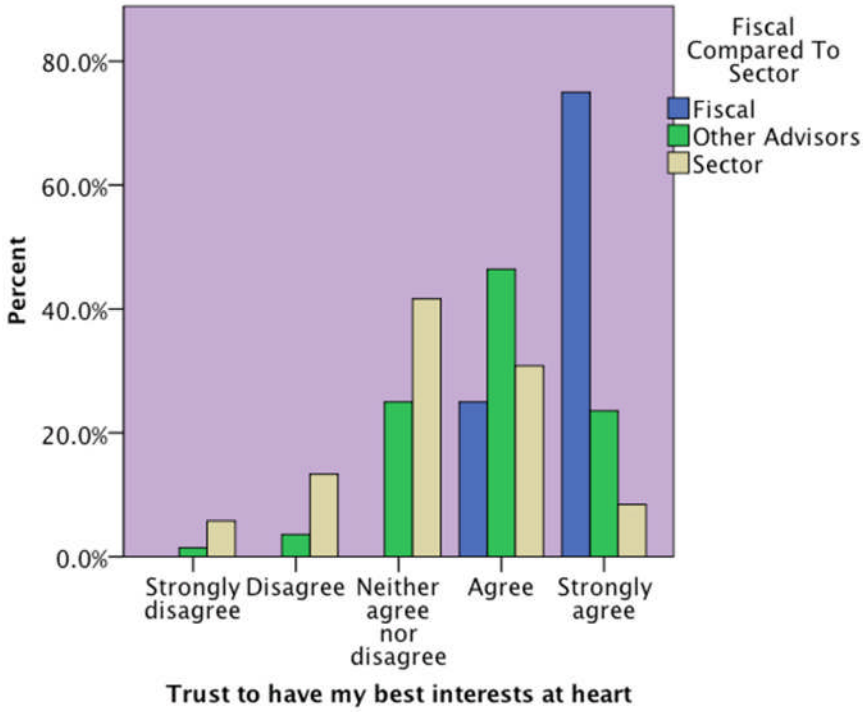
Higher Level Trust Benchmarking

The graph above, as well as the two on the following page, show responses to three questions concerned with elements of higher level trust. The first pattern worthy of note is that for the financial services sector in general, the majority of respondents either disagree with the statement in question or provide a neutral response. Assessments of higher level trust are therefore considerably less favourable than for base level trust and customers are significantly more sceptical that their provider has the customer's true interests at heart and makes every effort to serve those interests.

It was previously noted that brokers/advisors enjoy the most favourable assessments in the sector generally in consumers' judgements of trust and it is little surprise that this pattern is apparent in the responses relating to higher level trust in particular.

Once again, Fiscal benefits from significantly more positive assessments of trust when it comes to higher level elements of trust. Much previous analysis produced by the Centre has indicated that it is in the area of higher level trust that firms gain less traction with consumers and struggle to convince that they are truly looking out for the interests of the consumer. The fact that 80% of Fiscal's customers strongly agree that the firm does have the customers best interests at heart is an extremely unusual degree of positive endorsement and is indicative of the fact that with the correct approach to customer engagement a firm can stand out markedly from the crowd.


Percent
80.0%
60.0%
40.0%
20.0%
0.0%
Strongly disagree
Disagree
Neither agree nor disagree
Agree
Strongly agree
Makes every effort to address my needs
Fiscal Compared To Sector
Fiscal
Other Advisors
Sector


Percent
80.0%
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0.0%
Strongly disagree
Disagree
Neither agree nor disagree
Agree
Strongly agree
Trust to have my best interests at heart
Fiscal Compared To Sector
Fiscal
Other Advisors
Sector

Conclusions

Consumers' perceptions of trust in the financial services sector have shown a modest but sustained improvement over the past 18 months. This is the case for base level, or functional trust, as well as high level, or affective trust. The former is always rated more highly than the latter with consumers more convinced as to the reliability of firms than the fact that they truly care about customer needs and have the customers' best interests at heart. Given the recent history of the sector, this is perhaps not surprising.

Attempting to benchmark a particular firm against other providers of the same type and against the financial services sector in general is challenging, as observed differences may be due to differences in data collection methods or sample composition. However, the analysis presented here shows such marked differences in performance that it is highly unlikely that these are due to anything other than genuine differences in consumers' ratings of their provider. What the analysis shows, therefore, is that even in a sector renowned for challenges in being trusted, it is possible for a firm to break away form the pack and benefit from extremely high levels of consumer trust, with the obvious attendant relationship and other commercial benefits that this entails.

References

[i] http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/11223764/Banks-fined-over-2bn-after-currency-rigging-investigation.html
[ii] http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/9404493/Libor-scandal-how-the-events-have-unfolded.html
[iii] http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/11268079/Banks-running-out-of-time-to-stamp-out-bad-behaviour.html
[iv] http://www.cii.co.uk/downloaddata/Trust_CII_2010.pdf
[v] http://pwc.blogs.com/press_room/2014/10/pwc-research-financial-services-industry-faces-bigger-problem-than-lack-of-trust-apathy.html
[vi] Previously, data were collected twice a year