

Research note:

Measuring Trust and Trustworthiness in the Financial Services Sector: A Benchmarking Case Study

The Financial Services Research Forum is widely acknowledged as the UK's most inclusive body for advancing the understanding of financial behaviour and promoting the interests of consumers. The Forum is also interested in any developments in the sector and in the global economy that are likely to have profound implications for financial services consumers and their interactions with financial services markets.

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Introduction

The UK financial services industry has once again been rocked by scandals during 2012. Such scandals are not new, and have been a feature of the industry since de-regulation in the 1980's. Opinions regarding the current state of the industry may be divided and it has been suggested by some that the large-scale disruption caused to the industry may be a form of creative destruction, and that over a period of time we see a more resilient and grounded financial services industry as a result. For others, the continuing round of scandals is simply a symptom of an industry structure that is fundamentally flawed. Predictably, the response to the post-crash scandals and the wider financial crisis has been a move towards more stringent regulation. This has been seen in a range of measures, such as the Basel-led move towards strengthening capital requirements for banks, and in the UK the move towards ring-fencing 'utility' function banking services as proposed by the Vickers Report.

In addition, however, there has been a widespread recognition of the need to restore trust in the industry. This was forcefully advocated by Anthony Browne, the recently appointed CEO of the British Bankers' Association¹. Martin Wheatly, CEO designate of the FCA, has also clearly outlined the need to rebuild trust and trustworthiness in the industry². Despite these high profile announcements, there continues to be ambiguity regarding the meaning and measurement of trust and uncertainty about the extent to which the industry is genuinely committed to working to enhance consumer trust.

'Trust' is a simple word that is often misunderstood. Whilst it would not be appropriate here to engage in a detailed evaluation of different definitions, 'trust' as a concept can be seen as multifaceted, highly discursive, and indirect. A reasonable standard view of trust would suggest that it is concerned with an individual's willingness to accept vulnerability based on positive expectations of the intentions or behaviour of another in a situation characterised by interdependence and risk.

Trust is, arguably, of particular importance in relation to retail financial services consumption decisions. Two particular factors are relevant; first, trust has a beneficial impact in terms of the customers overall evaluation of a financial services relationship; second, trust plays a key role in reducing perceived risk and the simplification of choice. The two are clearly interdependent and the potential for trust to build confidence and reduce perceived risk depends on the extent to which trust has already created positive evaluations of the organisation and its brand.

A Financial Services Institution (FSI) cannot control or force customers' trust. However, an FSI can take steps to measure levels of customer trust and to focus on policies and behaviours designed to enhance customer assessments of their levels of trust. This paper describes an exercise undertaken by the Financial Services Research Forum ('FSRF') in collaboration with Fiscal Engineers Ltd, a boutique financial services advisory firm based in the East Midlands. The FSRF performed a benchmarking exercise based on long-standing FSRF Trust Index data. Fiscal Engineers Ltd undertook an independent client appraisal survey to replicate the Trust Index questionnaire items, and the FSRF performed statistical analysis to compare the two data sets.

¹ Anthony Browne (2012), speech to BBA International Banking Conference delivered 17 October. Available at http://annualconference.bba.org.uk/downloads/20121015_speech_to_annual_BBA_conference_v2.pdf

² Martin Wheatley (2012), speech to the Chartered Institute of Bankers delivered 4 May. Available at <http://www.fsa.gov.uk/library/communication/speeches/2012/0504-mw.shtml>

In so doing, this exercise was able to provide Fiscal Engineers with a grounded analysis of the levels of trust by customers within their business, as compared to long-term industry data.

The FSRF Trust Index

The FSRF Trust Index began in 2005. Detailed analysis of the methodology and approach applied has been described in detail by Ennew, & Sekhon (2007)³. In summary, essential determinants of trust were defined through a process of screening academic papers, with further filters applied via a series of qualitative interviews with consumers of financial services products. With these core determinants of trust thus defined, a large-scale survey of consumer views was initiated in order to gauge views on trust across six major types of financial services provider; Banks, Building Societies, General Household Insurers, Life Insurers, Credit Card Companies and Broker/Advisers⁴. Each wave of the survey has been conducted across circa 2,000 respondents: as a result this body of survey data now consists of over 25000 data points conducted over an eight-year period.

Application of the Trust Index: benchmarking results of individual firms

The initiative to survey levels of trust across the UK financial services industry has produced a 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 the FSRF survey can be put to practical use by individual FSI's within the industry.

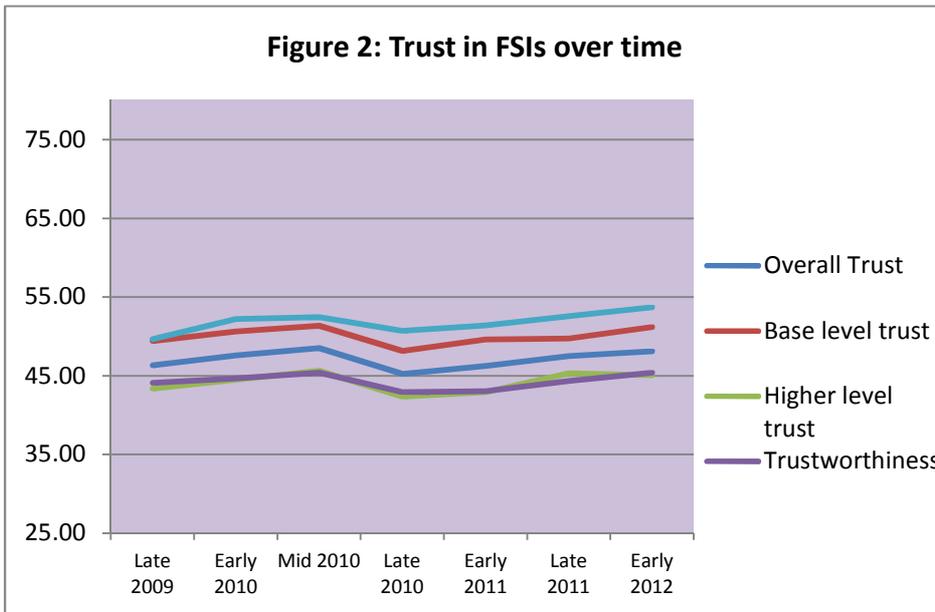
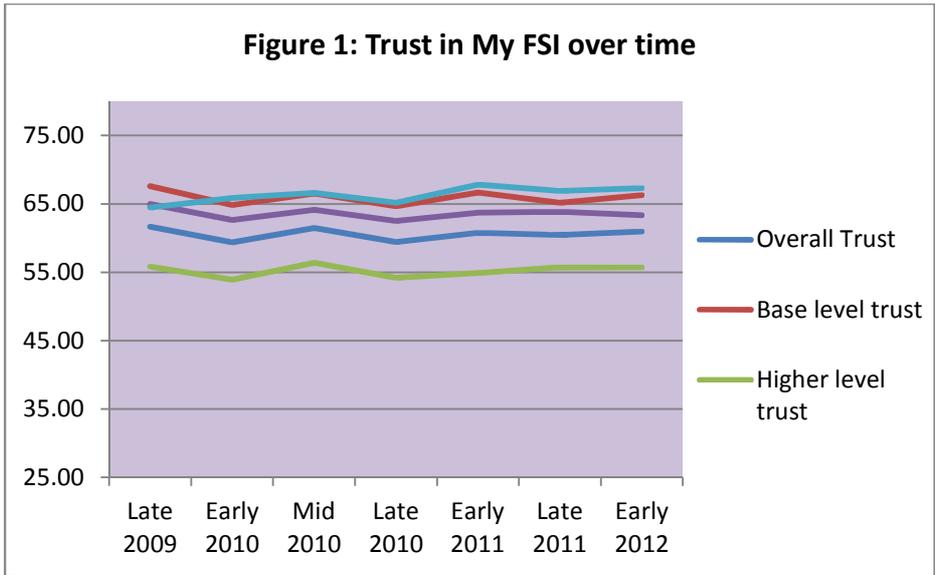
Under this benchmarking analysis programme, FSI's perform a customer survey to mirror the outputs of the Trust Index industry survey. The FSI survey results can then be compared with data from longitudinal Trust Index industry survey performed by the FSRF. This type of exercise was completed in 2008 for a large national Building Society, and for a specialist mutual provider. The benchmarking exercise has again been performed during 2012 for a financial advisory boutique firm, Fiscal Engineers Ltd. Fiscal Engineers offers financial planning and wealth management advisory services to HNW clients and family offices. During the course of Q1 2012, Fiscal Engineers implemented a program of customer surveys through quantitative and qualitative methods, in order to align their own client base data to that of the general Trust Index industry survey. As an initial stage, clients were invited to complete an online survey with the option of anonymity. A qualitative approach was overlaid upon this quantitative data by performing personal interviews with a focus group of clients. This allowed for the development of deeper, more textured survey data results.

Results

As context, Figures 1 and 2 present the results over time for an aggregate measure of trust based on consumers' responses in relation to their own FSI (Figure 1) and FSIs in general (Figure 2)

³ Ennew, C T and Sekhon (2007) The Trust Index, Consumer Policy Review, Mar/Apr, vol 17 (2) pp 62-68

⁴ This paper has necessarily summarised survey content and results. More detail can be found in Ennew, C (2011) *The Financial Services Trust Index: Q1 2011*. Available at <http://www.nottingham.ac.uk/business/forum/documents/researchreports/paper83.pdf>

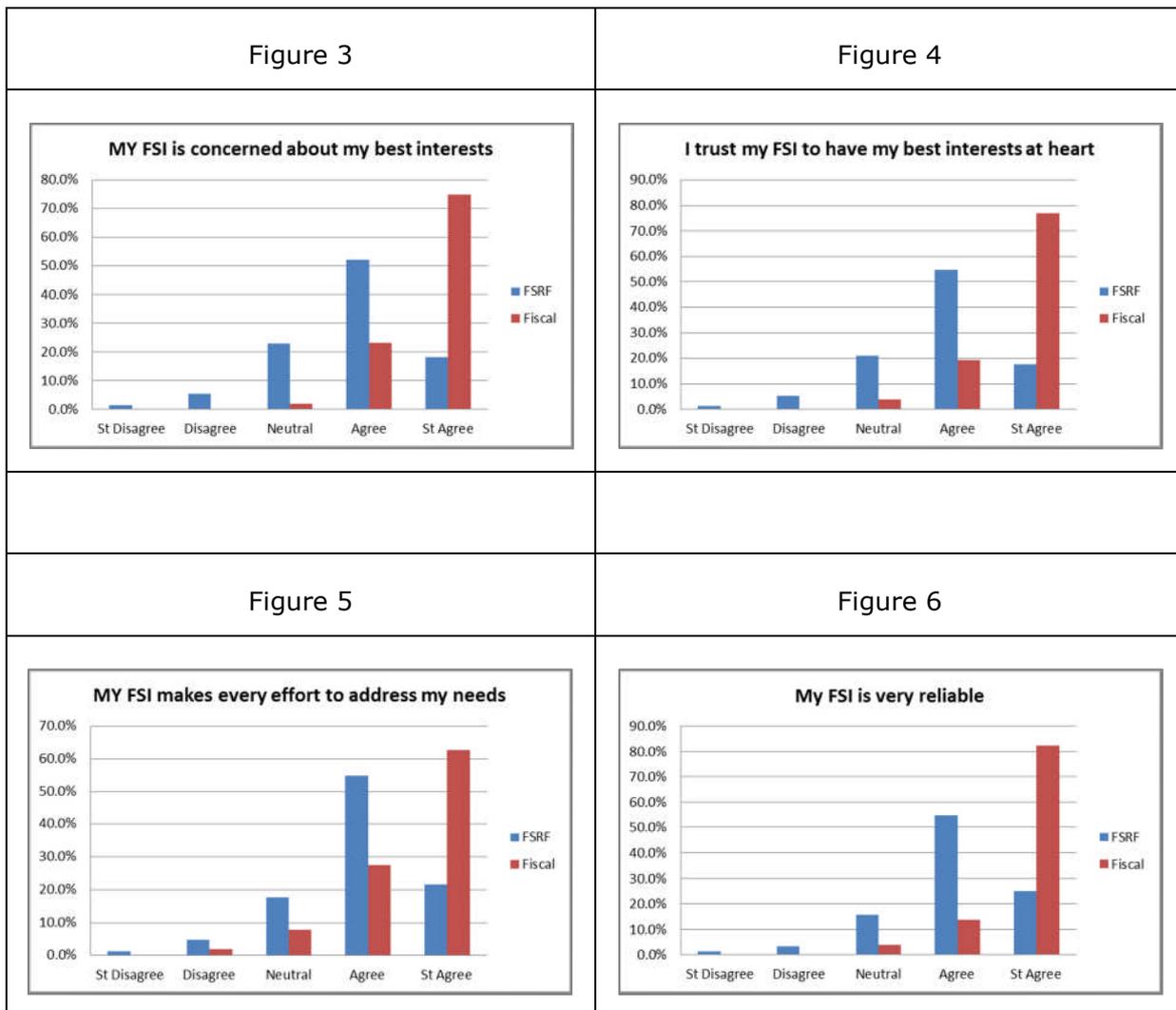


Disaggregated analysis, by both dimensions of trust and institution type are discussed in more detail in the latest FSRF Report⁵. Key points of note include the significantly lower level of trust associated with the industry as a whole when compared with respondents' own FSI, the degree of stability in trust over time and the generic weakness with respect to higher level trust.

This type of information provides the regulator and other key stakeholders with insights into the evolution of trust over time for the industry as a whole and for sectors within the industry. The same information can be used to provide individual companies with a means of evaluating their own performance by benchmarking themselves relative to the industry as a whole and relative to subgroups within the industry on a range of measures relating to trust and trustworthiness. Indeed, it is only through the collective efforts of individual companies to improve their own trustworthiness that consumer trust on aggregate can be improved.

⁵ Available at <http://www.nottingham.ac.uk/business/forum/documents/researchreports/paper94.pdf>

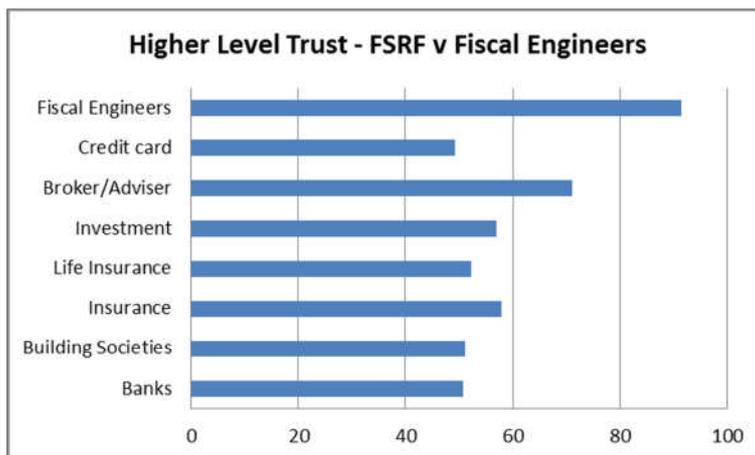
For the purpose of this particular benchmarking exercise, the results of the Fiscal Engineers Ltd customer survey were compared against the 'My Broker/Adviser' sub-sector of the industry Trust Index survey. Comparative results of this benchmarking exercise are best illustrated in graph format and evidence is provided in relation to a particular subset of the variables contained in the FSRF Trust Survey. As shown below, Figures 3-6 show consumer/client responses according to a standard 5-point Likert scale. Respondents were asked to rate the relative degree of benevolence (Figures 3 and 4), customer service (Figure 5), and reliability (Figure 6). In this case, the results for Fiscal Engineers Ltd showed demonstrably higher levels of trust than for the Broker/Advisor industry average.



One element of analysis conducted by the FSRF involves a distinction between 'base trust' and 'higher-level trust'. 'Base trust' (transactional or cognitive trust) is associated with competence, expertise and consistency, and in essence measures the extent and reliability of a FSI to do what it says it will do. 'Higher level trust' (relational or affective trust) is associated with benevolence and shared values – the degree to which the industry or individual FSI cares about the interests of its customers. As a further means of comparison and benchmarking, levels of 'higher trust' were compared between Fiscal Engineers Ltd and each of the six Financial Services

Industry sectors surveyed in the FSRF Trust Index. The results are shown below in Figure 7. In this area, Fiscal Engineers Ltd scored a 91.5% trust rating compared to a general Broker/Adviser industry average of 71.1%.

Figure 7



Conclusion

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 organisations position and identifying, where necessary, strategies to improve that position. The Financial Services Research Forum’s Trust Index offers the opportunity to benchmark individual financial services organisations against sectoral and industry averages across a range of measures pertinent to consumer trust and trustworthiness.

The paper provides an illustration of how this might work for a subset of trust measures in the case of one boutique financial advisor. It is recognised that there may be a degree of disparity between the general Broker/Adviser segment client profile and the client base of Fiscal Engineers Ltd. For example, as a boutique firm offering advice to HNW clients, Fiscal Engineers Ltd will cover clients characterised by greater personal net worth and a more mature age group than the general industry. However, despite the caveat applying to this particular example, we believe that the results of such a benchmarking exercise can still be of significant application. This programme of benchmarking can provide a tangible means by which an FSI may be able to actively measure client trust levels, as measured against broader industry data.