



Trust and Fairness in Financial Services October 2013

The Centre for Risk, Banking and Financial Services (CRBFS) is a research centre based at Nottingham University Business School. Our aim is to produce world-leading research, insight and commentary focussed on financial services consumers, markets and institutions.

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Our Approach:

- We collect data on a six-monthly basis
- We use a nationally representative sample of well over 1000 participants in each round of data collection
- We collect data online, in conjunction with a major market-research company
- We collect data for seven types of financial institution:
 - Banks
 - Building societies
 - General insurers
 - Life insurers
 - Investment companies
 - Brokers/advisors
 - Credit card companies



Our Approach:

- We collect the following **Fairness** related measures:
 - **Procedural Fairness** - The fairness of the processes associated with service delivery, which incorporates the elements of impartiality, refutability, explanation and familiarity
 - **Interactional Fairness** - The courtesy, respect and consideration shown and the degree of genuine two-way communication
 - **Distributive Fairness** - the fairness of the outcomes of the exchange
 - **The Fairness Index** – A combined measure of procedural, interactional and relational fairness
- We collect the following **Trust** related measures:
 - **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
 - **Trustworthiness** - based on the image and reputation of financial institutions
 - **System Trust** - The extent to which consumers believe that the regulatory environment and business system provides adequate protection for them
- We don't necessarily report all measures in all reports, choosing instead to focus on certain key findings and trends



Our Approach:

- We provide 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 particularly fair/trustworthy, nor particularly unfair/untrustworthy.
- Values above **zero** are indicative of **moderate to strong perceptions of fairness/trustworthiness**
- Values below **zero** would range from **moderate to strong perceptions of a lack of fairness/trustworthiness**
- The main data reported here represents consumers’ perceptions of firms in general, rather than their own particular provider.
- We show data for the financial services industry as a whole, as well as for each the seven sectors mentioned above.



Our Approach:

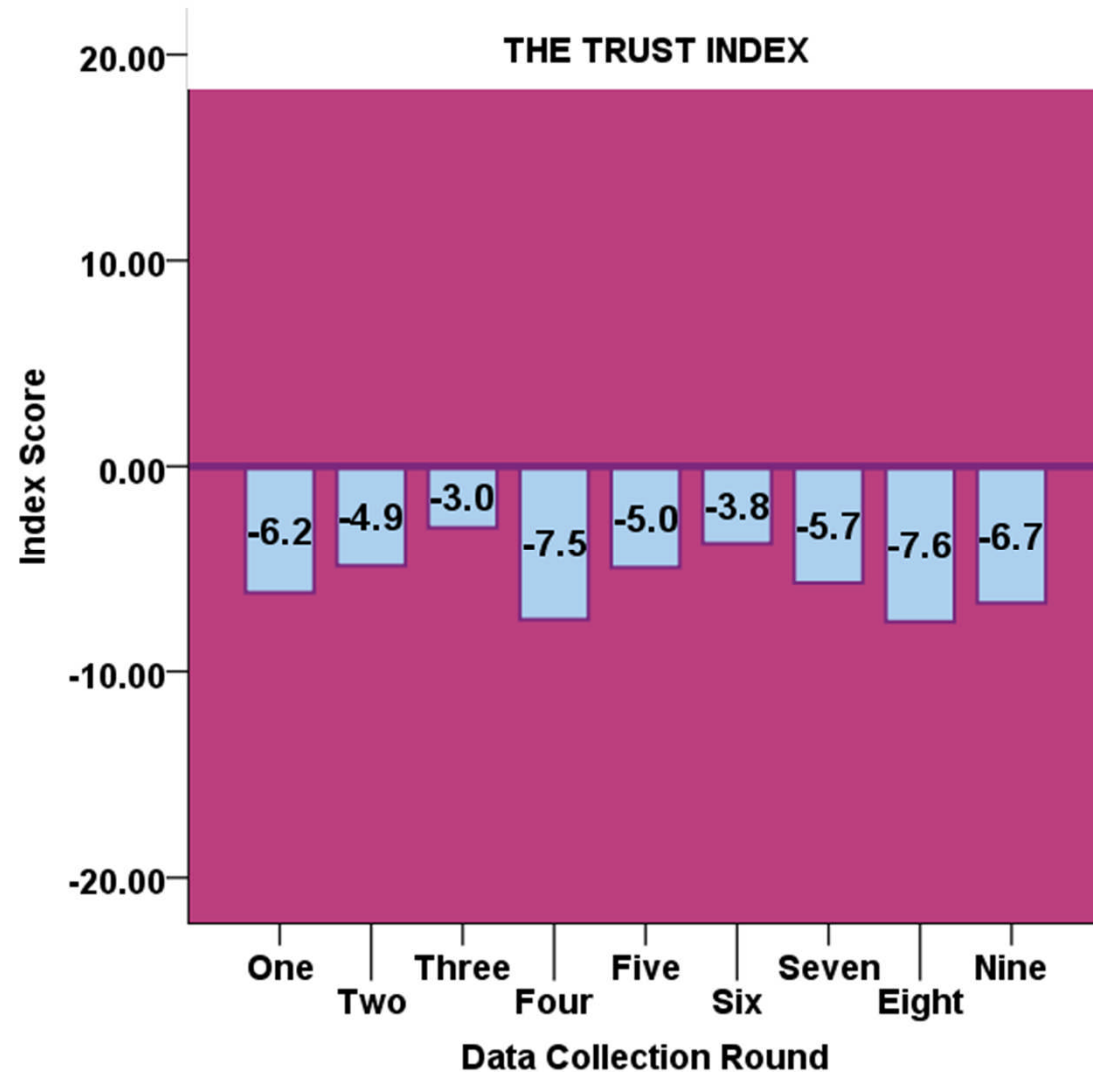
- The data collection was carried out at the following times*:
 - **Wave One:** **Late 2009**
 - **Wave Two:** **Early 2010**
 - **Wave Three:** **Late 2010**
 - **Wave Four:** **Early 2011**
 - **Wave Five:** **Late 2011**
 - **Wave Six:** **Early 2012**
 - **Wave Seven:** **Late 2012**
 - **Wave Eight:** **Early 2013**
 - **Wave Nine:** **Late 2013**

*Previously, we reported three waves of data for 2010. This has now been reduced to two to ensure consistency with other years.

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Comment:

The overall Trust Index once again remains in negative territory, registering a score at the lower end of measurements taken in the past four years, but a marginal improvement from earlier in the year. Looking at the trend, it is apparent that levels of trust appear cyclical in nature, but on aggregate do not vary by a large amount.



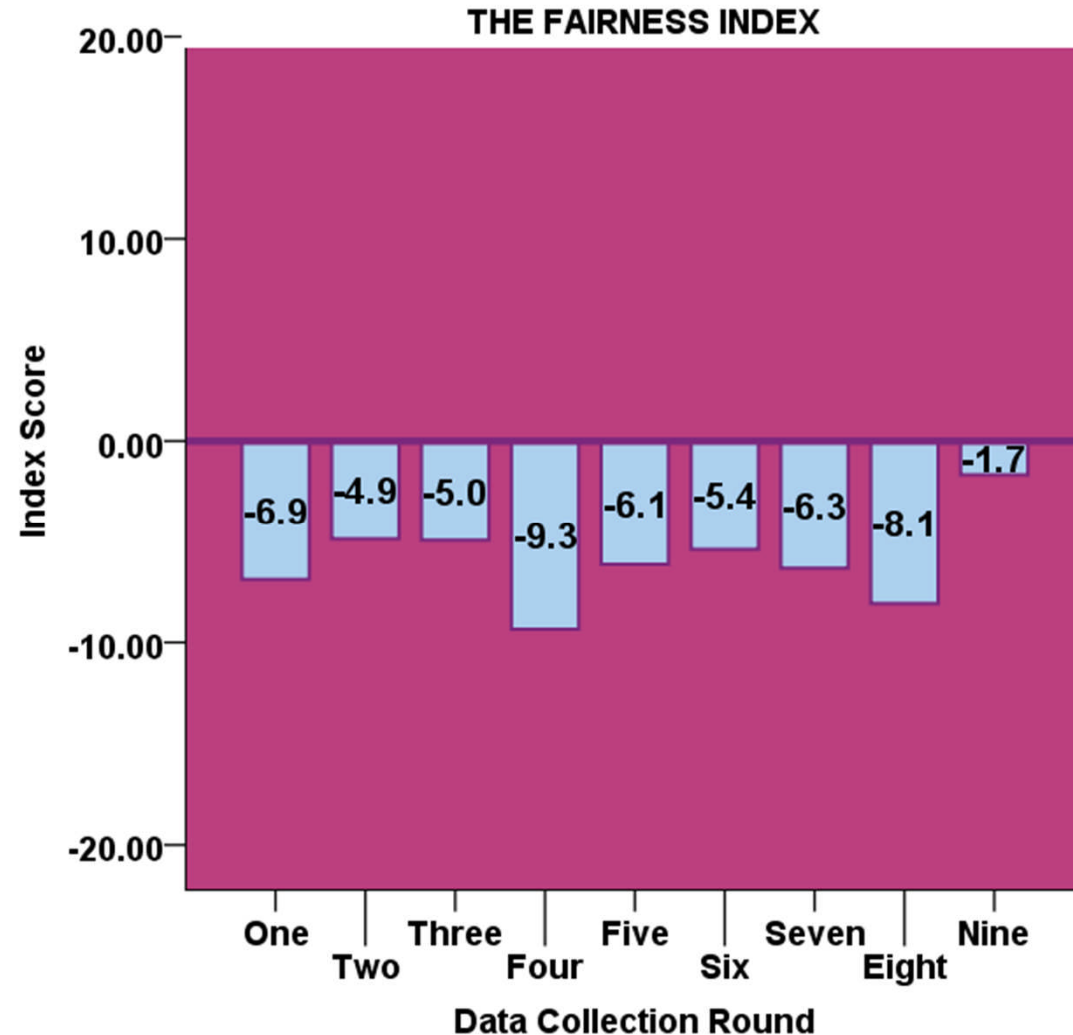
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Comment:

The picture with regard to Fairness is more promising for financial services institutions. The overall Fairness Index registered its **highest ever** measure, almost creeping into positive territory for the first time. Later in this research note, we will investigate the data on improvements in fairness ratings in more detail.



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Comment:

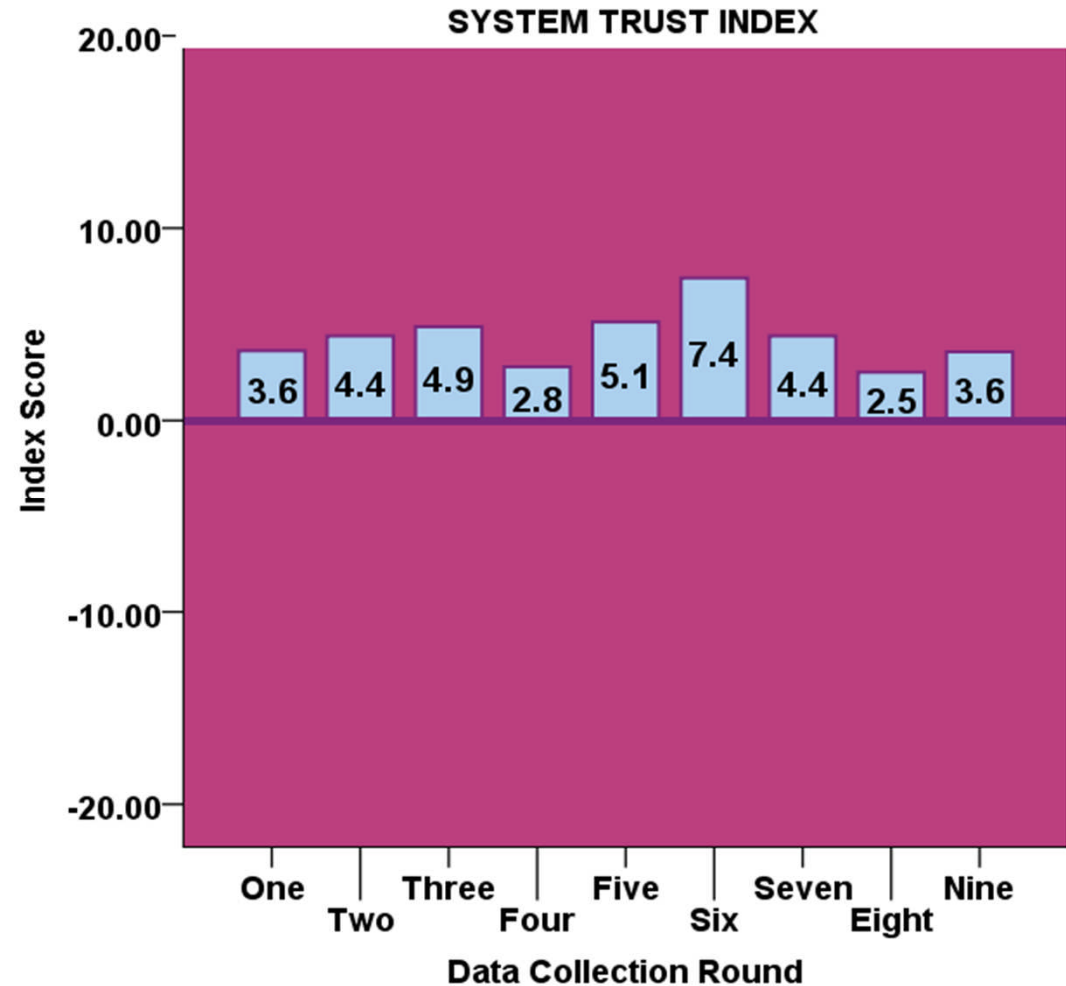
System trust has remained remarkably consistent throughout the period covered by our data.

System trust concerns the degree to which consumers feel that regulations are in place to protect them, whether they can rely on the financial services compensation scheme and whether institutions conduct business in a sensible fashion. Given the turbulent recent history of the sector, more of a dip/variation may have been expected.



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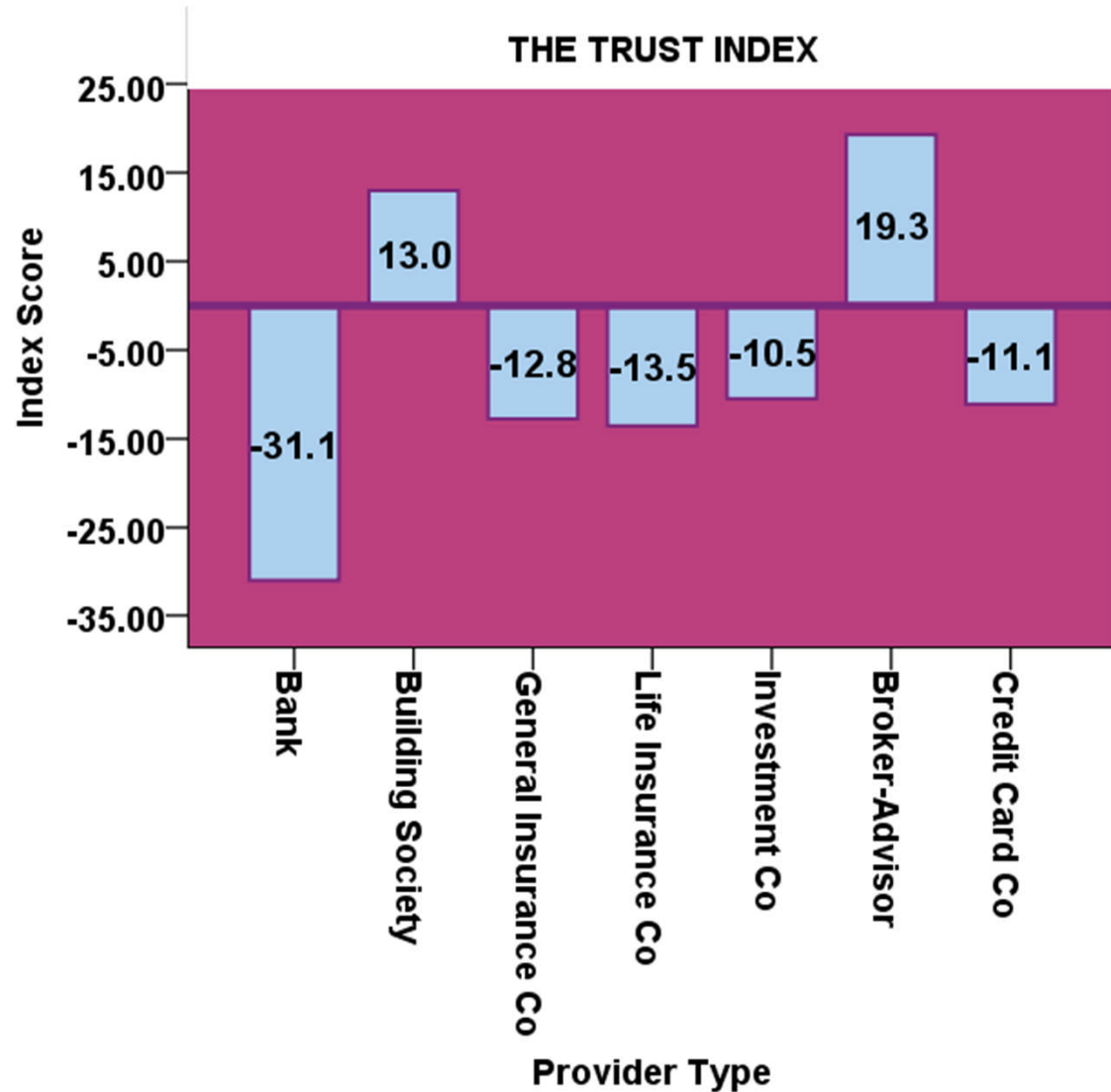
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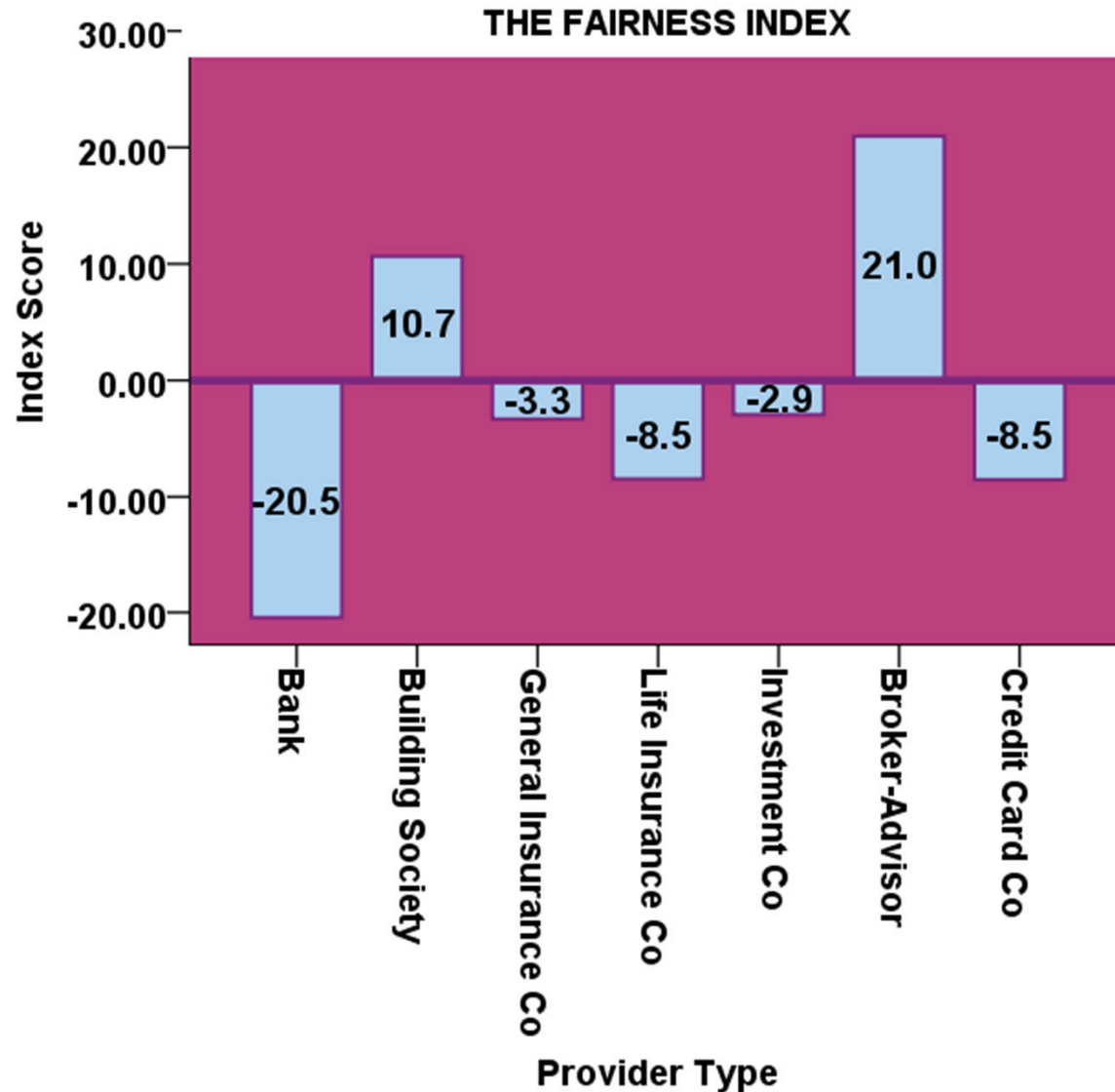
With regard to sector comparisons for the Trust Index, the current wave of data shows banks lagging significantly behind all other types of provider covered by the data and that Broker/advisors and to a lesser extent Building Societies continue to lead the way



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Comment:

Sector comparisons for the Fairness Index are broadly similar to Trust, the current wave of data showing banks again as the laggards, albeit by a lesser amount than in the case of trust. Broker/advisors are well ahead of the pack in terms of overall fairness ratings.



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Comment:

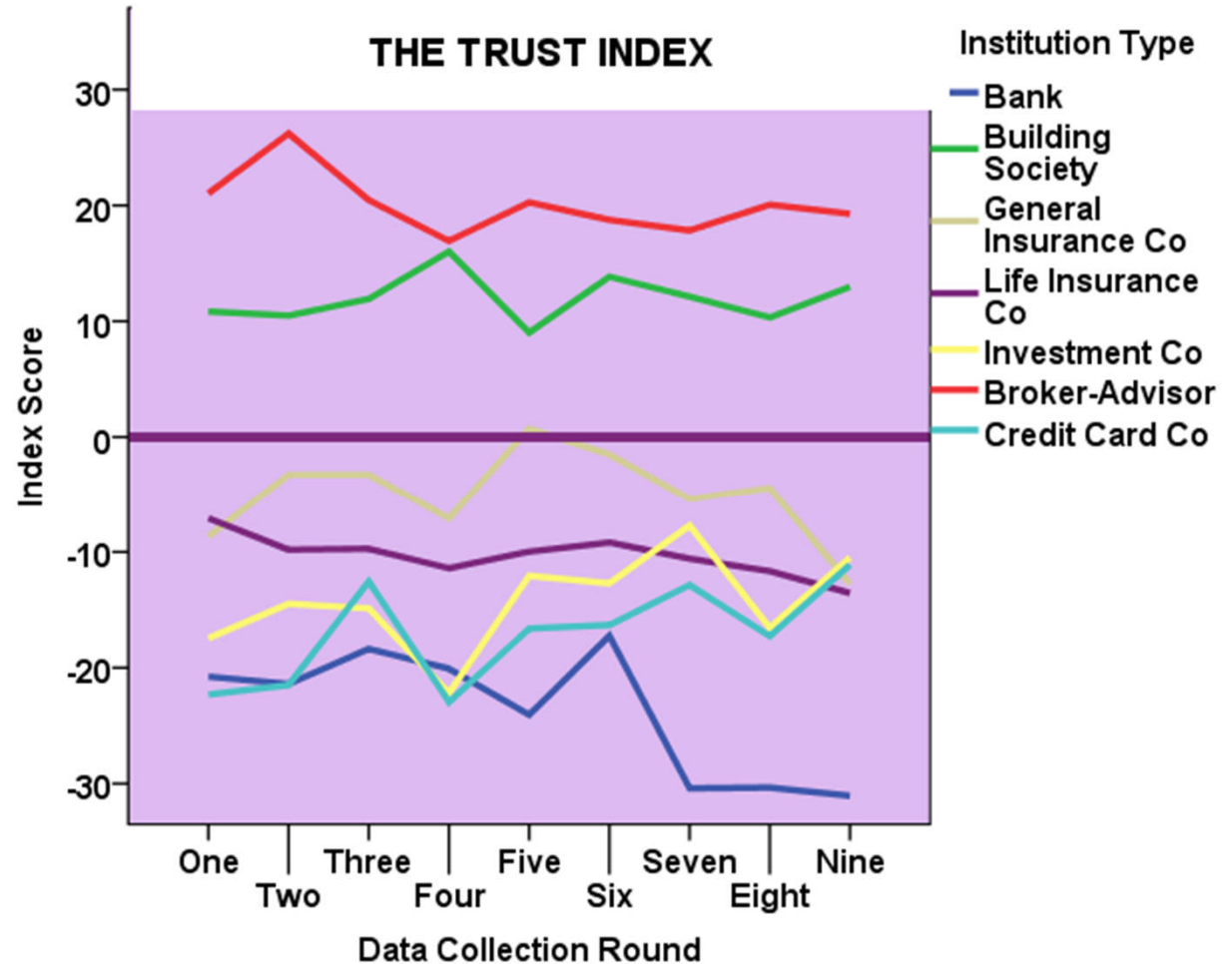
In terms of Trust Index trends from late 2009 until now;

Broker/advisors have always been the most highly trusted with only **Building Societies** coming close to their ratings

The most improved sector is **Credit card providers**, who started bottom of the pile but have improved significantly to be comfortably “mid-table”

Banks have headed in the opposite direction and now have the lowest levels of trust since the start of the period and compared to all other sectors

Investment companies have also enjoyed significant gains



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Comment:

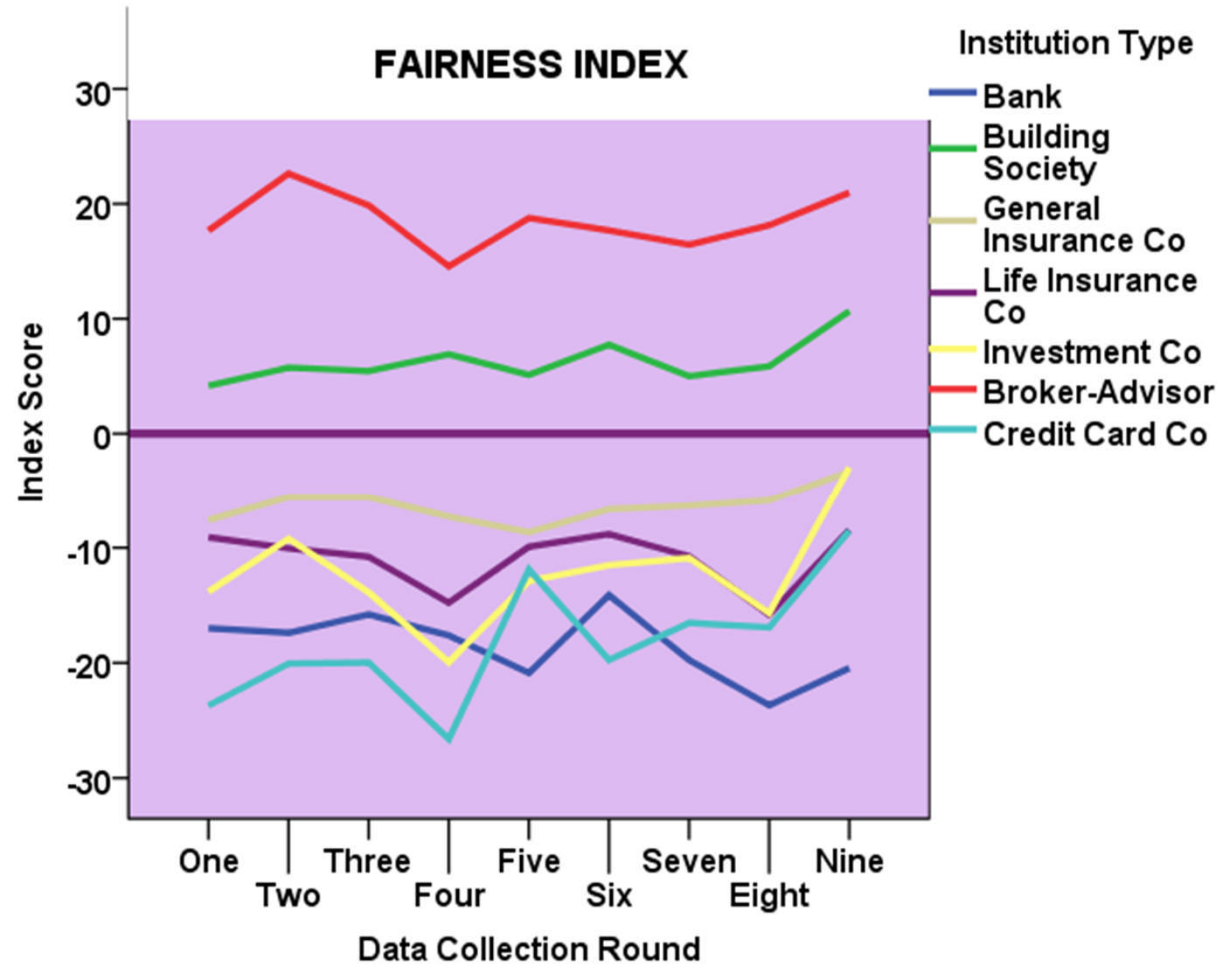
The data for the Fairness Index shows less marked variations since 2009, however:

Brokers/advisors are a class apart from all other types of provider

Credit Card Companies once again exhibit the most marked improvement. Initially they were rating significantly the least fair of all firms covered in the survey. However, they are now broadly in the main pack, having left banks far behind

Investment companies also show significant improvements

Banks have seen a marked downward trends in assessments of how fairly they treat consumers





Focus on brokers/advisors

- We now focus on the **Broker/advisor sector** as this is the first time we have data available where respondents would have experienced a post-RDR environment for some time
- We will look at recent changes relative to the rest of the financial services sector to reveal a different direction of travel for the sector.
- In this section, we use data collected with reference to **My broker/advisor** rather than the perceptions of the sector in general, as used above (i.e. brokers/advisors, banks etc.)
- The following table shows the types of products arranged through the brokers/advisors in the sample.

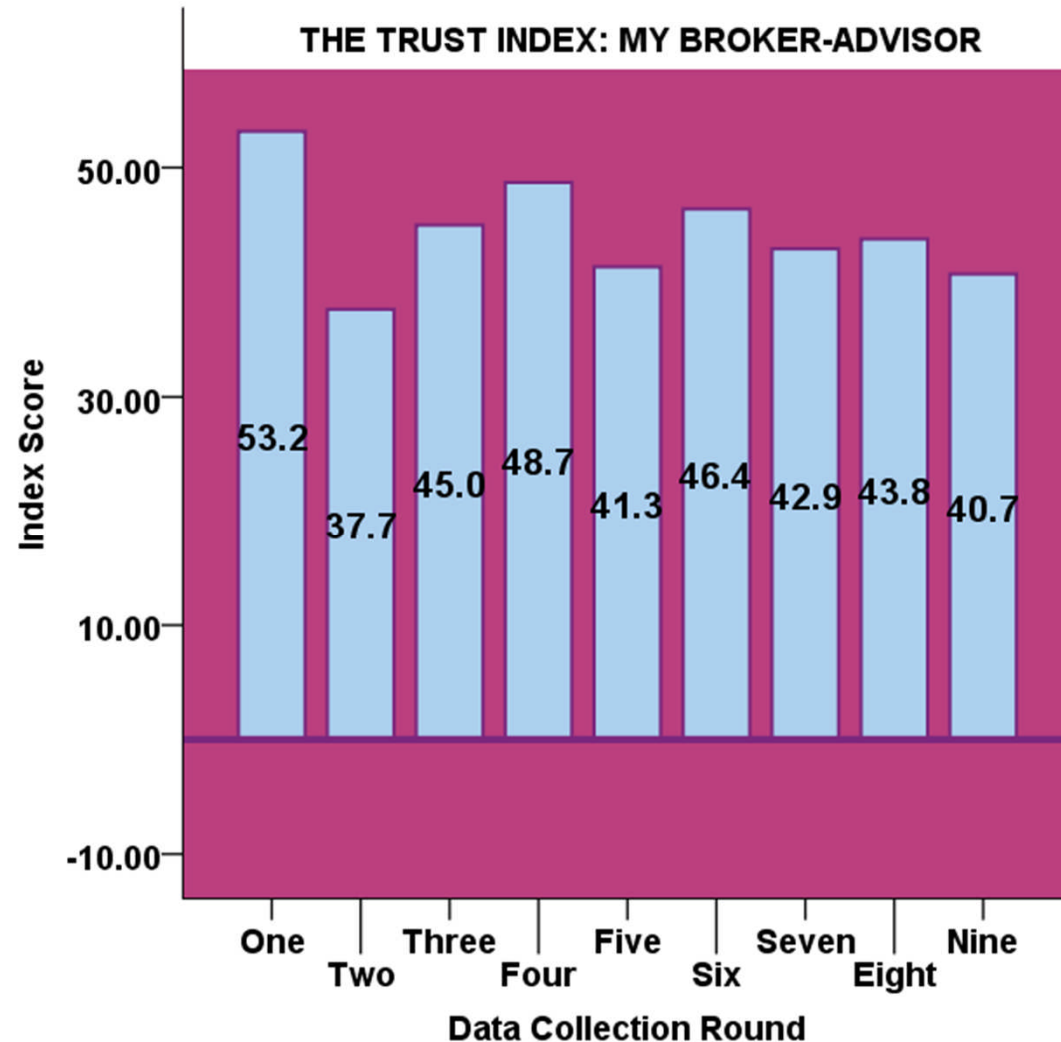
Type of Product Arranged	Frequency	%
Personal pension	61	21.0
SIPP	29	10.0
Life insurance	38	13.1
Equity ISA	46	15.8
Stocks/shares	36	12.4
Total Disclosed	210	72.2
Other	81	27.8
Total	291	100.0

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Comment:

Trust in My broker/advisor have normally been higher than in the current survey and only one lower measure of trust has been taken throughout the period of our survey. This was in early 2010.

Therefore, at a general level the data would appear to indicate that the RDR may be having a small negative effect on the levels of trust in brokers and advisors.



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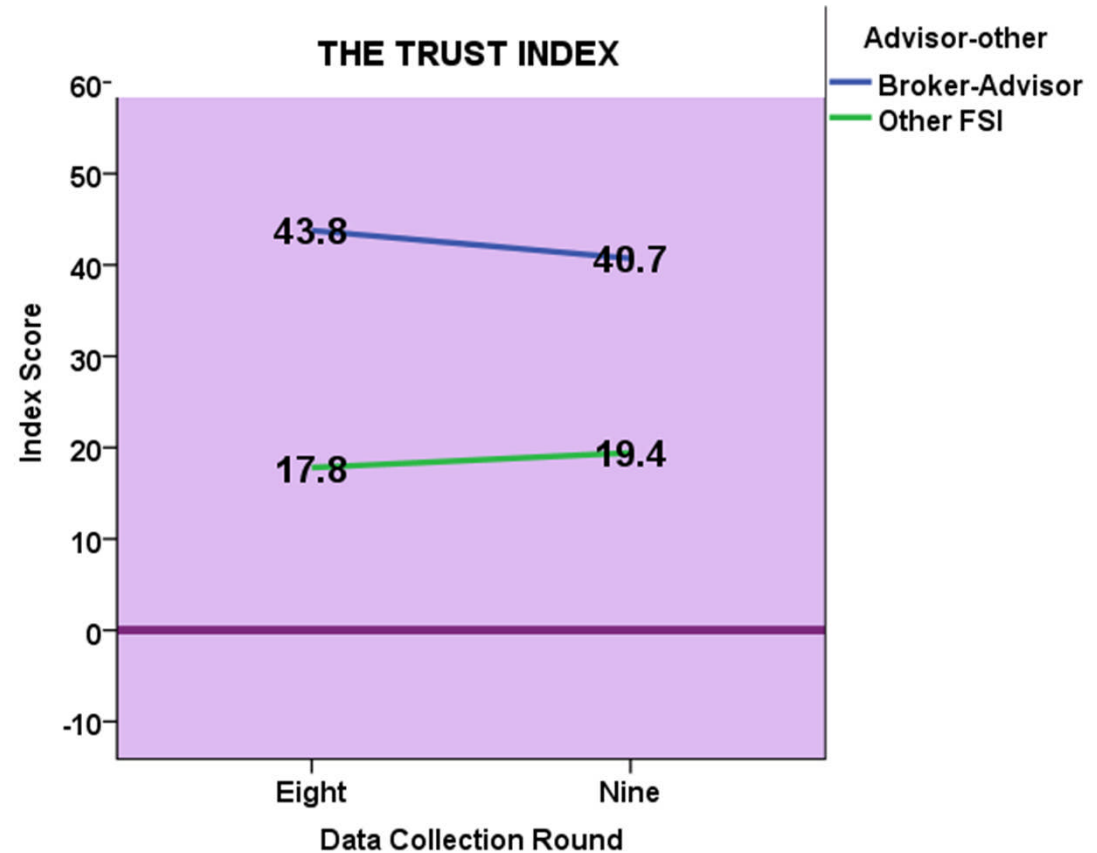
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Comment:

Recent trend data are further indicative of a potential negative impact of RDR.

Between our two most recent rounds of data collection whilst overall Trust in My broker/advisor has **fallen**, for the rest of the financial services sector Trust in My Financial Services Institution (My FSI) has **risen**. The net result is a significant narrowing of the gap between My broker/advisor and the rest of the sector. Future planned surveys whether this trend is set to continue.



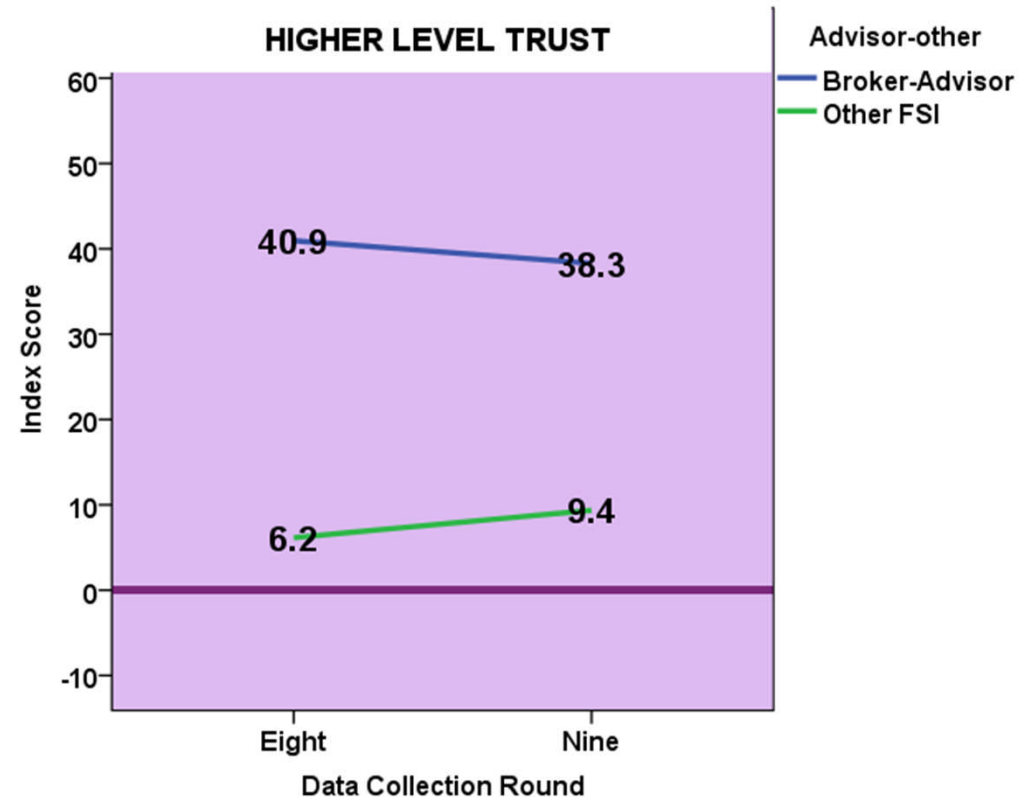
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Comment:

Recent trend data for Higher Level Trust, which shows how much customers feel that the FSI in question has their true interests at heart, also shows a significant narrowing of the gap between My broker/advisor and the rest of the financial services sector. It may well be that more explicit payment for advice is having an impact on judgements as to how much brokers/advisors act predominantly in their customers' interests.

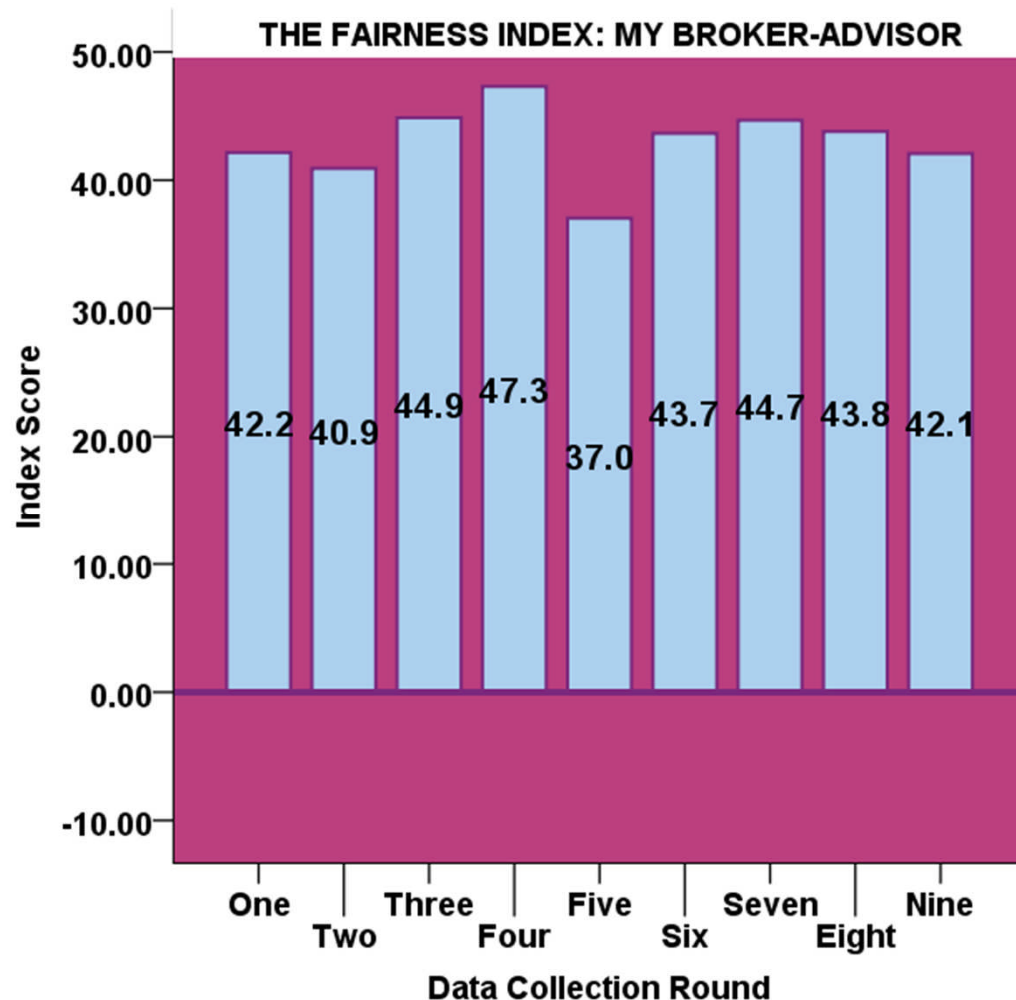


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Comment:

Perceptions of the fairness of brokers/advisors have also fallen back recently, although on two previous occasions they have been rated less favourably than at present.

Nevertheless, data for “My FSI” generally showed a reasonably significant increase in fairness perceptions generally, so the Broker/advisor segment is trending in the opposite direction to the rest of the sector at present.



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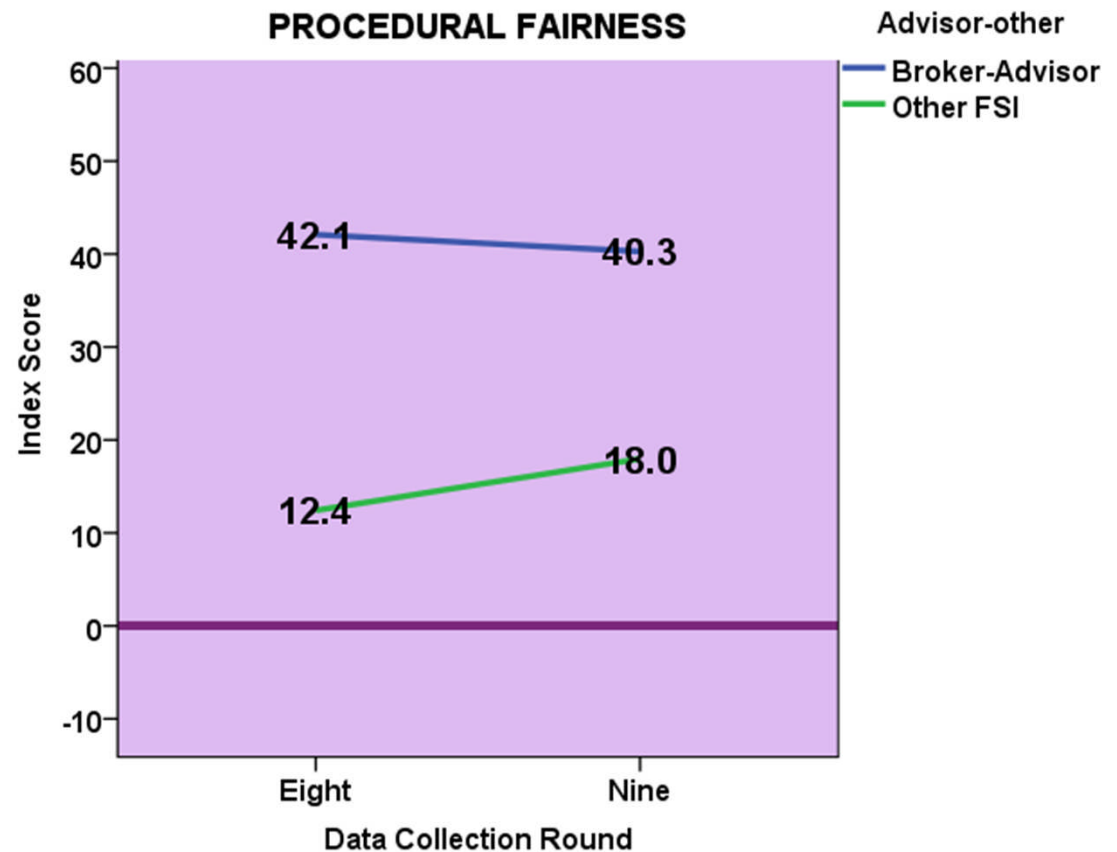
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Comment:

Data on perceptions of procedural fairness shows a marked reduction in the gap between My broker/advisor and other types of FSI. The Index points difference has fallen from almost 30 points to 22 points over a few months.

This is a highly significant shift in perceptions for a single time period.



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Comment:

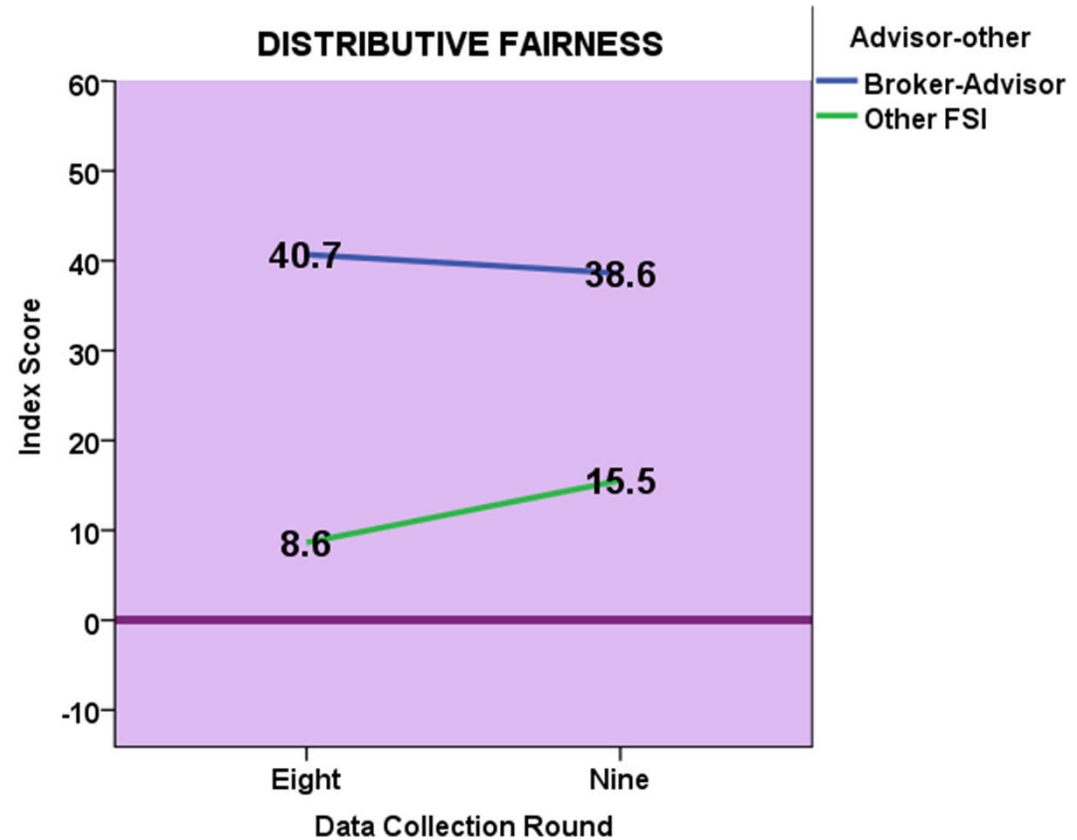
Recent data is also indicative of a significant narrowing of the gap between My Broker/advisor and other variants of My FSI for Distributive Fairness.

Distributive fairness is concerned with how the benefits are shared out between those involved in the exchange of goods and services, how the pie is shared out. Although My Broker/advisor remains significantly above all other types of FSI, the gap is narrowing. If this trend continues, the most likely explanation is the implementation of the RDR



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Concluding Comments

- Although general perceptions of the trust and fairness associated with FSIs remain underwhelming, recent trends will be welcomed by the industry and policymakers, as the standing of the sector appears to be improving as the general financial situation, whilst still challenging, becomes more benign.
- Sector differences endure, with Brokers/advisors still being rated as a class apart from other types of FSI across all aspects of trust and fairness
- Over the 4 years we have been collecting data in its current form, Credit card companies have seen a significant increase in their trust and fairness perceptions. They started out as very much the laggard of the sector, but have progressed to become comfortably “mid-table”.
- Banks have headed in the opposite direction and are now very much at the bottom of the rankings.
- More nuanced analysis of recent data on trust and fairness relating to Brokers/advisors indicates that there are initial signs that the impact of the RDR may be somewhat negative. Future trends will be monitored carefully to establish whether the narrowing of the gap between Brokers/advisors and other types of FSI continues.