The Concept of Trust in Financial Services

The Psychology of Trust and Financial Services

When looking at the behaviour of the financial services consumer, trust is a critical factor. Trust will allow people (customers) to transfer the responsibility for certain activities (that they feel are complex or that they are not adequately competent in) to another person. So, how do we understand the impact of trust? And how can we increase trust to ensure that we can help people become more engaged in financial services?

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The use of psychology can assist those working within the financial services industry to understand people's behaviour and attitudes towards saving and investing. Psychological concepts can help us to understand how customers make decisions regarding financial planning. Engagement is key, and it is important for us to understand how behaviours can influence engagement. The aim of this article is to look at the concept of trust as one of the influencers of behaviour. Trust plays a major role in workplace behaviours and understanding the concept of trust can assist us in understanding the behaviour of customers within financial services.

What is Trust?

Trust means taking a risk on someone else's belief. If we don't trust the other person, we will use defensive behaviours to protect ourselves from any risks. These defensive behaviours can reduce engagement in financial planning. Mischra (1996) developed a multi conceptual definition of trust which is "one party's willingness to be vulnerable to another party based on the belief that the latter party is (a) competent, (b) reliable, (c) open and (d) concerned".

These four categories can be used by financial services practitioners to assess how they are perceived by their customers in terms of trust.

Competent – Am I demonstrating competence? This can be shown by ensuring that people representing the company are well trained and have the required qualifications. Company representatives should have the tools they need to understand the customer and to be able to explain, in a way the customer can understand, why certain products are suited to that individual. They should be able to answer questions and ensure that the correct information is being given. Research has shown that trust can be increased if the knowledge of the provider is clearly demonstrated. Also, Ring (2012) found that an increased level of knowledge on the customer's part (in relation to financial services) will also increase trust, as the customer can make a cognitive assessment more easily.

Reliable – Do I or my company ensure that we provide all of the information requested in a timely fashion? Are company systems robust? Can information be easily accessed? Is there a relationship with the customer, and is the person managing that relationship available when required? Is the information supplied correct and consistently meeting the needs of the customer?

Open – Is the information easily available? Do we share the information to educate and inform the customer? Do we have a presence across social media? Can our customer services representatives be easily contacted?

Concerned – Do we show understanding for the customer? Do we aim to build a relationship? Do our services include personalised interactive information? Do we care about the individual? Are we active in helping to develop our industry?

Individual Differences

We can all accept that part of the challenge in dealing with people is that the behaviour of the human race is not always rational, and everyone is different. Therefore it is important to consider that people will react differently to our services. Some people will have a higher level of **trait trust**; this means that they will be more naturally disposed towards trusting another person or body. Their trust is developed from their personal lifetime experiences, socio economic factors, their personality and even genetics. On the other hand, **state trust** is based on their assessment of another individual or organisation. As with other personal traits, trait trust can be relatively unchanging in a person, whereas state trust can be increased based on a positive experience (or decreased based on a negative experience!). So for the financial services industry, it is important to realise that any experience with a customer will affect their perception of trust in relation to you. Familiarity can breed trust, and a challenge within this particular industry is that the number of chances for interaction is often relatively low. It is therefore important to find ways to reach out to your customers and build relationships.

Generational Demands of Trust

Variances in attitudes towards trust can also be found in different segments of the population. Changing demographics are affecting attitudes to trust, and providing new challenges for the industry as we try to deal with the changing values and needs of younger generations. Research has shown that Generation X and Generation Y are less trusting than previous generations. This is partly due to their experiences of recent economic recessionary times, political conflicts and witnessing the collapse of large organisations.

They do not tend to trust government bodies to manage their finances, and know they can't rely on state funding for retirement. They prefer to take control of their own finances and protect their future themselves. Consumers need to be able to trust that their money is actually being paid into the pension scheme or investment product - something all financial services providers have to consider.

Generation Y in particular, have a need to be able access their information 24/7. Trust can be enhanced if all parties have up-to-date financial information readily available, and financial services providers need to take advantage of technology to provide this information. The information should be personalised and interactive. Research by Gommans, Krishman and Scheffold (2001) found that trust in an organisation could be increased if a person's online experience allowed them to interact with the service. Higher levels of trust lead to increased loyalty towards the organisation's brand.

Stakeholders

There are different stakeholders within the industry, and each can face different challenges in relation to trust and their relationship with the customer. Each of these parties can develop trust based on the four categories discussed above but it is also important to understand interaction with individuals.

'Interpersonal Trust' means that there is a personal interaction, for example with a financial services provider, trustee or company representative. Trust can be developed on a one-to-one basis between the representative and the customer, and the customer will assess the person they are to trust based on their personal experiences and their perception of the representative's levels of competence, reliability, openness and concern. Ring (2012) also found that in this relationship, trust can be improved if the provider or adviser is ready to understand and appreciate the level of cognitive financial knowledge held by the customer.

'Impersonal Trust' is when there isn't a personal connection, as in the case of relationships with organisations (such as insurance companies or investment firms) rather than individuals (such as brokers or advisers). The brand or reputation of the company is critical for this perception, as it will form the basis of a customer's decision on whether or not to trust the company. Research by Kelly (2007) in the UK found low levels of perceived trust for companies based on their brand or reputation, especially amongst younger consumers. By developing a company brand in line with the four assessment levels of trust outlined above, a company can build perceived levels of trust.

'Systems Trust' is the system or rules that govern and regulate the financial services industry,and the knowledge that is assumed to be "established as professionally attested truth" (Luhmann, 1979). Regulators in Ireland include the Central Bank and The Pensions Board. Both have an active role in Ireland for representing themselves and consumers. Regulators can help improve trust by ensuring that products and regulations are simplified as much as possible, and by assisting with the financial literacy of the Irish population.

Ways to Improve Trust

There are a number of suggested ways to improve trust:

1. Understand the customer – take time to build relationships and understand their level of competency. Be aware of individual differences with each client.
2. Develop knowledge - We have seen from recent IAPF research on literacy that there are concerns regarding levels of financial literacy in Ireland. But we see from research that trust can be improved if there is enhanced knowledge on the customer's part and a positive perception of the provider's competence.
3. Online presence – develop interactive online tools. This will especially appeal to younger generations.
4. Find ways of keeping in touch with customers – regular touch points will help build relationships and trust. Communications can now include social media posts, emails, texts, online updates, as well as more traditional postal updates.
5. Use all possible stakeholders - if working with employees in a group scheme for example, communicating via the employer will help you benefit from existing relationships. Advisers, providers and even consumer or state bodies can work together to strengthen communications and improve financial literacy.
6. Research how other industries are communicating with consumers. Some brands are very trusted … think about why and how those models could be used in the financial services industry.
7. Be accountable for the advice and information you give and encourage customers to be accountable for taking an active role and learning from the knowledge exchange.
8. Share your company's values and mission statement. Ensure your processes and actions are in line with your published values. Your company values can help inspire trust in your company.

By increasing trust at all levels, financial services companies can build relationships with their consumers, develop their brand and also build trust in the industry. Trust is very powerful and can allow you or your organisation to win business and increase sales based on your clients' trust in your company, services or in you, their adviser. Building trust is a cost effective way to build sales and marketing for your business. If we all work to build trust the industry will benefit from improved perception and engagement.