Key words: advice; clients; financial planning; trust

Trust and the financial planning relationship

As the business world deals with financial crises and the erosion of public confidence, the issue of trust inevitably commands greater attention. This paper provides an overview of trust concepts and addresses various issues concerning trust within the context of financial service providers and, in particular, financial planning.

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IN THE AUSTRALIAN FINANCIAL SERVICES SECTOR, anecdotal references to trust can be observed, such as in Collet (2003) and Laurence (2009), yet there appears little formal consideration of the trust construct. For these reasons, it appears that this sector might benefit from a better understanding of the nature of trust, its conceptual foundations, facilitators and inhibitors and thereby, perhaps, better appreciate how more sustainable and satisfying client relationships might be achieved. This paper seeks to promote a greater understanding of the important factors that affect the development of client/planner trust.

An overview of trust concepts

What is 'trust'?

Trust has been defined as 'a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of another' (Rousseau et al. 1998, p. 395) and it is considered an essential ingredient for quality human interaction. Stack (1978) explains that:

> Trust, an assured reliance on another person, is necessary for human survival ... We need to be able to trust others not only for our own personal sense of well-being but also for the smooth functioning of society … Every day we trust our money to banks, our security to various government agencies, our well-being to a network of law enforcement and other agencies ... [and research suggests that] within the first two years of life each individual must learn to trust at least one person ... Can a person go through life constantly expecting the worst from his colleagues, friends and family, and still be considered psychologically well adjusted? (pp. 561–2)

Trust occurs because it promotes a feeling of being better off. The feeling may derive from economic benefit, reduced complexity, favourable reputation effects, or perhaps from pleasurable, morality-related feelings. Trust might also decrease monitoring costs and substitute for other control mechanisms.

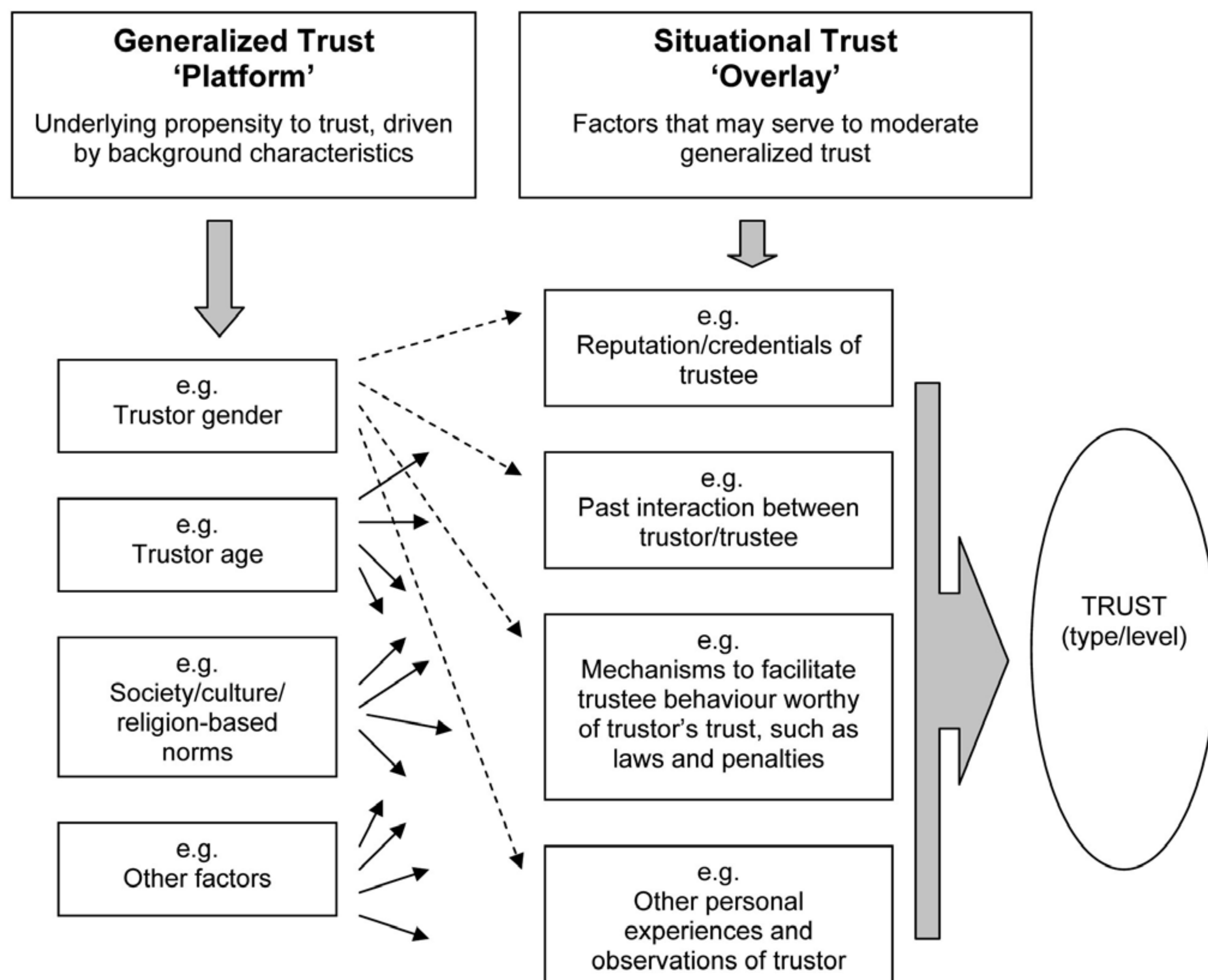
Trust dimensions

Stack (1978) has described a dichotomised view of trust, with the propensity to trust determined from a platform of background determinants overlaid with specific situational factors. The differential determinants of trust include such wide-ranging factors as gender, societal support, religious conviction, family background, history between trustee and trustor, organisational structure and management styles. Figure 1 summarises this dichotomised trust–building process.

From these broad foundations, more specific trust bases can be contemplated. For example, Rousseau et al. (1998) concluded that trust is best modelled from three bases representing a 'multi-dimensional' character: (a) deterrence-based trust, (b) calculus-based trust and (c) relational trust. Deterrence-based trust arises from sanctions created to impose costs that outweigh the benefits from opportunistic behaviour (for example, 'trust' fostered through legislation that penalises misconduct). Calculus-based trust focuses on inputs to a 'rational choice' where evidence builds a picture of trustworthiness (for example, academic credentials, years of experience). While deterrence and calculus-based trusts might exist quite early, repeated, favourable exchanges over time are required for the deeper, richer relational trust to ultimately emerge. Thus the trust-building process depicted in Diagram 1 could pertain to any of these three trust bases. Each base will induce different responses to a potential trust-violating event and the steps required to repair broken trust will differ from one situation to the next, depending upon the trust type violated and the nature of the loss.

Trust has been alternatively categorised according to the more precise nature of the key elements noted above. For example, Joni (2004) identifies three trust types: personal trust (based on the trustee's integrity), expertise trust (based on the trustee's ability in a specific subject area) and structural trust (based on the positioning of the trustee with regard to potential conflict of interest and other biases).

FIGURE 1: **Dimensions of trust — a diagrammatic representation**



Source: Formulated from Stack (1978), Rousseau et. al (1998) and others.

Trust, distrust and other perspectives

When considering trust it is instructive to reiterate that 'trust is not a behaviour …, or a choice …, but an underlying psychological condition that can cause or result from such actions' (Rousseau et al. 1998, p. 395). It follows that other behaviours might masquerade as trust derivations, but are not necessarily signalling trust. Cooperation among parties may result from reasons other than 'trust', such as an assumed protection through regulation.

It has also been proposed that trust and *distrust* might coexist and are not simply bipolar extremes. Lewicki et al. (1998) depicted four trust/distrust variations, each involving levels of trust (positive expectations characterised by degrees of hope, faith and confidence) and distrust (negative expectations characterised by degrees of fear, skepticism, cynicism, monitoring and vigilance). They proposed the likely association of each mix with successful business relationships; for example, high trust/low distrust is likely to promote sustained and repeated exchanges; low trust/high distrust virtually eliminates any chance of effective exchanges. Figure 2 depicts the key elements of the Lewicki model.

Thus it has been suggested that exchanges apparently encouraged by deterrent mechanisms might not be evidencing *trust* at all and might actually be accompanied by degrees of *distrust* (Rousseau, 1998). Cooperation may actually flow from an accepted level of distrust. For example, a treaty between nations may be formulated to allow exchanges to occur notwithstanding a less than cordial rapport.

Research into trust measures

Research has provided insights into the measurement of trust (Rotter 1967, 1971; Wrightsman 1964) and evidence suggests women are more trusting than men (Roberts 1972; Wrightsman 1974; Maccoby and Jacklin 1974). Other factors influencing trust propensity include the trustor's social support history and occupation (Wrightsman 1974), desire for social approval, locus of control and 'Machiavellianism' (Stack 1978), religious support (Rotter 1967) and parentage (Katz and Rotter 1969). Communication is identified as a vital ingredient to building trust (Stack 1978) and importantly, inconsistent messages will erode trust (Galford and Drapeau 2003). Those perceived as more likeable are also perceived as more trustworthy (Tedeschi 1973; Stack 1978).

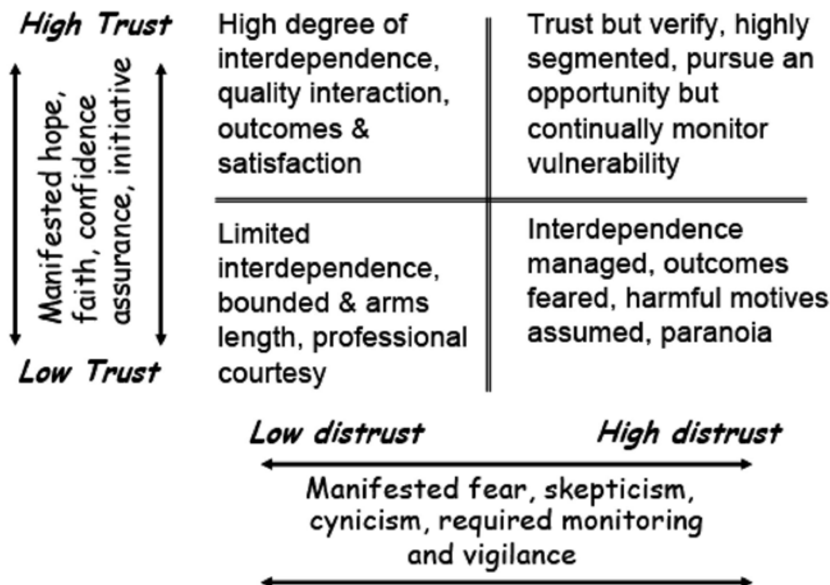
The financial planner and client relationship

The preceding overview suggests that trust is a reasonably complex phenomenon. Delineating the type and level of trust existing in a given relationship is likely to be made more difficult when the parameters of the relationship are loosely defined, risks and vulnerabilities are not properly specified or understood, or expectations are subject to frequent reassessment.

Trust and financial planners

When an individual considers engaging a financial planner the seeds of trust are sown (i.e. possible reliance upon another, vulnerability or risk and positive expectations) and are likely to be within the layered model of situational and generalised-based trust noted earlier. Existing clients may also engage in trust-related behaviours as a result of reappraising trustworthiness attributes; becoming closer to (more trusting of) their planner, or perhaps becoming more distant (and less trusting). Situational trust determinants can be drawn from a range of trust dimensions or bases. For example, calculus-based trust may evolve as planner credentials, performance and reputation are assessed.

FIGURE 2: **Trust and distrust**



Source: Adapted from Lewicki et al. 1998).

The financial planning industry has experienced much regulatory change in recent years and trust perceptions may be changing in line with these reforms. The impact of the global financial crisis may have also influenced investor perceptions of adviser trustworthiness. Some observations can be made from the following events, which have relevance for trust issues:

Media reports: Media discussion may be an indication of an industry prone to trust violation. Reports focus upon finding a 'good' financial planner, finding the 'right' planner, winning trust, the controversy of fee structures, client/planner expectations gaps, lack of professionalism, and so on (see, for example, Collet 2003; Kahler and Whyte 2004; Negline 2003; Sampson 2003);

Financial Collapses: The well-documented and controversial financial collapse of various investment structures over recent times and the associated role of advisers reflect trust violation (e.g. Fincorp, Westpoint, Opes Prime and Storm Financial);

Parliamentary Investigations: The 2009 Parliamentary Joint Committee on Corporations and Financial Services (the Ripoll Inquiry) felt compelled to recommend banning commission-based remuneration and that the Corporations Act be amended to require planners to place their clients' interests ahead of their own. Such recommendations paint a fairly dim picture of past behaviour by financial planners and advisers. Further, it has been suggested that the inquiry may not prevent future improper behaviour (West 2009; Davis 2009);

Submissions by consumer groups: CHOICE's submission to the Financial Service Working Group (July 2008) raised trust violation issues regarding superannuation:

> There is a strong public interest in facilitating a superannuation industry that is fair, simple and efficient. Our submission notes that this is a difficult task in an industry that tends towards product complexity and ... embedded conflicts of interest … Conflicts of interest erode consumers' capacity to access quality financial advice. A conflict of interest occurs when someone in a position of trust, say a financial adviser, planner, or even trustee, has a competing professional or personal interest that makes it difficult to fulfil their duty to the client without bias (pp. 2–3);

Surveys by ASIC and consumer groups: Various surveys have revealed serious issues of concern regarding the quality of financial planner services and reflect trust violation (notably ASIC Report 18 of February 2003: *Survey on the quality of financial planning advice;* ASIC Report 50 of August 2005: *Superannuation switching surveillance;* ASIC Report 69 of April 2006: *Shadow shopping survey on superannuation advice)*. These outcomes were widely publicised in the media [for example, Kahler et. al. 2006).

Deterrence and competency rules of the *Corporations Act (2001)* are renewed attempts to mitigate the conspicuous incidence of finance industry behaviour at odds with fostering investor trust. Despite such measures, trust may remain elusive, for exchanges facilitated by deterrent mechanisms might not evidence *trust* at all and might actually be accompanied by levels of *distrust*.

Complaints/disputes: Complaints provide an indication of trust-damaging behaviour. For example, approximately 2,000 telephone complaints and 1,000 written complaints were being received each year by FICS (now merged into FOS, the Financial Ombudsman Service). Investment complaints for 2008–2009 rose 68% compared with 2007–2008 (FOS and FICS Annual Reviews). FOS complaints are likely to understate complaint activity, as not all providers are members of FOS and other complaints services exist, such as the Superannuation Complaints Tribunal.

The above anecdotal record indicates a range of trust violations likely to negatively influence client expectations of financial planners. In the trust vernacular, calculus-based trust will be diminished. At the extreme, future exchanges will be avoided. Further, the likelihood of relational-based trust would appear virtually non-existent if the client is aware of and has been persuaded by such evidence. Elements of the trust/distrust construct (Lewicki et al. 1998) are of relevance here (recall Diagram 2) and a *low* trust / *high* distrust setting could evolve. The 'bandwidth' concept of trust (Lewicki et al. 1998) is also pertinent here, as trust varies both in scope and degree. By properly communicating the more realistic abilities of a planner (these are as basic as saving time for the client, but also include technical abilities such as superannuation planning, but *not* stock picking or market timing), a proper delineation of trust scope and degree might be determined to the satisfaction of all parties, and erroneous beliefs or expectations will be reduced.

Deterrence and competency rules of the *Corporations Act (2001)* are renewed attempts to mitigate the conspicuous incidence of finance industry behaviour at odds with fostering investor trust. Despite such measures, trust may remain elusive, for exchanges facilitated by deterrent mechanisms might not evidence *trust* at all and might actually be accompanied by levels of *distrust* (Rousseau 1998). In the present context, deterrence mechanisms may simply provide sufficient impetus for a client to do business with a planner, yet distrust and low trust might persist and

satisfaction remain stifled. Fear and cynicism might be limited, yet there remains an absence of faith, confidence and assurance. Alternatively, high distrust may persist and higher trust only unfolds through the client's constant vigilance and verification of every step.

The structural trust dimension was noted earlier (Joni 2004) and is quite relevant here. Analogous to a business leader needing 'informed, disinterested advice from sources committed to that leader's success but who have no personal stake in it' (Joni 2004, p. 83), an individual undertaking personal wealth management needs the counsel of an unbiased advisor with no self-serving agenda. That is, high structural trust is required, and Joni (p. 85) suggests such trust can be expected only when the following questions are answered affirmatively regarding the trustee (for example, the financial planner):

(i) Given this person's role and responsibilities, can he/she offer judgement untainted by his goals or interests?

(ii) Is he/she in a position to be fully loyal?

(iii) Is he/she unlikely to spin or filter information?

The anecdotal observations noted earlier suggest an industry struggling to satisfy these questions.

Note also that elaborate monitoring and sanctioning mechanisms aim to raise public confidence but may actually *detract* from effective exchange relationships and so discourage trust (Macaulay 1963; Kogut et al. 1993). Formalised agreements, contracts and regulation can stifle the creation of an effective exchange relationship, as there appears little need to trust at any broader level (Sitkin and Bies 1994). Rousseau (1998, p. 399) concludes that:

> There is an apparent incompatibility between strict controls and positive expectations about the intentions of another party. Some controls actually appear to signal the absence of trust and, therefore, can hamper its emergence, perhaps by limiting the degree of interdependence that develops between the parties. Moreover, belief in the absence of 'negative intentions' is not the same as belief in the presence of positive ones – the latter being a necessary condition of the generally accepted definition of trust.

The increasing regulation of the financial services industry may well be a case in point and it has been noted (by the Financial Planning Association's CEO at the time) that 'Australian financial planners are amongst the most regulated in the world' (Kelly, 2004).

While it is feasible that elements of wealth management might be achieved without much trust (and perhaps with a presence of distrust), it seems unlikely that a client's feeling of well-being could be of the same order as when wealth management is accompanied by *high* trust and *low* distrust.

Concluding comments

Trust is a complex psychological condition. It is multi-dimensional in nature and can arise from different bases, each with their own scope, degree, impediments and facilitators. Behaviours may masquerade as trust yet might reflect distrust. Regulations and deterrence mechanisms may not necessarily foster trust.

A myriad of trust issues appear amenable to investigation and these will only be better understood through more detailed enquiry. Anecdotally, a range of documented integrity and competency trust violations appear quite likely to negatively influence client expectations of financial planners and so inhibit trust.

While it is feasible that elements of wealth management might be achieved without much trust (and perhaps with a presence of distrust), it seems unlikely that a client's feeling of well-being could be of the same order as when wealth management is accompanied by *high* trust and *low* distrust. The more attractive and serviceable 'trust/distrust' dyads of Lewicki et al. are attainable through appropriate behaviour. Trust appropriate for specific scenarios and services can be determined and so promote the growth of more resilient relational-based trust, to the higher satisfaction of all parties. Client/planner bonds will strengthen and become more resilient to minor violations if they occur. Finally then, a more suitable definition of financial planning might be proposed, focusing upon managing a client's accumulation, enhancement and consumption of personal wealth with the objective of maximising that client's level of economic satisfaction through trust-building behaviors.

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