It's a Matter of Trust

by David Pierce, MSFS, MSM, MA, AEP, CLF, ChFC, CLU, CFF

ABSTRACT

In this column, David Pierce conducts an interview with Azish Filabi, JD, MA, associate professor and Charles Lamont Post Chair of Business Ethics at The American College of Financial Services, about the topic of trust in financial services. Ms. Filabi also serves as the executive director of The American College Maguire Center for Ethics in Financial Services. The interview focuses on the findings of the Center's "Trust in Financial Services" research, published in 2022.

Vol. 77, No. 2 | pp. 37-39

This issue of the Journal went to press in February 2023.

Trust. A five-letter word that is a very important term in multiple areas of our personal lives. Trust also plays a very important role in our business lives, and especially so in financial services. Many advisors claim that the financial services industry is built on trust, and they view trust as the most important "product" that financial services professionals offer.

Whether it is an insurance or investment product or a planning strategy, the real product clients seek is the trust that promises will be fulfilled and financial needs will be met. Trust comes to life when the product, the financial services company behind it, and the financial professional servicing it act in a clearly understandable way that meets best practice or best interest standards.

Client needs may be for saving, investing, full-blown financial planning, business or estate planning, philanthropic planning, banking, and insuring, or any combination of these needs. In making financial decisions, clients often base their decisions on trust in the financial service industry's commitment to the ethical and moral integrity that will foster their trust. Simply said, without trust the industry would not survive for very long.

Building trust through ethical behavior is widely considered to be an essential core value. Most professionals exhibit a clearly evident belief that ethical codes exist to elevate human behavior. We see ethics and fiduciary standards at work in an advisor's duty of loyalty, in their duty of good faith, and in their duty of care. But how are we, as an industry, viewed by consumers?

To gain insight and understanding, The American College of Financial Services Cary M. Maguire Center for Ethics conducted research last year and published their findings. The report is called "Trust in Financial Services: A Consumer View of Values Influencing Connection and Adoption."[1]

I recently met with Azish Filabi, executive director of The American College Maguire Center for Ethics in Financial Services. We had a most informative session about the Center's recent survey on trust in financial services. Here is what we discussed:

David: Why did you decide to study trust?

Azish Filabi: When I joined The American College in July 2020, as I started meeting my colleagues, advisory board members, and other leaders, it quickly became evident that trust is at the core of ethical business practice in the industry. One of the questions I often ask people is what they see as the key ethics challenge in their work. I often heard that trust is at the heart of our work in financial services. Some even said that we don't sell financial products and services, but rather, that we are in the business of trust. Without it, people would not be willing to rely on financial advisors and the system overall.

I began to research the topic with Domarina Oshana, PhD, our director of research and operations. We read more about the topic of trust in financial services, and were dismayed to see that, historically, the financial industry has been viewed as the least trusted sector in business. We wondered whether that is still true?

I also found that while trust is a consistent theme and ethics challenge, there aren't enough resources about how leaders can develop trustworthy practices. We wanted to address that gap.

David: What were some of your key findings?

Azish Filabi: There is no universal definition of trust. Central to almost all definitions of trust, however, is the idea of a willingness to be vulnerable and hold confident expectations in the ability of the trusted party to behave in the future.

In financial services, the conditions that make trust important are all at play—risk, vulnerability, and interdependence. This makes trust so important to the industry.

Our key findings are summarized in the infographics published on our website.[2] Notably, we've found that customers are stuck between a rock and a hard place when it comes to trusting the industry—they are frustrated in their search for unbiased, trusted research. Consumers try to conduct their own research to determine whether a financial company will be a good fit for them but can be overwhelmed by the information at their disposal. They perceive the media and news coverage of financial companies to be more negative than positive, but also don't want to only receive information directly from financial companies themselves.

This has important implications for financial professionals because one of their key roles is to educate clients about the gaps in their financial life. Without higher levels of trust, professionals will be limited in their success.

Another key finding is that the financial industry can be optimistic about trust. I mentioned earlier that in prior research the financial industry was among the least trusted, yet in our results, the industry is in the middle of the pack! When compared to other *service* industries, financial services lags behind health care and education, but it is ahead of the other industries, including telecommunications, state/local government, media/entertainment, and federal government.

David: Do you see demographic differences in how trust is perceived among consumers?

Azish Filabi: Yes, we do. So much so that we've created a Demographics of Trust Index™ so we can better study, over time, the potential changes in the demographic dynamics.

In our recent study, we found that millennials have significantly higher trust in financial services (and all other service industries) compared to any other generation. This is interesting, considering they are comfortable in a digital environment and therefore, they could set the pace for how financial services evolves.

Our research also found that individuals with a lower level of trust in financial services tend to have similar demographic characteristics, such as their gender (female), education levels (lower), and asset size (lower). As such, opportunities for trust-building may exist within these groups.

In other words, low-trust consumers tend to use fewer financial products and have lower household incomes and assets; they also are more likely to have no loans or debt. This suggests their low trust may lead to avoidance—another hurdle the financial services industry must overcome.

David: What are the top ways that you think financial professionals can help to generate trust among their stakeholders?

Azish Filabi: Great question! What can we do to increase trust in the industry!?

We think trust, like ethics, is a muscle—there are strategies and behaviors you can use to generate trust. Yet, there is no trust without trustworthiness. You must be authentic, otherwise it doesn't work.

We asked consumers to share with us the top reasons why they would trust a financial professional. The following responses are the top behaviors they look for: keeps my information private, protects me from fraud or theft, resolves issues quickly, notifies me of transactions quickly.

These behaviors get to the heart of the vulnerability that clients feel when engaging with financial professionals.

Among the consumers that use wealth management services, they viewed employee credentials as a significant indicator of trustworthiness. One of the people we interviewed put it this way: "I would not go with an individual who just started with a year or 2 years' experience unless he was backed by a larger firm. There are a lot of fly-by-night firms. There are a lot of firms that may be on shakier ground. You hope you have a firm that treats its people well but also has a lot of regulations in place, a lot of protection for the individual."

David: This all sounds great. Are there opportunities for financial professionals to learn more about this topic to help enhance their work?

Azish Filabi: Yes, absolutely! What I've shared here is high level. We have so many insights from our consumer data on this topic and are excited about helping financial professionals activate trust in their practice.

We've launched a Trust and Leadership Certificate Program to give leaders an opportunity to develop personalized strategies to managing trust in their organization, and to explore our data. The program is cohort-based, for any size from 10 to 25 people, ideally all at one company. The feedback we've received from students so far is that they've loved working with colleagues at their company with whom they don't regularly interact, and that the case studies from the program helped them apply real world lessons on failures in trust in order to strengthen their own practices.

The program is also a good way to get continuing education credits. You can email us directly to learn more: ethics@theamericancollege.edu.

We also have additional insights and research available on our website. You can read more about the Center for Ethics' ideas in *The State of Stakeholder Trust in the Financial Industry*, as well as about the *Perspective on Stakeholder Culture in the Financial Industry*—both written by our Maguire Fellow in Applied Ethics, Dr. Caterina Bulgarella.[3] ■

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(1) The American College of Financial Services Cary M. Maguire Center for Ethics, "Trust in Financial Services: A Consumer View of Values Influencing Connection and Adoption," June 2022; accessed at: https://insights.theamericancollege.edu/ethic-trust-study-2022/.
(2) *Ibid.*
(3) https://ethics.theamericancollege.edu/sites/ethics/files/the-state-of-stakeholder-trust-white-paper.pdf; https://ethics.theamericancollege.edu/sites/ethics/files/Stakeholder-Whitepaper-ML_v4.pdf.