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Pathways to Trust in Financial Services: A Closer Look

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Fool me once, shame on you. Fool me twice…

Consumer trust in financial services comes with some latitude for mistakes but is also easily lost when consumers have negative experiences that question whether it was wise to trust in the first place. Beyond this initial general relationship between experiences and trust, there is significantly more nuance and complexity around the factors that drive whether individuals trust an organization.

There are three domains of trust factors: (1) psychological domain; (2) experience domain; and (3) demographics domain. The psychological domain includes trust factors that may be referred to as the most significant “pathways to trust”, shown in Figure 2: visible reputation, value alignment, interest protection, referent trust, and personalization. The experience domain includes two factors of: (i) trust in government (local, state, federal) and (ii) experience with non-mainstream financial products. The demographics domain includes factors of age, marital status, home ownership, race, gender, personal wealth, household income, and education level.

Trust-shaping encounters in one domain – or even encountered by someone else – might affect those in another domain. Some encounters matter depending on one’s psychology and depending on a set of demographic characteristics.

The story about the pathways to trust from the inaugural Center for Ethics in Financial Services Trust in Financial Services Study points toward several mechanisms and conditions that can lead to consumer trust.

Trust formation follows a complex path that touches on perceptions of firms created through the experiences of others (i.e., word of mouth), personal experiences with companies in related sectors or products, and general life circumstances such as demographics, which create a foundation on which trust can build.

Trust can come with some latitude but is also easily lost when consumers have negative experiences.

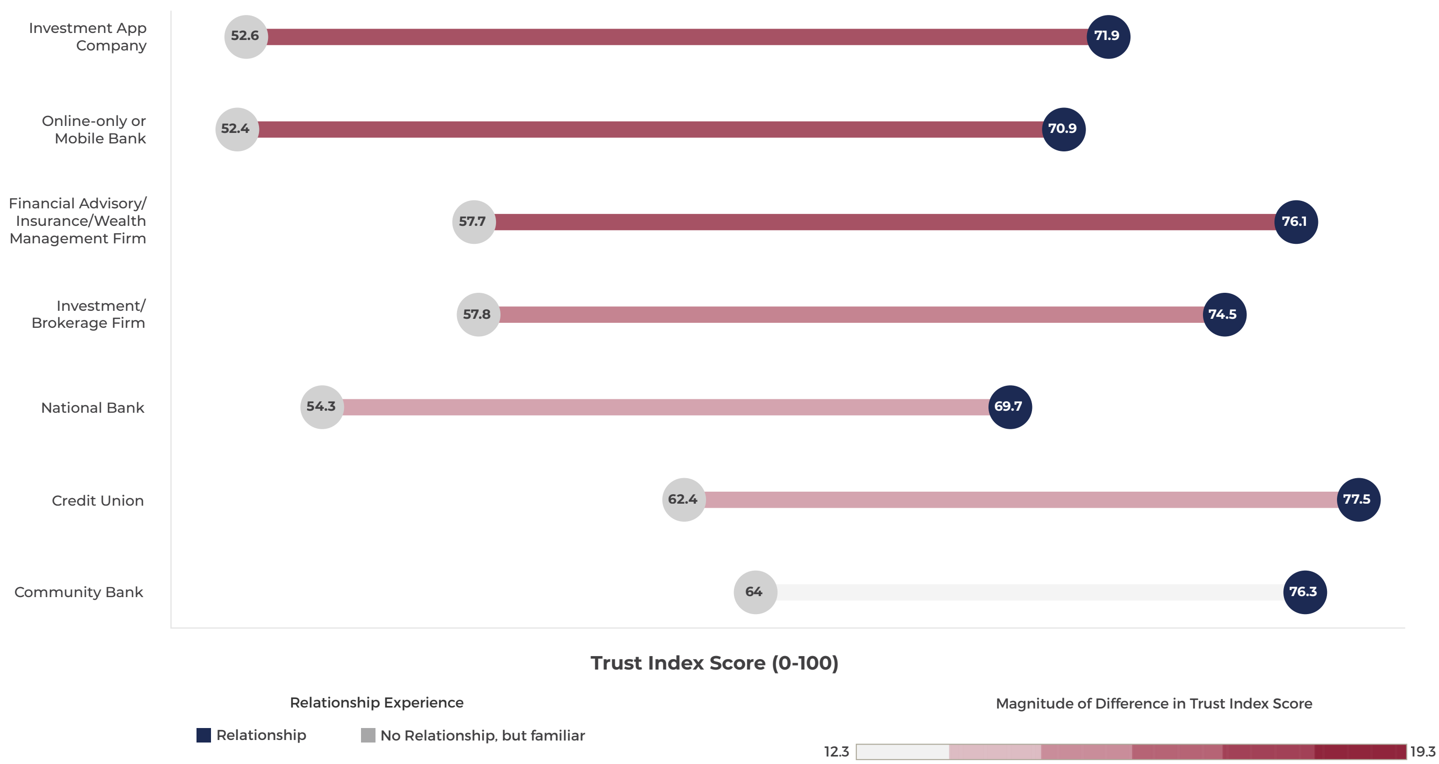
"EXPERIENCE GAP" IN TRUST DEPENDS ON A PERSONAL RELATIONSHIP

To trust, consumers want to feel valued as individuals and not just as revenue providers. An extension of this basic respect is how consumers are treated: having full agency by having clear information and prioritizing their well-being. This personal relationship experience matters. An important marker of an organization consumers feel they can trust is the consistency with which they are present in the community: are employees treated well? Is the community treated well? And each experience by a person or trusted others that provides information about how the organization lives in the community contributes to the willingness to trust going forward.

In our consumer survey data, these basic takeaways are first reflected in the significant differences in the trust indices[1] for a given type of organization between those individuals who have a relationship and thus experience with the organization and those who simply are familiar with but have not had a relationship yet (Figure 1). An index value below 50 indicates a lack of trust, a score of 50-75 indicates moderate trust, a score of 76-89 indicates strong trust and a score of 90+ indicates very high trust.

Figure 1: Trust in Financial Services by Relationship "Experience Gap"

This chart shows the trust gap for each company type by relationship experience. An index value below 50 indicates a lack of trust, a score of 50-75 indicates moderate trust, a score of 76-89 indicates strong trust, and a score of 90+ indicates very high trust. The length and color of the lines illustrate the size of the gap.



We see that having had a chance to form personal experiences increases the trust index between 12 and 19 points. Not surprisingly, this "experience gap" is the largest for online-only or mobile banks and investment app companies – both are companies that do not even have a physical presence in a community and thus allow less opportunity for experiences – good or bad.

[1] Trust indices are based on the Maguire Center for Ethics Demographics of Trust Index™, which was derived from the consumer survey to track and trend demographics of trust in financial services over time. It is a reliable and valid composite measure summarizing multiple statements in the survey that represent beliefs about trust on privacy and data security, financial integrity, guidance/decision-making, community support, and innovation. Consumers were asked to rate how much they agree with each statement on a 7-point scale (where a 1 means "Strongly Disagree" and a 7 means "Strongly Agree"). Consumers were only asked to rate the types of financial companies they use or are familiar with. The agreement ratings were then converted to a 0-100 scale and averaged to form the index value for each type of financial company.

PSYCHOLOGICAL PATHWAYS TO TRUST

The concept of an “experience gap” can be a lens to compare the factors that drive trust for each type of company. This can highlight factors a given type of company is doing well on because they are significant trust drivers for those with a relationship. A key insight is that consumers generally trust based on several different psychological factors, represented in Figure 2. In sum, these are:

1. Visible reputation: captures whether a company has good reviews from reputable sources and provides transparent information about its services in a public space.

2. Value alignment: covers aspects of company behavior like supporting the community, understanding the needs of different individuals, having similar values, and caring about individuals.

3. Interest protection: covers aspects of operations such as protecting an individual from fraud, having clear fee structures, and resolving problems quickly.

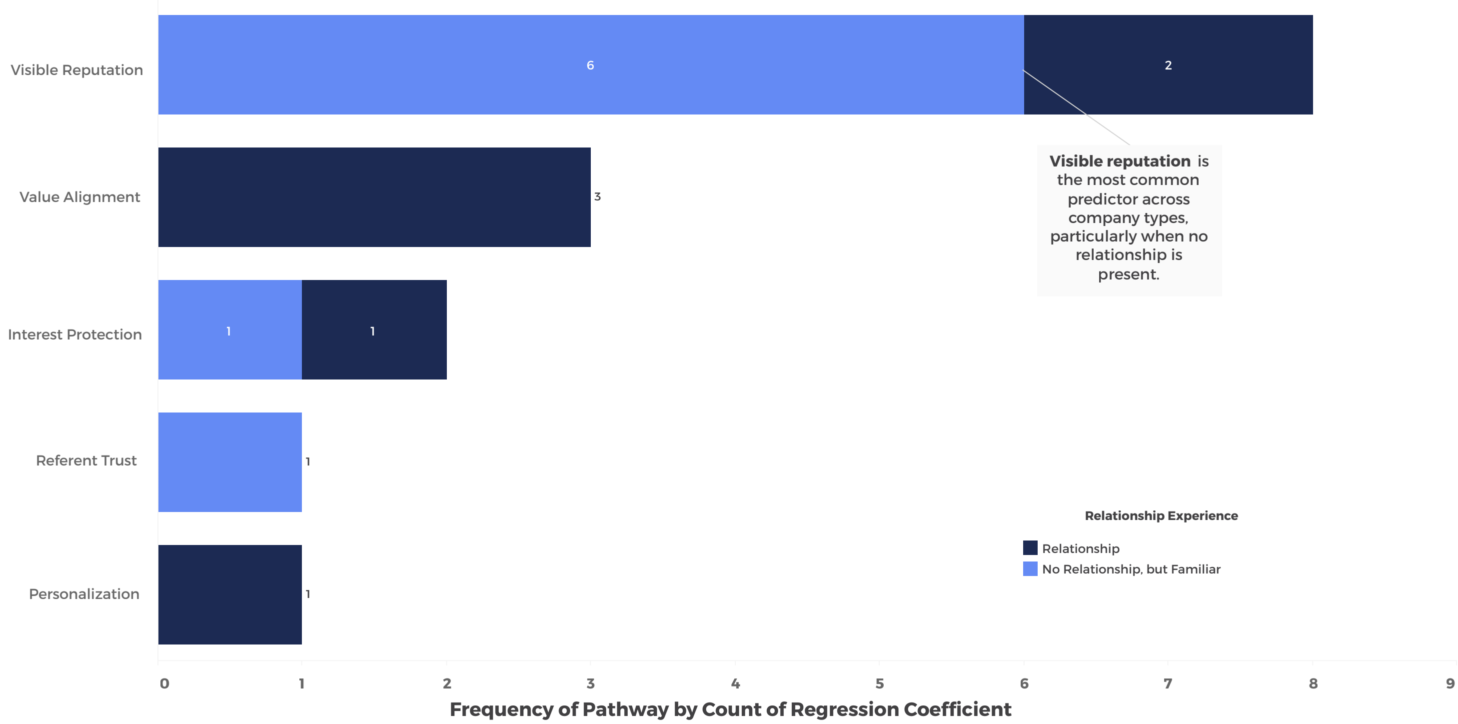
4. Referent trust: indicates that consumers trust because they know someone with a relationship with the company.

5. Personalization: points toward efforts a company makes to know the individual and help them individually.

Figure 2: Psychological Pathways to Trust

This bar chart shows the relative impact of each predictor (i.e., psychological pathway) using a count of regression coefficients, independent of company type.

Regression analysis illuminates the factors that drive trust for each type of company for people with a relationship and people who are just familiar with a company. Examining the relationship between the Trust Index and psychological pathways to trust, we find that a significant driver of trust for all consumers is Visible Reputation. Additionally, Visible Reputation is significant for every company type, but especially when no relationship is present (i.e., familiar).



CONSUMER TRUST IS BASED ON MULTIPLE FACTORS

When we examine how **psychology** works together with **demographic differences** as well as personal **experiences**, particularly around non-mainstream financial products – products from companies not typically associated with the financial services industry (e.g., payday lending and check cashing) – interesting patterns emerge.

Figure 3

Pathways to Trust: Key Factors

This figure shows the impact of each predictor (i.e., pathway to trust) using regression coefficients.

		Community Bank		Credit Union		Financial Advisory/ Insurance/Wealth Management Firm		Investment App Company		Investment/Brokerage Firm		National Bank		Online-only or Mobile Bank	
		Familiar	Relationship	Familiar	Relationship	Familiar	Relationship	Familiar	Relationship	Familiar	Relationship	Familiar	Relationship	Familiar	Relationship
Experience	Trust Level: Local/State/Fed Gov.	5.51	3.77	5.15	4.47	6.48	6.12	7.2	5.45	6.39	4.48	7.77	5.41	6.19	5.49
	Non-Mainstream Products experience	4.93		7.21		5.14		9.51	5.69	5.27			4.82		5.02
Psychological	Visible Reputation	5.47		7.08		7.58		8.76		7.56	7.9		7.75	10.17	
	Value Alignment								9.05		6.28		8.63		
	Interest Protection	9.6	12.11												
	Personalization												6.31		
	Referent Trust									5.43					
Demographic	Age			0.12	0.2	-0.17	0.19	-0.27				-0.15		-0.35	
	Wealth	0.72		0.94		0.86			0.9	1.46			0.71		
	Marital Status					4.8								4.98	
	Female			-3.5											

Magnitude of Change in Trust

-0.5 … 12.11

Each pathway could take a value of either 0 or 1, where 0 indicates "doesn't matter" and 1 indicates that the factor was a "reason to trust". A positive number indicates a positive statistically significant relationship. A negative number indicates a negative statistically significant relationship. An increase in a unit of the predictor corresponds to an increase in the number of points on the Trust Index.

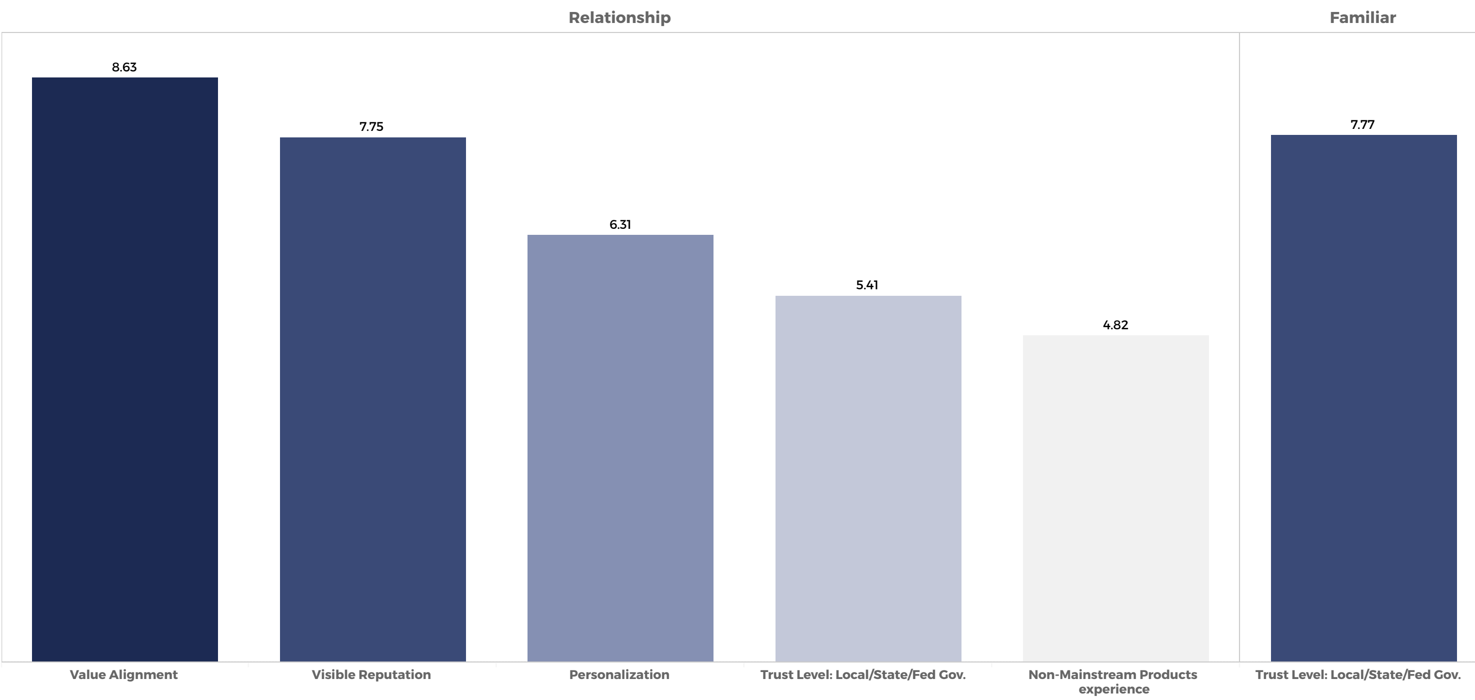
PSYCHOLOGY AND TRUST IN GOVERNMENT DRIVES TRUST IN NATIONAL BANKS

For consumers who do not have a relationship with a national bank, their level of trust in financial services is mainly driven by **whether they trust the government**. In contrast, for consumers who have a relationship, the level of trust is driven additionally by the extent to which they form trust based on **value alignment** and **personalization** as well as **visible reputation of the bank**. This indicates national banks are succeeding in giving customers an experience that shows the bank is aligned with their values and offers them personalized service.

Figure 4

Pathways to Trust for National Banks

This bar chart looks at all of the significant predictors for National Banks, broken down by relationship experience.



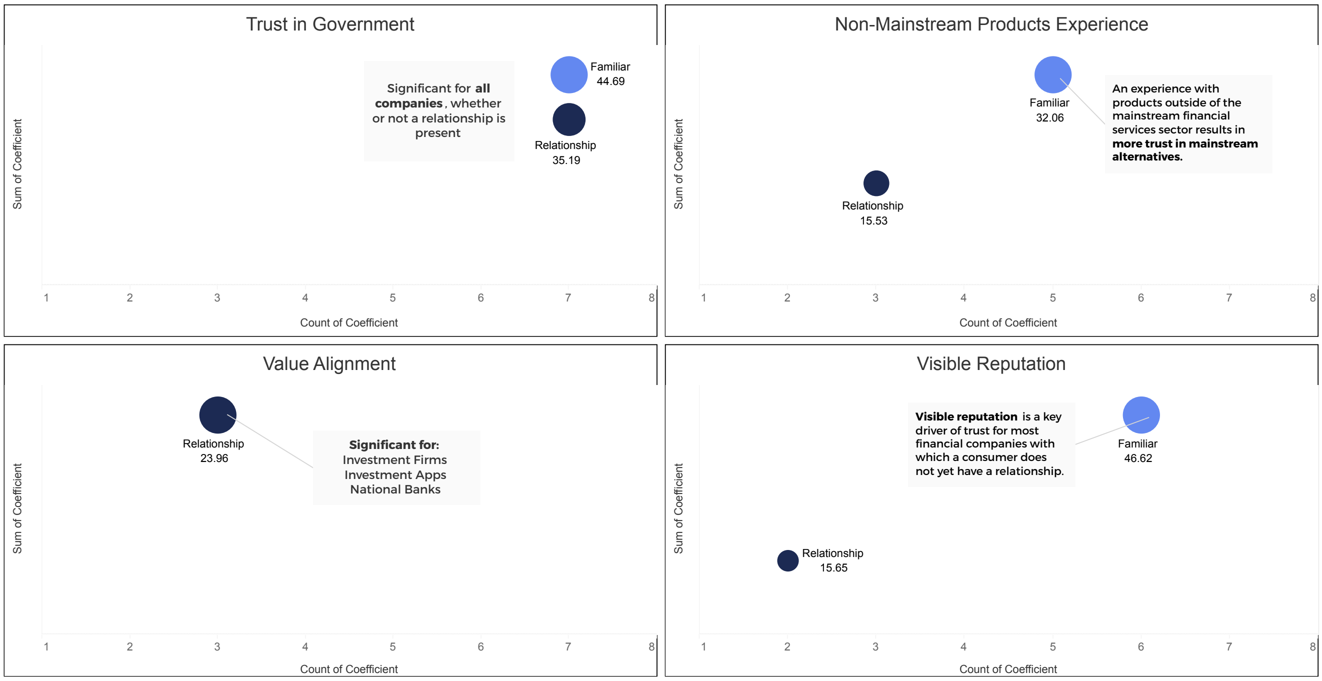
Each pathway could take a value of either 0 or 1, where 0 indicates "doesn't matter" and 1 indicates that the factor was a "reason to trust". An increase in a unit of the predictor corresponds to an increase in the number of points on the Trust Index.

THE EFFECTS OF PSYCHOLOGY AND EXPERIENCE WITH NON-MAINSTREAM FINANCIAL PRODUCTS ON TRUST

Figure 5

Key Factors in Pathways to Trust: A Closer Look

These four charts show the total influence on trust (sum of coefficients) of the most prevalent positive predictors across all company types, broken down by relationship experience.



The x-axis represents the total number of companies for which a given predictor was a significant positive influencer of trust. The y-axis represents the sum of the coefficients, broken down by relationship experience. Each pathway could take a value of either 0 or 1, where 0 indicates "doesn't matter" and 1 indicates that the factor was a "reason to trust". An increase in a unit of the predictor corresponds to an increase in the number of points on the Trust Index. See figure 1 for copany details.

Of particular interest are **experiences with non-mainstream financial products**, which in the research literature are often considered harmful. In this study, we classified experience with non-mainstream financial products as an experience using financial products that are outside of the mainstream mass banking sector, such as payday loans, check cashing, and pawn shops.

Across most types of financial services companies, an experience with non-mainstream financial products tends to increase the general trust with those companies, even if an individual has no relationship with the company yet. This indicates an experience with products outside of the mainstream financial services sector results in more trust in mainstream products as alternatives. In other words, individuals seem to respond the way that the saying "fool me once, shame on you" seems to indicate. Specific comments made by participants in focus groups and in-depth interviews speak to this as well. Participants mentioned having been naïve about some services, having been too trusting, having been harmed, and then having learned from that experience.

In the context of investment firms and investment app companies, **value alignment** appears to be a significant factor in driving trust, as long as the consumer has a relationship with that company personally. Knowing someone that has a relationship with an investment firm is also important in driving trust. This finding, in conjunction with insights from interviews, indicates that investing is still an area that consumers feel less knowledgeable about and have fewer experiences with, and so draw on referent others to form trust.

Having a **visible reputation** is a key driver of trust for most financial companies with which a consumer does not yet have a relationship. This underscores the importance of visibility, particularly on the internet, as well as engagement with organizations that provide independent evaluation and reviews from a reputable source. In short, in the absence of personal experiences, the experiences of others – particularly those who are seen as trustworthy – are good substitutes for personal experiences. Considering the importance of social media and social networks, the relevance of reputation management cannot be understated.

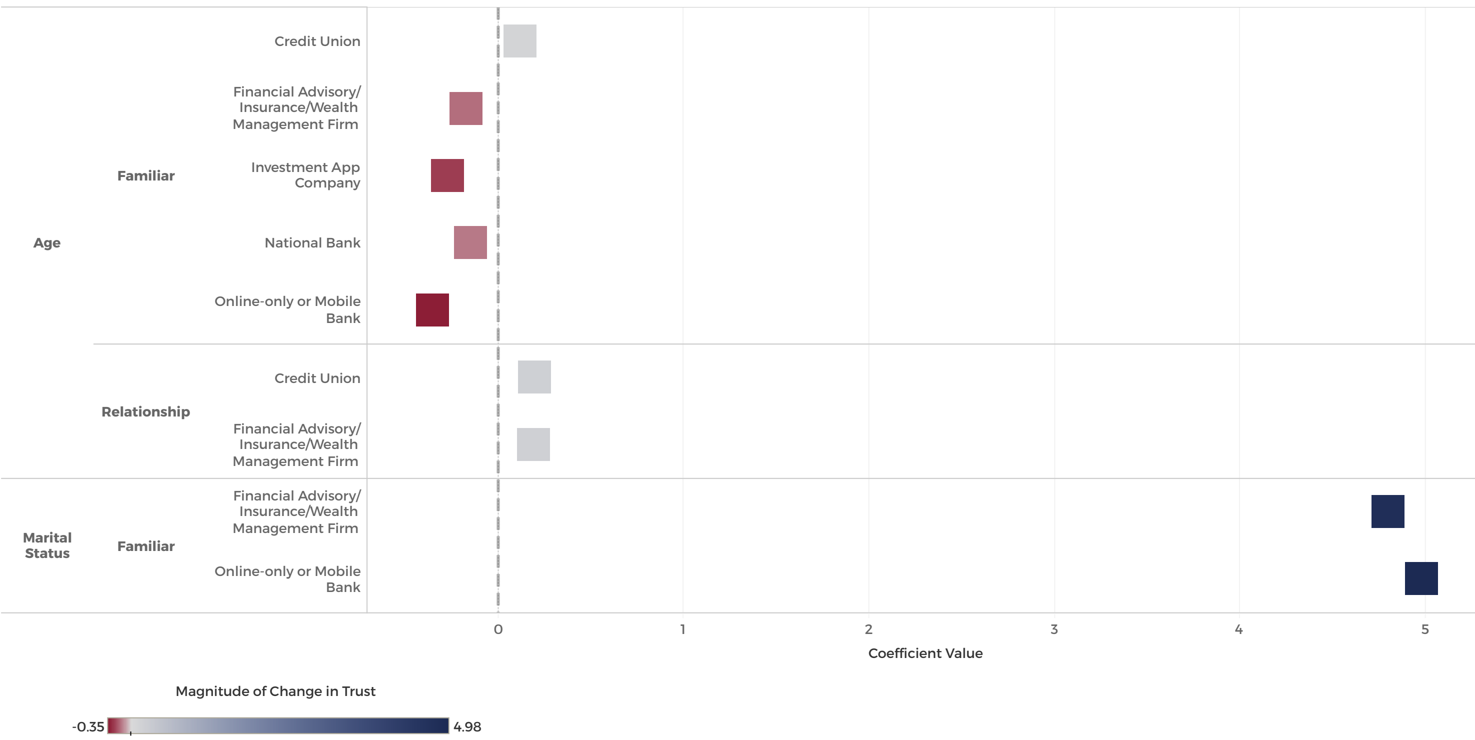
AGE AND MARITAL STATUS AFFECT TRUST DIFFERENTLY

In terms of **demographic drivers of trust**, age and marital status are two factors that significantly drive trust with financial companies – mostly in situations where a consumer is only familiar with a company but does not yet have a relationship with it. For example, older individuals tend to have higher trust in credit unions, as well as in financial advisors, when they have a preexisting relationship with them. In contrast, older individuals tend to have lower trust in online banks or investment app companies with whom they have no personal relationship. Perhaps not surprisingly, this might speak to the generally higher comfort of younger individuals – the so-called digital natives – with all things online.

Figure 6

Age and Marital Status as Pathways to Trust

This figure shows the impact of Age and Marital Status as statistically significant predictors (i.e., pathways to trust) using regression coefficients.



The shapes represent the coefficient for each Type of Financial Service broken down by Predictor and Relationship. Each pathway could take a value of either 0 or 1, where 0 indicates "doesn't matter" and 1 indicates that the factor was a "reason to trust". A positive number indicates a positive statistically significant relationship. A negative number indicates a negative statistically significant relationship.
As age increases by one year, trust level increases or decreases by 1 times the value of the coefficient. For marital status, 0 = not married, 1 = married.

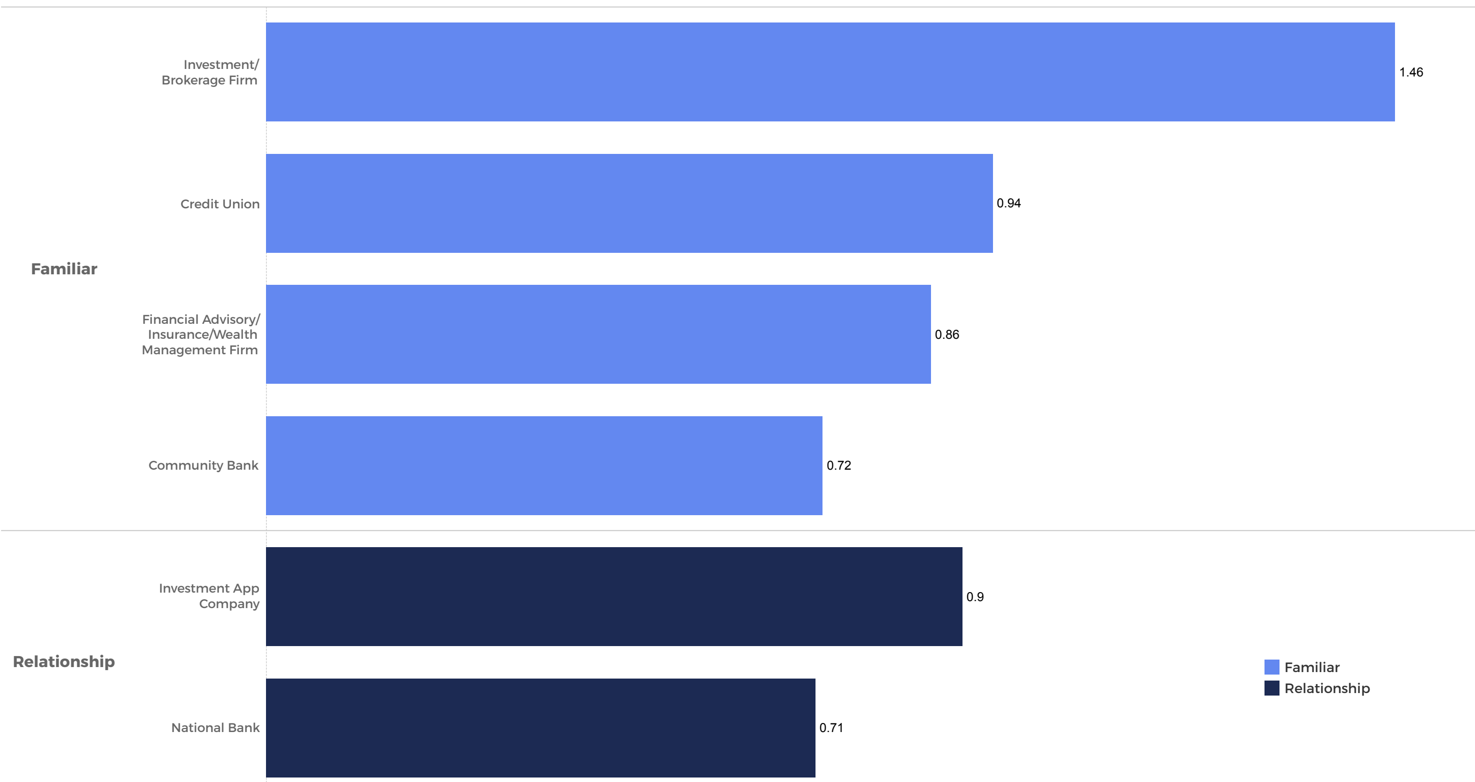
LEVEL OF WEALTH AS A TRUST DRIVER

A consumers' **level of wealth** is also relevant in their perceptions of trust. Wealthier individuals have more trust in community banks, credit unions, investment firms, and financial advisors. It is plausible that having higher wealth forms an experience all its own with the financial sector having "worked" successfully for the individual, even if indirectly.

Figure 7

Level of Wealth as a Pathway to Trust

This bar chart shows how wealth impacts trust across company types. (Wealth was not a significant predictor for Online Banks.)



Since these coefficients are all positive, an increase in a unit of wealth corresponds to an increase in the number of points on the Trust Index. Respondents enter a value of 1 to 11 associated with their level of wealth (i.e., <$2500 to $1M+).

RECOMMENDATIONS FOR PRACTICE

Experiences are crucial in building trust – they provide consumers information and context about how to interpret and make sense of their environment, particularly when faced with complexity, or when behaviors and processes within organizations cannot easily be observed or understood. Given that experiences can occur in many forms – direct, indirect, personally, by others, etc. this creates numerous opportunities as well as challenges for companies trying to build trust. The following are three recommendations for practice.

Demonstrate consistent values in all channels – even operations

"Do what you say, be who you want to be, and then do it again, and again." It is important for organizations to maintain consistency in all facets of their operations, both externally facing and internally. Several focus group participants shared that they draw inferences about how they believe they will be treated from how a company treats its employees or how they treat their community. In addition, we know that people tend to use the experiences of others (including rating agencies) to evaluate trustworthiness when they have not had experiences of their own. This means that even seemingly unrelated things like "best places to work" ratings can contribute a "brick" in a consumer's trust path. The more consistent a company's behavior is with professed values and over time, the clearer the overall experience path that leads to trust. In that sense, creating trust from consumer to company is no different than creating trust between people. The more consistent experiences are, the more reliable ones set of information, and thus the higher the confidence about what one can expect to happen → trust!

Create "experience points"

"People are watching and there are a hundred channels". Companies can be intentional in creating multiple opportunities for trust experiences for consumers and they might need to get creative to make "trust bricks".

The data shows that community banks have the smallest gap between trust levels of people who are only familiar with the institutions and those who have an actual relationship. This is to be expected, given how trust forms. By definition, a community bank is part of the community, often being present for many years, it supports the well-being of the community, and gives its members many opportunities to interact and gather experiences. This consistency and broad range of touch points builds trust. In contrast, the trust gap is highest for companies with only an online presence. Having a visible reputation is a key factor in building trust for companies in that sector because there are simply far fewer ways for consumers to gather experiences. Any options for consumers to build experience without requiring trust (such as trials, free starter packages, etc.), might work well. Even investment in more local presence could be fruitful avenues to build experience touch points.

Recognize that bad experiences spill over

"A rising tide lifts all boats, and a bad apple spoils the barrel". Even if not all companies in a given sector engage in bad behavior, one bad experience with one, taints all others. This is seen in the significance of experiences with non-mainstream financial products being drivers of increased trust in mainstream companies. Often experiences with such non-traditional products do not serve consumer interests well and thus might make other companies appear more trustworthy. Statements from focus group participants reinforce this general sentiment that knowledge – personal or indirect – of bad behavior erodes trust in other companies that are similar in nature.

Another example is the recent collapse of Silicon Valley Bank, a regional bank, that in turn created anxiety about the stability of other banks of this type, even though they had very different risk profiles. This means that it might be beneficial to engage in collective action across a whole industry or invest in reputation building for a product category. It might also mean that more effort is needed to provide counter-balancing experiences or "trust repair" when a peer institution has contributed to mistrust. While this might provide an opportunity to create differentiation from worse actors, companies need to keep in mind that their attempts to highlight their positive attributes is likely occurring in an environment of skepticism.

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