Dr Ray McHale, MyNextAdvice

Dr Ray McHale is the founder and chief executive of MyNextAdvice Pty Ltd. He has more than 30 years' experience working in the financial services industry in operational and executive roles and over 15 years providing consulting services with a focus on relationship management and client experience. His company provides client experience management software for advice businesses, delivering a high-definition view of client relationships to improve growth, efficiency and compliance.

Trust and trustworthiness

Perspectives for financial advisers

Dr Ray McHale

Consideration of trust and trustworthiness in the financial advice industry is unavoidable. This is because the Financial Adviser Standards and Ethics Authority (FASEA) Code of Ethics (FASEA Code) is unequivocal. All 'relevant providers' (advisers) *must always* act in a way that *demonstrates, realises and promotes* the values of trustworthiness, competence, honesty, fairness, and diligence. These values are paramount and key enablers of industry's goal of becoming and being recognised as a profession.

It is no accident that trustworthiness is the first value identified in the FASEA Code. After all, trust touches everything and everyone. It lies at the heart of every action, every relationship and every transaction. Just as oxygen is an essential element of our physical lives, trust is an essential element of our personal and commercial lives.

Our ability to build and maintain trustworthiness is a core business competency, not a tick-a-box compliance obligation. Yet understanding what it means to be trusted and what behaviours signal that you are worthy of someone else's trust, is far from simple.

Businesses and institutions of all types struggle to understand what things their stakeholders need to experience in order to build, maintain or restore trust. It is a challenge to create trust in the moments that matter, but the benefits are real and undeniable.

Notwithstanding, many businesses use the words 'trust', 'trusted' and trustworthy liberally when describing their value proposition, even though they have very little hard evidence to back up their claims beyond surface-level star ratings or a few testimonials from their best clients which, at best, are a measure of in-the-moment transactional satisfaction rather than deep-seated trust. It seems that 'trust' and its derivatives have become the most emphasised but unsubstantiated words in business. And, perhaps, that is why trust is in decline.

Given how critical trust is generally, and acknowledging the federal government's intention to establish the Single Disciplinary Body from 1 January 2022, the objective of this paper is to provide a resource to help better understand trust and trustworthiness with a view to improving how they are operationalised. It is based on research undertaken by the author and MyNextAdvice over a number of years, not just in the financial advice industry, but across a broad range of industries.

Meaning and context

It is important to ascribe meaning to the words 'trust' and 'trustworthy'.

Our definition of trust is the degree of confidence that a prospect or client has that their adviser can be relied on to meet their commitments, be fair, be transparent, and not take advantage of their vulnerability.

There are numerous other definitions but perhaps the most succinct, elegant and profound is the definition offered by Rachel Botsman, author of the book *Who Can You Trust?*, namely:

A confident relationship with the unknown.

We do not trust others because we know things will go well. We trust others because we hope they will and this requires a level of confidence about the future.

Similarly, there are many definitions of trustworthy. The simplest is one offered by the *Cambridge Dictionary:*

Deserving of trust, or able to be trusted.

From FASEA's perspective:

Acting to demonstrate, realise and promote the value of trustworthiness requires that you act in good faith in your relationships with other people. Trust is earned by good conduct. It is easily broken by unethical conduct.

You earn trust by being reliable in your relationships with others, and by doing what you say you'll do. Trust requires having the courage to do what is right, even though you may suffer personal detriment by doing so. It requires that you are loyal to each of your clients, and that you keep client personal information entrusted to you private and confidential. It requires that you should not subordinate your duty to your client, or your client's lawful interests, to your own interests and any obligation you may owe to a third party, including an employer or a financial services licensee.

Trust requires you to act with integrity and honesty in all your professional dealings, and these values are interrelated.

Acting ethically, with trustworthiness, promotes trust by consumers in the profession of financial advisers, promoting community confidence in accessing and utilising professional financial services.

Advisers need to demonstrate, realise and promote the value of trustworthiness to comply with all 12 standards under the FASEA Code, however, there are compelling commercial benefits for doing so as well.

Commercial benefits of trustworthiness and costs of mistrust

In our research involving business leaders from various industries, they indicated the following commercial benefits of being trustworthy, namely:

- it means the difference between success and failure
- getting repeat business and being able to deliver a solution with fewer impediments.
- consistent organic growth for a business
- accelerated business growth, helping more clients more quickly, aligning with client values and generating more revenue—enabling higher investment in client experience
- referrals, longer business relationships and increased revenue
- commercial growth and longevity
- loyalty, retention, continuity of revenue streams. This can make the 'sport' of business a lot more fun and enable things to be worked through if something goes wrong, as the goodwill of all parties can be relied upon to get things back on track—we do not always 'get it right'.

On the flipside, some of the costs of mistrust that have been identified include:

- catastrophic outcomes for business because trust is absolutely paramount to survive
- shrouded information and lack of specifics, as Boards do not receive reports about loss of business due to lack of trustworthiness/mistrust.
- lack of trustworthiness making it 60–70% harder to get a client to 'yes'—the financial planning industry only has about a 70% conversion rate, so this reduces the probability down to approximately 30%
- contending with client inertia—advisers can be on the back foot from the outset
- significant unfavourable effect on revenue
- damage from negative word-of-mouth stories
- substantial financial impact per account (can range from \$100,000–\$1,000,000 per month) and lost potential income due to reputational damage
- overall reputation (personal and business)—though some people in the financial planning industry may seem oblivious to this
- loss of the 'sugar hit' of trustworthiness quite easily via social media
- diminished revenue, reputation and share price
- clients feeling abandoned or betrayed, particularly in uncertain times
- industry has 'invited' regulators to pile on compliance obligations due to poor past behaviours. This has resulted in a heavy pendulum that demands participants prove their compliance. Additional resources are allocated to support new regulations, and businesses lose their right to run things in the manner they wish.

Trust is fragile. It can be easily lost and should not be taken for granted, particularly if clients are fickle or unforgiving, no matter an adviser's positive track record.

As we have been collecting data from clients of advice businesses for some time, we know for a fact that trust is highly correlated in a positive way to how much clients value their relationship, the extent to which they are prepared to forgive when things do not go to plan, whether they are likely to remain a client and whether they are prepared to refer an adviser to their friends, family and work colleagues.

The implications are very significant. The higher the level of trust you can achieve and maintain with clients, the more likely they are to value you and your advice (think value for money), forgive you, stay with you and advocate for you—all highly positive outcomes for an adviser's career and business.

Is there a crisis of trust?

In our interviews with leaders across a range of industries (software, fleet management, law, financial planning, logistics, and banking, to name a few), they have stated universally that trust is a major issue in their particular industry. This view has been validated by other research as well. Trust is in decline globally and across most industries and institutions.

According to the 2021 Edelman Trust Barometer (Trust in Australian Industries), and as shown in Figure 1, the 10-year trend for financial services has only seen marginal improvement.

The quote

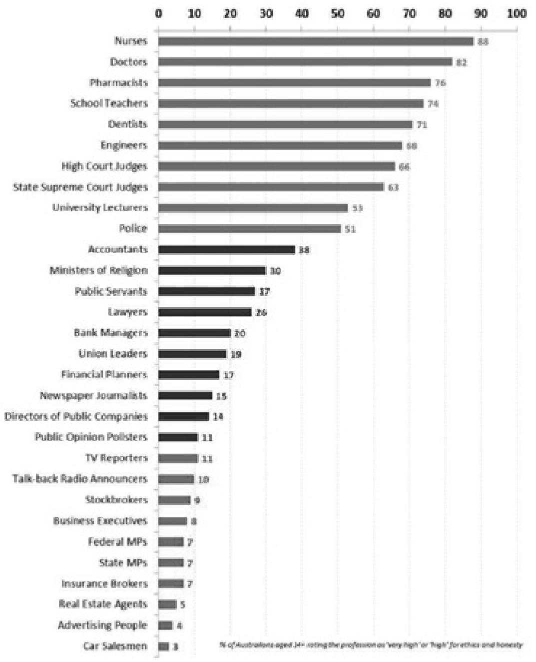
It seems that 'trust' and its derivatives have become the most emphasised but unsubstantiated words in business.

Figure 1. Levels of trust in financial services, 2012–2021

Industry	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	10yr. Trend
Healthcare	-	-	-	-	71	72	69	70	66	75	n/a
Food and beverage	67	63	68	67	68	70	67	74	67	68	+1
Consumer packaged goods	56	54	58	58	62	61	56	64	59	61	+5
Entertainment	-	61	64	66	66	63	61	70	59	61	n/a
Technology	74	65	73	71	72	71	68	72	66	61	-13
Automotive	58	58	60	59	55	61	54	64	56	59	+1
Telecommunications	47	45	48	50	55	54	53	53	51	58	+11
Energy	41	36	41	43	51	50	39	45	45	53	+12
Financial services	46	38	46	43	48	50	49	45	43	50	+4

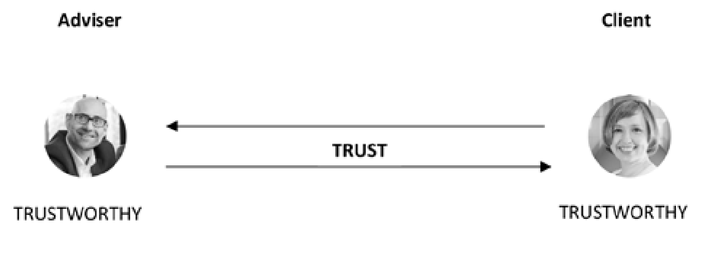
Source: Edelman 2021

Figure 2. Financial service industry professions: Comparative ethics and honesty ratings



Source: Roy Morgan 2021

Figure 3. Trust relationship essentials



Source: MyNextAdvice

According to the Roy Morgan *Image of Professions Survey 2021*, several professions in the financial services industry are not rated all that well for ethics and honesty. The comparative findings are shown in Figure 2.

Additionally, a search for the phrase 'Are financial planners trusted in Australia?' reveals headlines like these:

- "Financial advisers too expensive and can't be trusted, report finds" (*Australian Financial Review*, 26 August 2019)
- "Trust in financial planners is at an all-time low but Australians still want advice" (*Business Insider Australia*, 14 November 2018)
- "Planners are doing it for themselves: Consumers lack trust in advisers" (*Sydney Morning Herald*, 26 August 2019).

Ultimately, perceptions and data define actions. The virtual tsunami of new regulations and other compliance obligations imposed on the industry since 2018 stemming from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry is a sure sign the industry is not regarded as trustworthy. The government, representing the wider community, has clearly decided the industry has to be forced to behave in a manner that meets community expectations of trustworthiness.

While many have argued that the new impositions are entirely unnecessary or, at best, misdirected to the wrong parts of the industry, it is impossible to argue the case for the existence of collective trustworthiness.

Some industry participants have clearly been tempted by the prospect of immediate gratification and the trap of focusing on short-term gains at the expense of long-term losses suffered by the entire industry. Ironically, consumers have also suffered because advisers have had to pass on the rapidly increasing costs of providing advice, due to the increased compliance burden, in order to ensure commercial sustainability.

The evidence suggests there is indeed a crisis of trust. If the industry is to achieve its long-held goal of professionalisation, it must first and urgently address its trustworthiness.

Trust 101

As depicted in Figure 3, trust involves two parties: The trustor and the trustee (for instance, a client and their adviser). The trustor (client) bestows their *trust* on the trustee (adviser), however, this will not take place unless the trustee (adviser) is first perceived as *trustworthy* by the trustor (client).

A truism to keep in mind is that you cannot make other people trustworthy, nor can you make other people trust you. Trustworthiness facilitates trust and cannot be superficially created. At its most powerful, it just seems to flow and can appear to be unconscious or effortless. Alternatively, it can be learnt and mastered by reflecting on past experiences, interactions and outcomes, etc.

The trust sequence

In many ways, trust is a default position. We trust routinely, reflexively, and somewhat mindlessly across a broad range of social situations. It is rarely in the foreground of our conscious awareness, but there is a process involved as shown in Figure 4.

Using the client-adviser relationship as an example, the process begins with the trustor (client) assessing the trustworthiness of the trustee (adviser). This assessment is influenced by the client's propensity to trust—how hard or easy it is for them to trust someone based on factors such as their risk tolerance (see more details in the following discussion).

The assessment may take place without the adviser's knowledge, for instance, when the client seeks publicly available information about the adviser online or via their friends, etc. Or it may take place during the initial adviser-client meeting or a combination of these approaches.

The important point to note is that the client will attempt to assess trustworthiness from available information/interactions, so it is critical the adviser takes conscious steps to ensure trustworthiness is abundantly clear. Any assumption of their own trustworthiness by the adviser is a highly risky strategy and will negatively impact business performance.

Assuming the client's assessment has resulted in affirmation of the adviser's trustworthiness (this could literally take minutes, weeks, or months depending on their propensity and the availability of evidence of the adviser's trustworthiness), the next step is to decide if they are willing to be put in a vulnerable position if they proceed.

The presence of trustworthiness serves to temper or mitigate the perceived risk to the extent that the client is willing to be vulnerable. Recall the earlier definition of trust—a confident relationship with the unknown. It is always the case that perfect information will not be known in advance.

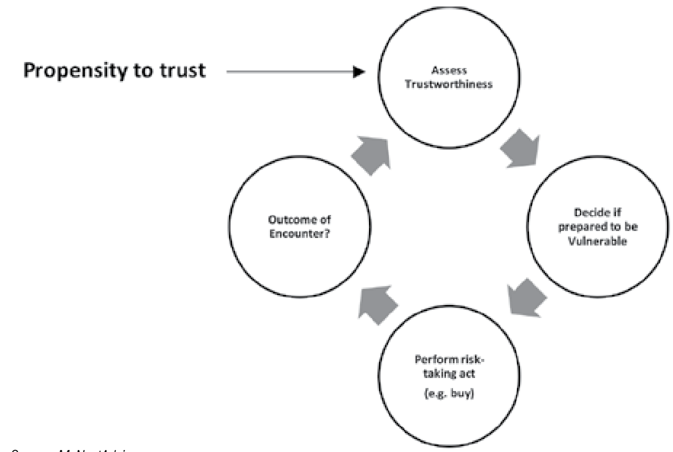
If the client decides they are willing to be put in a vulnerable position and trust the adviser, they will then engage in a risk-taking act. In this example, it means entering into an agreement to engage the adviser and receive advice. At this stage, trust has been overtly expressed and the client is still vulnerable to uncertain future outcomes but has done so based on information about the adviser's trustworthiness sourced from the adviser and elsewhere.

The last step in the sequence is for the client to assess the outcomes of working with and taking advice from the adviser. Some questions exercising the client's mind may include:

- Did the experience meet my expectations?
- Did the adviser do what they promised me they would?
- Should I continue to trust the adviser based on their conduct, behaviours and performance to date?

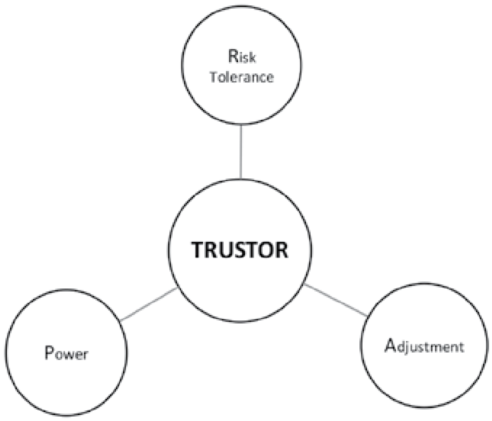
Assuming the client is able to justify their trust in the adviser based on the outcomes, the adviser's ongoing trustworthiness will likely be enhanced and the next instance requiring the client's trust is made easier.

Figure 4. Elements of the trust process



Source: MyNextAdvice

Figure 5. Key factors influencing the propensity to trust



Source: Hurley RF, The Decision to Trust: How Leaders Create High-Trust Organizations, 2011

Trust and trustworthiness: A symbiotic relationship

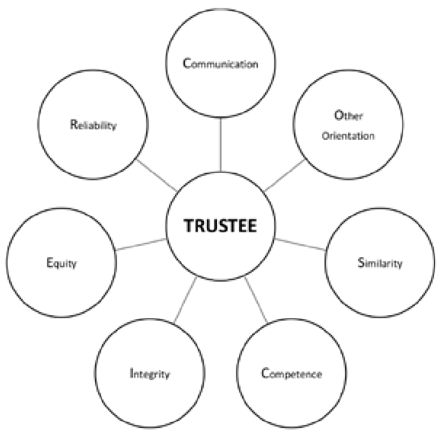
Once again, it is important to recall the role of the trustor's (client's) propensity to trust (see preceding discussion). The best way to think of this is to consider how you approach any situation requiring your trust. Other than the trustee's trustworthiness, what other factors influence your propensity to trust?

According to research by Fordham University management professor Robert F. Hurley, there are three key factors that impact the trustor's propensity to trust as shown in Figure 5.

Risk tolerance

Advisers are generally well aware of the concept of risk tolerance as it relates to investments. The trustor's risk tolerance refers to the variability of willingness to trust someone or something based on the context. Some individuals will

Figure 6. Ways to demonstrate trustworthiness



Source: MyNextAdvice

be more willing to take risks while others less so when it comes to trust. Their propensity is often informed by their life experiences and belief systems. This impacts the willingness of the client to trust and how long it will take to trust.

Context and familiarity are important considerations. What is at stake. For example, when buying a cup of coffee, there is less at stake for the buyer compared to a client placing their entire financial future in the hands of an adviser. Buying coffee from the same shop each day reinforces the buyer's trust in the expected outcome due to familiarity. Placing one's financial future in the hands of an adviser for the first time raises the risk level exponentially in comparison, and lack of familiarity exacerbates this.

Advisers would do well to consider propensity to trust as part of their interactions with would-be and ongoing clients because it will impact how quickly, if at all, some clients will trust them. This has important implications for their efficiency and productivity.

Adjustment

How well adjusted a person is impacts the time it takes to trust someone else. Generally, a well-adjusted person (who demonstrates a high level of confidence and is comfortable with themselves) takes less time to build trust than someone who is less well adjusted (who demonstrates neuroticism and sees more threats around them).

In the case of a well-adjusted person, the bar is possibly set higher regarding what the client expects from their adviser. The well-adjusted may have the confidence and self-belief to back their assessment of whether someone is trustworthy or not, and be quicker to see through or dismiss those about whom they have suspicions or doubts. This is unless they are unrealistically overconfident about their perceptions and beliefs, or fall victim to a person highly skilled in gaining the trust of others for untoward purposes.

Interestingly, people who may be neurotic, anxious, insecure, or wary due to previous bad experiences may be less willing to give or accept trust, which is something a trustworthy adviser may need to contend with and be aware of. However, such people may also be incredibly loyal once their trust is gained. Therefore, advisers have a strong fiduciary duty, which ties in with best interests obligations.

Conversely, these types of clients can be ready targets if they are too clingy, needy or gullible. This may especially be the case once they decide to place their trust in an unscrupulous adviser.

Observations of the client's behaviours and demeanours are likely to provide some guidance as to how well adjusted they are. You will need to spend more time convincing the less well-adjusted that you are indeed trustworthy.

Power

This factor relates to how the trustor (client) perceives their position of power vis-à-vis the trustee (adviser). If the client is in a position of authority where they can punish any betrayal by the adviser, they will be more inclined to trust the adviser.

The levels of consumer protections imposed by governments such as avenues for complaint and subsequent adviser sanctions (such as those that may be applied by the new Single Disciplinary Body) are likely to bestow greater power to the client. If the client is not in a position of authority where they have little recourse, they will be less comfortable in trusting the adviser.

Trustworthiness is key to garnering client trust. Measuring and understanding each of these factors at the earliest stage of a potential relationship (perhaps as part of the current fact find and risk profiling process) will position advisers in a much stronger position to understand and manage propensity to trust.

The next consideration is to understand key factors responsible for demonstrating trustworthiness. These are depicted in Figure 6.

According to our research, there are at least seven drivers of trustworthiness. In our analysis of data around trust and trustworthiness, these are responsible for more than 85% of the variance in trust scores. In other words, any trustee (adviser) who is interested in building and maintaining their trustworthiness as the essential precursor to being trusted, should monitor and address their performance on each of these drivers.

The nature and importance of each is discussed in the following sections, together with some practical suggestions about how they could be operationalised by advisers.

Communication

Communication touches every aspect of personal and business relationships, so it is the most important driver of trustworthiness. It is also an important influence on each of the other drivers. For example, it is very difficult to demonstrate your competency in the absence of relevant communications with the trustor.

Communication can be written, verbal, non-verbal or a combination of these modes. It may be direct between the trustee and the trustor or involve third parties.

High-quality, relevant and timely communication creates strong emotional bonds which influence the trustor to open up and increase their willingness to trust. On the other hand, lack of trustworthiness or actual mistrust are quite often driven by poor communication or miscommunication by the trustee.

Advisers need to carefully examine how they operationalise their communication strategy with prospective and existing clients. Aspects to consider include:

- Why am I communicating?
- Who initiates the communication?
- When does the communication occur?

- What are you going to say and how?
- How will the communication be distributed?

Other orientation

We tend to trust and feel positive about others who put our interests above their own. So, other orientation is about demonstrating authentic concern/empathy for the trustor and putting their needs first and foremost. This is essentially the best interests duty, but without the associated legalese.

This is reinforced in FASEA's description of trustworthiness cited earlier in this paper.

Here are a few suggestions to think about:

- Do I act in my clients' best interests at all times?
- How do I treat my colleagues and family? This is likely to be mirrored in your treatment of clients (the 'golden rule'—Do unto others as you would have them do unto you)
- Would I like it if someone applied my behaviours to me?
- Would my actions allow me to sleep at night?

Similarity

As social and tribal beings, people tend to more easily like and trust people who appear similar to them, for instance, share similar values, group membership, interests, personality traits, etc. Trustors are likely to subconsciously tally their similarities and differences with the trustee to form a view about their trustworthiness. This is one of the most powerful forces behind attraction and the creation of close relationships. It can often be perceived similarity.

Think about researching your prospect's background to find clues that will help you position actual or perceived similarities.

Competence

Because trustors will assess how comfortable they will be in relying on the trustee, their judgment about competence is critical. Can the trustee deliver what they promise? Demonstrating your competence means showcasing your relevant skills, knowledge, and experience such that you can demonstrably fulfil what is expected of you.

Here are some ways you can demonstrate your competence:

- Be confident that you can apply a high level of relevant knowledge and skills when advising clients.
- Display tangible evidence of your educational and occupational achievements.
- Ensure your online profile highlights relevant achievements.
- Utilise 'social proof' (testimonials, case studies) to demonstrate outcomes you have achieved for other clients.

Integrity

We have all experienced a situation where our first impression of someone else is that they come across as a confidence trickster. They promise the world and raise serious questions about their ability to deliver.

Alternatively, individuals can unwittingly show their 'true colours' and intentions, or betray themselves over time if they are in the situation of frequent engagement with clients. Unfortunately, this may be too late in some instances for affected parties. This demonstrates how perceptions can degenerate over time and that trust is something fluid and long term. The good news is that a negative first impression may be overridden once long-term trust is proven.

Integrity is about being honest (another value in the FASEA Code) and showing a consistent and uncompromising adherence to strong moral and ethical principles and values.

Some questions to ask yourself:

- Do I always take reasonable steps to meet all my commitments to my clients?
- Am I open, honest and frank in all my dealings with my clients?
- Do I overpromise and underdeliver?

Equity

When the interests of the trustor and trustee are well aligned, it is much easier for the trustor to trust. This means there needs to be a sense of fairness in what each party brings to the exchange (for instance, value for money, emotional investment).

From the trustee's perspective, the most important issue is to ensure you clearly understand what the trustor is seeking to achieve and then delivering a value-for-money service that is in their best interests.

Reliability

The trustor is interested in the trustee's capacity to deliver consistently on their promise. They are looking for certainty and want to be confident that expected outcomes will be delivered. They need reassurance that things are on track and to be advised if circumstances arise that are likely to impact expected outcomes.

Advisers need to keep clients updated about any impediments to the agreed outcomes as they arise.

Trust rated?

There has been a proliferation of rating/review services across many industries in recent years, including financial services. Content is primarily used to showcase the performance of service providers, typically using a star rating system.

These may be perceived by prospects as a useful resource to help them decide which adviser to use. They can also be quite damaging to both the prospect and adviser if the results have been 'gamed' to get the best possible rating based on either false, unfair, unbalanced or narrowly generated input. Actual 'gaming' by advisers could be perceived as a breach of the FASEA Code.

A word of caution. Star rating systems generally do not measure trustworthiness or deep-seated trust, but reflect the level of satisfaction at a moment in time by previous and existing clients.

Conclusion and next steps

Trustworthiness is a core business competency and the most important value defined in the FASEA Code. We hope this paper has been a useful guide to help you better understand trust and trustworthiness with a view to improving how they are operationalised in your advice business.

If you have any concerns or unanswered questions about your trustworthiness, we suggest these next steps:

- Assess your current performance to identify a baseline against which you can compare future performance.
- Use the drivers highlighted in this paper and identify performance gaps.
- Implement action plans to fill those gaps.
- Reassess your performance. FS