Mind the Gap:

Restoring Consumer Trust in Financial Services

A report prepared for the
Financial Services Compensation Scheme
by Professor Nick Chater
and Decision Technology Limited

Section 1

FOREWORD

The Financial Services Compensation Scheme protects consumers when authorised financial services firms fail. We pay compensation if a firm is unable, or likely to be unable, to pay claims against it. We are independent of the government and the finance industry. Our mission is to provide a responsive, well-understood and efficient compensation service for financial services, which raises public confidence in the industry. Since 2001 we have helped more than 4.5 million people, paying out more than £26 billion in compensation.

The financial crisis of 2007 badly damaged the reputation of the banking sector. Eight years on from the crisis, media coverage of financial services still focuses on a lack of consumer trust. Consumer surveys consistently find that the financial services industry is one of the least trusted sectors. Restoring that trust and public confidence is imperative to creating a flourishing financial services industry that can fulfil its vital role at the heart of the UK economy. However, trust is not just a matter of commercial self-interest. It's also critical to financial stability. Without trust, consumers are likely to react to future turbulence or crises by seeking to pull their money out of products or firms perceived as at risk, so making worse liquidity and confidence pressures.

FSCS, in collaboration with the financial services industry, plays an essential part in reassuring consumers and instilling confidence, thereby rebuilding trust in the sector. It does this both through its work in providing a compensation service and through the variety of awareness raising activities it undertakes.

In this report, we present the findings of some new and unique research undertaken in partnership with Professor Nick Chater of Warwick Business School and the research consultancy Decision Technology, which applies the insights of behavioural science to identify the biggest "trust gaps" in the UK financial services industry. The report makes four recommendations on the most effective steps that can collectively be taken to restore consumer trust.

We hope you find the report to be a valuable and timely contribution to the ongoing debate about the future of the industry, and a prescient perspective on the role the financial services industry, together with FSCS, can and should play in securing that future.

Mark Neale
Chief Executive, FSCS

November 2015

Section 2

EXECUTIVE SUMMARY

- Trust in financial services is low: globally it is the second least trusted industry and only 36% of UK consumers state they have trust in financial services firms
- Low trust is primarily a reputational issue: consumers believe that firms are capable of acting in consumers' interest but choose instead to act in their own interests
- Financial services firms are highly trusted in some areas – particularly around safety and security – but there are also trust gaps that need to be addressed
  - First, the finance industry needs to tackle distrust and a particularly poor reputation with regards to fair pay and not excessively rewarding senior staff
  - Second, firms should act transparently in customers' best interests by offering the same deals to both new and long-term customers
  - Third, firms should tell customers when they would be better off with another product
  - Finally, and importantly, the finance industry and FSCS should collaborate to raise awareness of existing protections, especially in regard to compensation for poor advice, in order to raise confidence

Section 3

BEHIND THE HEADLINES

Banks must 'raise their game' to win back public trust

The Telegraph, April 2015

Banks fight to repair damage to brands after financial crisis

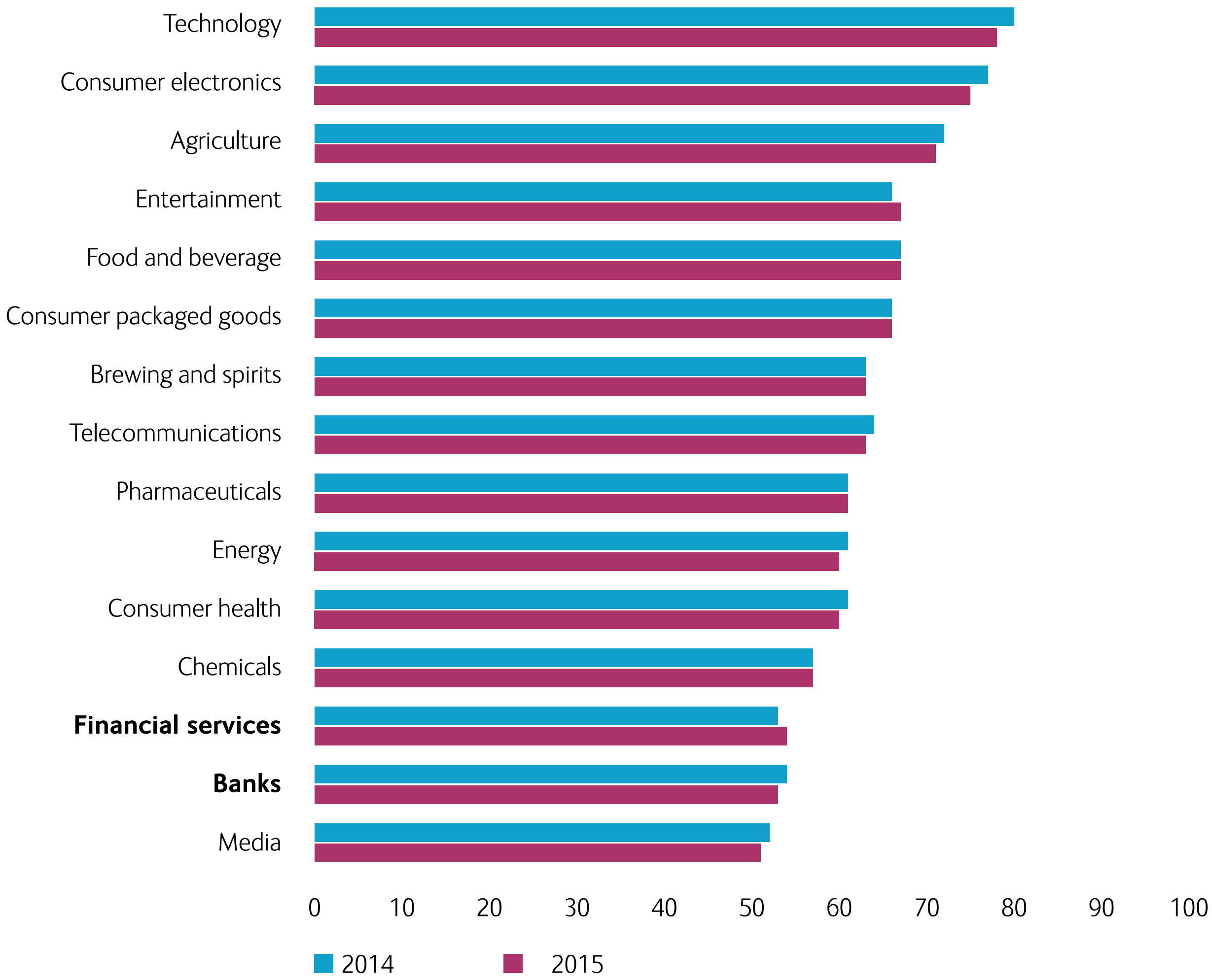
Financial Times, May 2015

More than eight years after the financial crisis of 2007-8 began to rock the global economy, the media conversation is still dominated by negative stories of a financial services industry struggling to regain customers trust. But what is the truth behind the headlines? If there is a lack of trust, how can it be restored? And how can the financial services industry achieve this through working with FSCS?

One of the largest and longest-running surveys on consumer trust is Edelman's Trust Barometer. For fifteen years, the survey has tracked consumer trust in different industries and institutions across 27 different countries around the world. The findings for the UK financial sector make uncomfortable reading. In 2015, financial services and banks are the second least trusted industries, only just ahead of the media (Figure 1). Only 36% of UK consumers state that they have trust in financial services, placing the UK in a lowly 19th place out of the 27 countries surveyed. Although the UK outperforms Germany, where only 25% of consumers trust financial services, it performs poorly when compared to its other financial competitors. For example, 51% of consumers in the US and 61% of consumers in Hong Kong say they have trust in financial services. Despite this, low level of trust in the financial services industry is by no means inevitable: in table-topping India, 77% of the general population express trust in financial services.

These are worrying statistics for an industry that is so reliant upon the trust of its customers and is considered one of the most important sectors in the UK economy. Financial products are intangible and often complex, but also essential to modern life. Their costs and benefits can be uncertain and may occur many years in the future. Large financial decisions are made infrequently, with little opportunity for consumers to gain feedback and experience. For these reasons, consumers must often rely on the advice of providers or independent professionals. In short, trust is the bedrock on which the finance industry is built. Accordingly, the loss of trust has potentially disastrous consequences.

Figure 1: Trust in Industries 2014 vs. 2015 (Edelman Trust Barometer)



Section 4

THE ABC OF TRUST

What do we mean by trust? From the standpoint of finance and behavioural economics, the issue of trust arises whenever one entity (e.g., a financial services company) agrees, whether explicitly or implicitly, to perform some service for another (e.g., a consumer) where, crucially, the consumer cannot directly observe whether the service is being performed as agreed. Where trust is high, the consumer is confident that the firm will do as they promised; where trust is low, the consumer is concerned that they will not.

Almost any consumer interaction with a financial services firm requires an act of trust on behalf of the consumer; it is therefore of crucial importance to the industry that consumers have a high level of trust in financial services providers. Yet our research, commissioned by FSCS, found that only 42% of consumers stated that they trust financial services firms. Why is trust so low?

Trust has been extensively studied by academic psychologists and behavioural economists interested in understanding both how trust is built and lost. This body of research has been synthesised into a simple framework that describes the three conditions that are necessary for trust: Alignment, Benevolence and Competence (Figure 2). One or more of these conditions must be satisfied before trust is possible.

Figure 2: ABC Trust Framework

ALIGNMENT	Is it in X's interest to provide the things that I want or need?	How can X credibly commit to always act in my best interest?
BENEVOLENCE	Do I believe that X will do things for me even if not in their interest?	What can X say or do to build a reputation for altruistic behaviour?
COMPETENCE	Is X able to consistently deliver what I want and what they promise?	How can X demonstrate competence, capability and consistency?

Figure 3: Trust Ratings for UK Financial Services

Our research used the ABC trust framework to assess consumer trust in the UK financial services industry. More than 2,500 UK consumers were surveyed on their level of trust in financial service providers, as well as their views on 18 issues relevant to financial services. The issues ranged from keeping money safe from fraud and theft through to being involved with the local community and charities (see the appendix for the full list). In line with the ABC framework, for each issue, we asked consumers to rate how strongly they believe (i) that financial services firms' interests are *aligned* with their own; (ii) that financial services firms are *benevolent* and have the customer's best interests at heart; and (iii) that financial services firms are *competent* and capable of delivering on their promises. The results are summarised in Figure 3.

- **Alignment** scores are moderately high on average, but vary widely across the issues surveyed. Consumers believe that financial services firms' interests are most aligned with their own when it comes to keeping money safe from fraud and theft. However, consumers do not believe that interests are aligned when it comes to helping customers switch quickly and easily to another provider.
- **Benevolence** scores are low, suggesting that poor reputation is the largest cause of consumer mistrust in financial services. Again, the scores vary widely across the issues, with keeping money safe from fraud and theft ranked highest. Financial services firms are seen as least benevolent in terms of pay: they are perceived to underpay junior staff and to excessively reward senior staff.

- **Competence** scores are high across the board, suggesting that consumers believe financial services firms are capable of delivering on their promises. Financial services firms are seen as most competent at providing consumers with 24/7 access to their money and least competent at providing sufficient branches in rural areas.

Overall, consumers typically believe financial services firms can deliver what they promise but do not believe that they would do something for consumers' benefit if it were not also in the firms' immediate self-interest to do so.

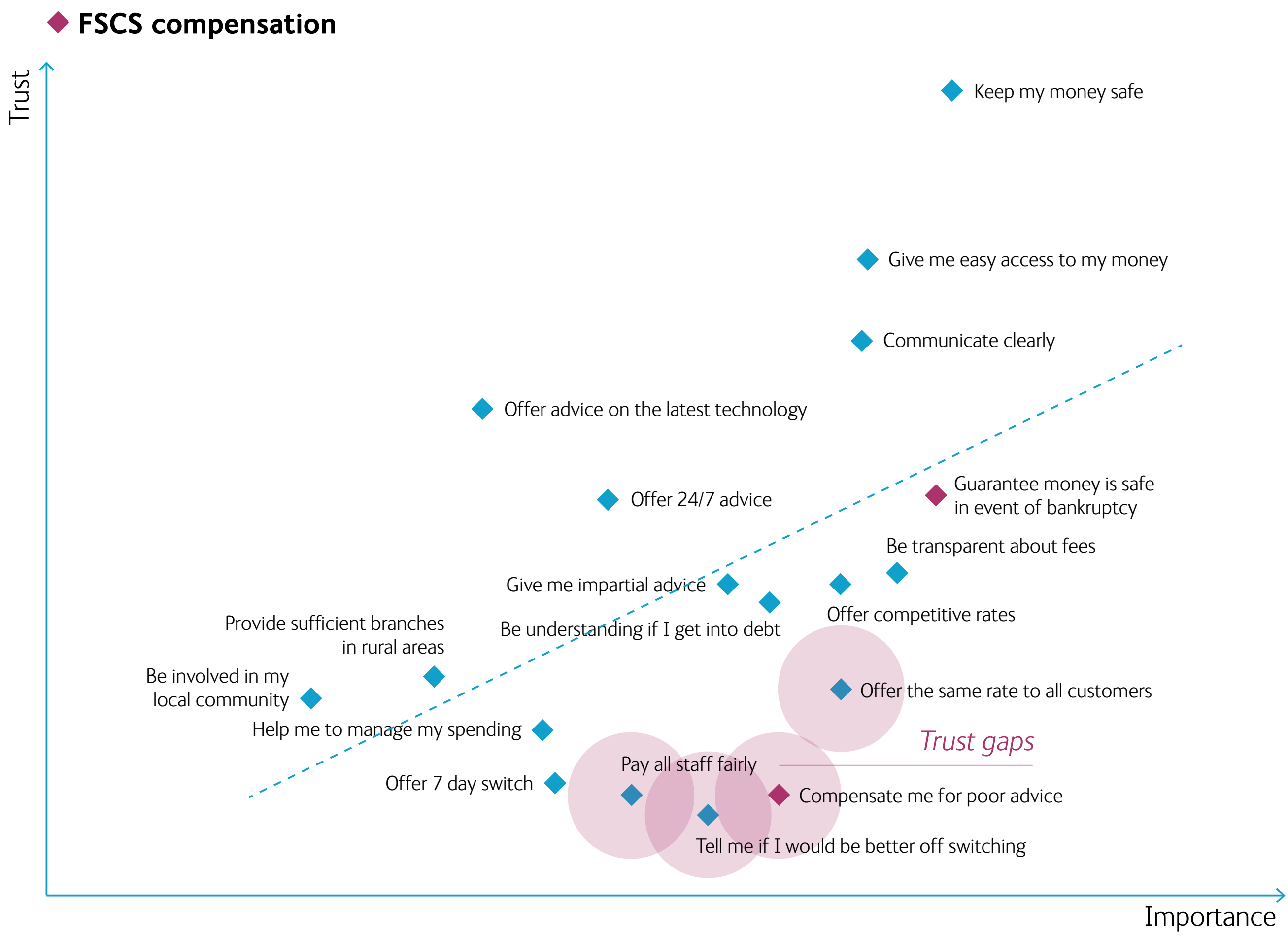
Section 5

TRUST GAPS

If the finance industry wants to restore consumer trust, where should it focus its efforts and limited resources? Where are the biggest gaps in trust that need to be bridged? To answer this, we must consider not only the level of trust consumers have in each issue but also the importance of that issue to them. There is little point in becoming highly trusted to deliver something that few consumers consider to be important. Trust gaps are issues for which trust is low *relative to the importance of that issue to consumers*.

As we can see from Figure 4, financial services firms are highly trusted on a number of important issues, such as keeping money safe and providing easy access to money. However, it also reveals four main trust gaps that need to be addressed:

Figure 4: Trust Gaps in UK Financial Services



Gap 1: Fair Pay

Financial services firms are perceived to be offering huge bonuses to senior managers, regardless of performance, whilst keeping salaries for branch staff low. Financial services firms have a worse reputation on this issue than any others, being seen as greedy rather than benevolent or fair when it comes to staff pay and rewards. Consumers also do not believe that firms' interests are aligned with their own, so that they will be suspicious of banks claims on pay. Closing this trust gap requires visible action, not words and reassurances. The good news is that consumers believe the industry is capable of improving if it chooses to do so.

Gap 2: Product Competitiveness

Financial services firms are not trusted to tell consumers when they would be better off switching to another account or product. Again, this is not seen as being in firms' interest and – in particular – is not something that firms have a reputation for doing to help their customers. The key to closing this trust gap is increased transparency: in the UK energy market, EDF Energy notifies their customers whenever a competitor launches a tariff that would save the customer at least £1 a week. Financial services firms could offer a similar service for many types of product. This information itself would be trusted, as consumers believe financial services firms to be competent to accurately monitor the market on behalf of their customers.

Gap 3: Rewarding Loyalty

Teaser rates and introductory offers are the norm across many parts of the financial services sector, yet consumers perceive this as being punished for being loyal. Our research shows that it is particularly important to consumers that existing customers are offered the same rates as new customers. As with the other trust gaps, doing this is not seen as being in financial services firms' interest and the industry has a poor reputation in this area. However, unilateral action may be difficult, as shown by providers who have tried and failed to follow this policy in the past, and so new regulation may be required to move the industry collectively into a better place.

Gap 4: Compensation for Poor Advice

The largest trust gap of all relates to receiving compensation for losses incurred because of poor financial advice. Many consumers do not think that financial services firms are willing or able to compensate them, and are unaware that the Financial Services Compensation Scheme already offers them protection in this area for failed firms. Raising awareness of the protection offered by FSCS, what it covers, and how it can be accessed, would be an effective way to build trust and confidence, as demonstrated by trust in the safety of deposits. Consumers' higher trust in this area is mirrored by their higher levels of awareness: our research shows that 62% of consumers are aware of FSCS's deposit protection scheme, but only 45% are aware of the compensation FSCS can pay for poor advice, with understanding of the former much better than that of the latter. Other research by FSCS suggests consumers who are more aware of the scheme are also more confident and reassured regarding financial services. More work by the financial services industry to raise awareness would therefore go a long way toward closing this particular trust gap. ■

Section 6

FINAL THOUGHTS

Addressing the issues that undermine consumer trust may require a combination of unilateral action by individual firms, agreement across the industry, and external regulation. In the context of compensation for poor advice, a powerful lever already exists, in the form of FSCS. It is likely to be to the benefit of individual firms and the sector at large, for the scheme to be highlighted much more broadly.

The UK financial services sector has a reputation for high levels of competence; if the public can be justifiably convinced that the energies of the industry are being channelled into serving the best interests of customers, rather than the immediate goals of the firms themselves, then there is a real opportunity for dramatic improvements in the trust of the sector.

APPENDIX

About the Contributors

Professor Nick Chater

Nick is a Professor of Behavioural Science at Warwick Business School and former Associate Dean. He's held chairs in psychology at Warwick and at UCL. He has written or edited 10 books, 200 papers, and has won 4 national awards for his research. He was elected a Fellow of the Cognitive Science Society in 2010 and the British Academy in 2012. He is also co-founder and director of Decision Technology and co-presenter of BBC Radio 4's *The Human Zoo*.

Decision Technology

Founded in 2002, Dectech is a research consultancy that specialises in the commercial application of human decision-making. In particular, Dectech focuses on helping businesses and policymakers understand and manage customer decision-making, from acquisition through to retention and all the points in-between. Dectech's work takes a hybrid approach which encompasses behavioural, experimental and statistical methodologies.

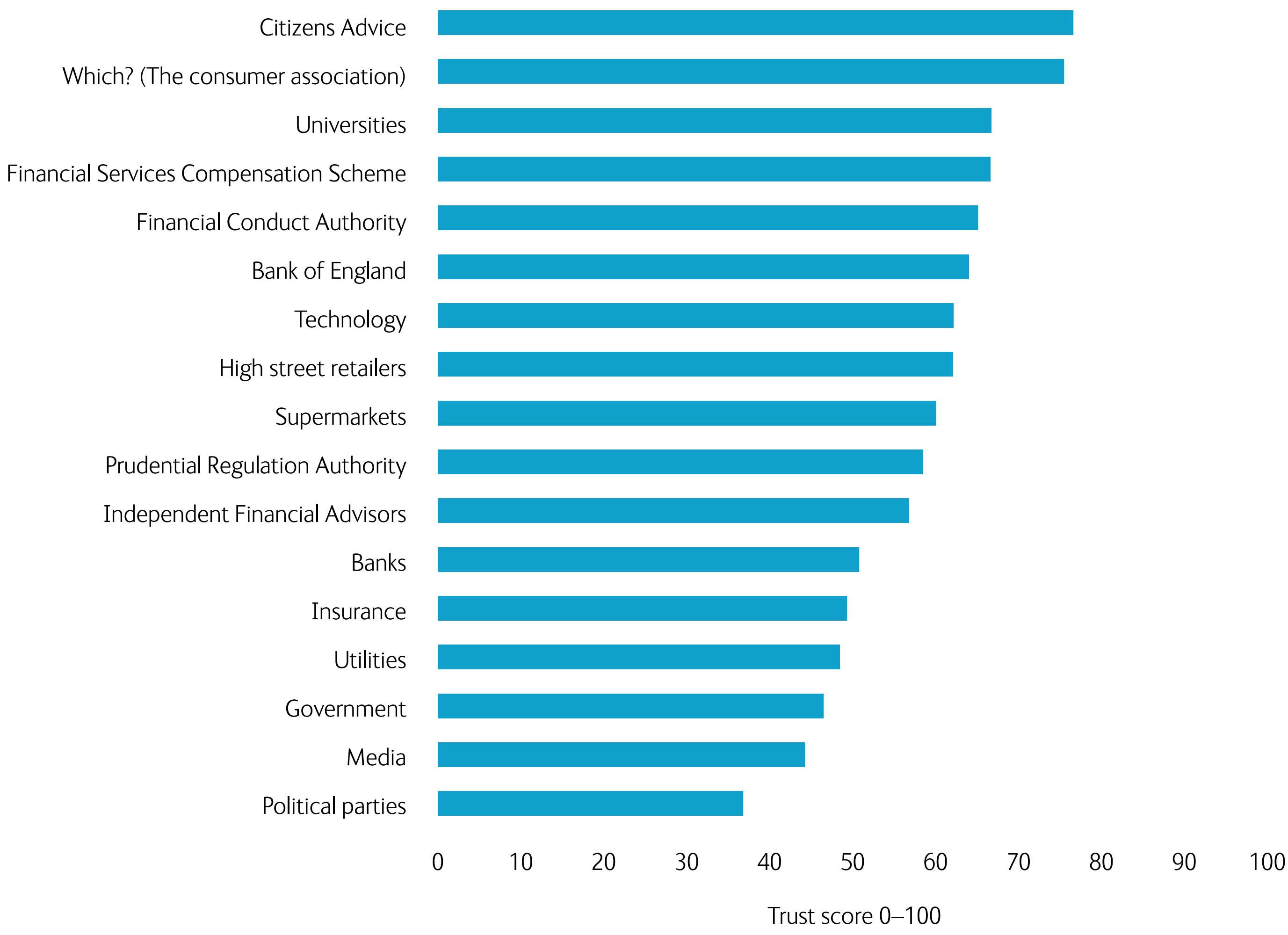
About the Research

The research was conducted online in September 2015 with 2,591 respondents and a nationally-representative random sample.

Industry Trust Rankings

Respondents were shown a list of industries and organisations and were asked to rate how highly they trusted each one.

Figure 5: Consumer Trust in Industries and Organisations



Full list of Financial Service Issues and ABC Scores

Issue	Importance	Alignment	Benevolence	Competence
Keep my money safe and secure from fraud or theft	93	89	74	84
Give me easy access to my money 24 hours a day, 7 days a week	89	83	68	87
Be available to provide help and advice 24 hours a day, 7 days a week	75	73	59	80
Treat me fairly and be understanding if I get into financial difficulty	83	73	56	81
Show me how to use the latest technology to access and manage my account	68	75	62	80
Help me to manage my spending so I stay out of debt	65	63	54	74
Enable me to switch to another bank in no more than 7 days	71	59	54	82
Always tell me if I would be better off switching to a different account or product	80	60	51	83
Be involved with and support local community charities and initiatives	59	63	52	76
Communicate clearly in plain English without using≈jargon	88	81	65	87
Give me impartial financial advice on the right product≈for me	81	70	57	80
Pay junior staff fairly and not excessively reward senior staff	76	66	49	81
Guarantee that my money is totally safe even if they go bankrupt	92	78	60	78
Offer the same rates and offers to existing customers as to new customers	87	71	54	86
Compensate me for poor advice if it causes me to lose money	84	65	50	81
Provide sufficient branches in small towns and rural areas	72	65	49	74
Offer competitive interest rates on savings and loans	87	74	57	82
Be transparent and open about fees and charges	90	74	58	87

Knowledge of FSCS

Respondents were asked a range of specific questions about FSCS and the services it provides.

Figure 6: Knowledge of FSCS

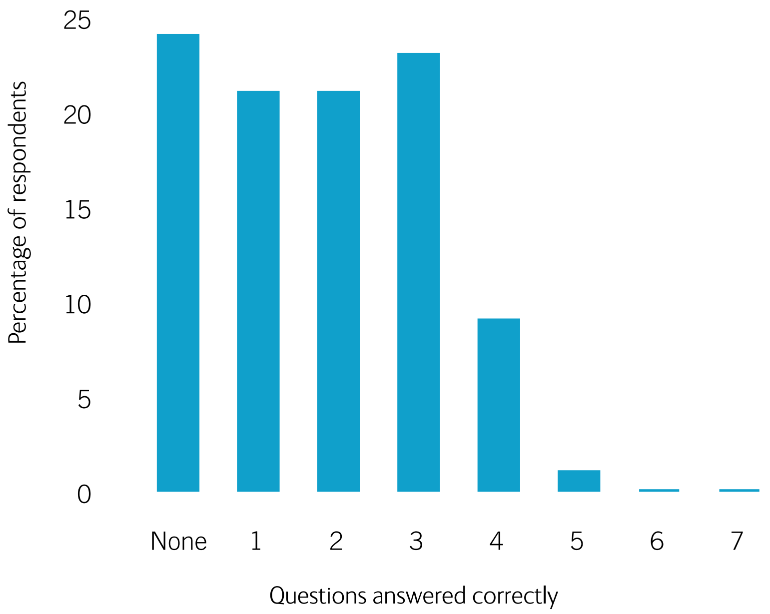
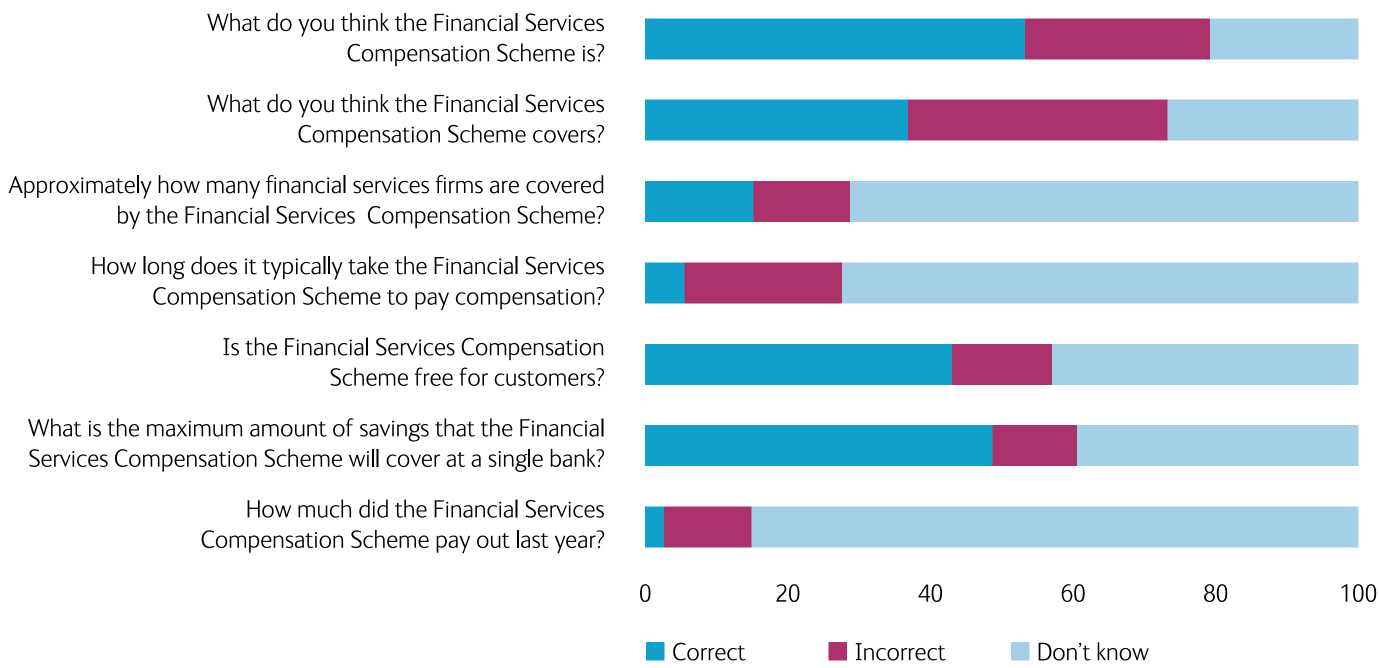


Figure 7: Consumer FSCS Knowledge Gaps



Global trust in Financial Services (general population):
Edelman Trust Barometer

Rank	Country	Trust score
1	India	77
2	China	72
3	Indonesia	72
4	UAE	69
5	Malaysia	67
6	Singapore	62
7	Hong Kong	61
8	South Africa	59
9	Mexico	57
10	Brazil	56
11	Canada	55
12	US	51
13	South Korea	45
14	Australia	43
15	Argentina	41
16	Russia	40
17	Japan	39
18	Turkey	37
19 =	UK	36
19 =	Italy	36
19 =	Poland	36
20	Netherlands	35
21	Sweden	34
22	France	33
23	Ireland	29
24	Germany	25
25	Spain	22

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Source;

http://www.edelman.com/insights/intellectual-property/2015-edelman-trust-barometer/trust-across-industries/financial-services-path-to-building-trust/

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