# Measuring trust in financial services: the Trust Index

*Christine Ennew and Harjit Sekhon report on work to develop a broad-based measure of consumer trust in financial services, the Trust Index*

**Customers face high levels of risk when purchasing financial services, often having difficulty judging product performance and needing to trust financial services institutions to offer products of appropriate type and quality. However, there is growing evidence to suggest that levels of trust may be a cause for concern and that the extent to which financial services institutions are able to inspire trust is declining. Trust and trustworthiness are complex constructs that can be difficult to measure. This paper reports on work being done to develop a Trust Index.**

Few would disagree with the proposition that trust plays a central role in the way in which financial services organisations present themselves to their customers. Intangibility, product complexity, and the long term nature of many products mean that customers face high levels of risk in making purchase decisions; they will often have difficulty in judging product performance and will need to trust financial services institutions (FSIs) – whether providers or advisers - to offer products of an appropriate type and quality. Analysis of the UK retail financial services market suggests that trust in a financial adviser may be more important than the adviser's status[1], that there is an association between purchasing and positive views of the industry[2] and that familiarity and brand name are important correlates of trust and trustworthiness.[3] Similarly, in North America, the Banking Association Chairman, Ken Fergeson noted that survey evidence suggested that *'more than half of bank customers believe that having a relationship of trust with their financial institution is more important than getting the best value for money'.*[4]

However, there is also evidence to suggest, that levels of trust may be a cause for concern. In the UK, there is increasing anxiety about declining levels of consumer trust in financial services; perceived industry mal-practice (for example, mis-selling of pensions, endowments and related products) and the impact of stock market difficulties in the early part of the current decade are thought to have had a significant negative impact on consumer trust and confidence.[5] Fines in the region of £75m imposed on firms in industry by the Financial Services Authority (FSA) since early 2002[6] and estimated compensation costs running into hundreds of millions would tend to reinforce these perceptions. Most recently, the fact that the FSA has announced a commitment to increase consumer confidence would tend to confirm the difficulties that the industry faces in relation to trust.

Although the issue of trust attracts considerable attention and appears to be a cause for concern in the industry, our understanding of the concept of trust can be both variable and imprecise. Its importance as a means of ensuring stability within social systems and facilitating economic transactions is widely accepted; its precise meaning is open to rather more debate. The current paper reports on work undertaken by the Financial Services Research Forum[7] to develop and operationalise a broad-based measure of consumer trust and organisational trustworthiness in the specific context of financial services. The paper will begin with a general discussion of the meaning of trust and its relevance in financial services. Thereafter, a framework for measuring trust and trustworthiness will be presented including consideration of the factors that will influence organisational trustworthiness. The following section will discuss the findings obtained from a major survey based around this framework. Finally, we will close with a summary and conclusions.

## The meaning of trust

In a business context, much of the discussion about the meaning of trust has its origins in literature relating to organisations and organisational analysis. Within this body of research, trust has attracted the interests of psychologists, sociologists, economists and management researchers; consequently, there are a variety of different approaches to and definitions of the concept of trust.[8] What is apparent from the many different definitions and approaches to trust is that there are certain key themes that emerge and appear to be recognised as integral to the concept of trust[9].

- Trust depends on the existence of risk – if the outcomes of a particular action are certain, then there would be no need to trust.
- Trust depends on interdependence between actors – if actors are not somehow dependent on each other, there is no need to trust.
- Trust is associated with vulnerability – risk and interdependence create vulnerability.
- Trust involves confident expectations about future behaviours – an actor will only accept vulnerability in the presence of strong expectations of the positive future behaviour of another actor.
- Some form of trust is likely to be inherent in most relationships – few are, or can be, characterised by complete certainty or complete contracting.

Thus, a common view of trust would suggest that it is concerned with an individual's willingness to accept vulnerability on the grounds of positive expectations about the intentions or behaviour of another in a situation characterised by interdependence and risk. Existing perspectives on trust suggest that this willingness to be vulnerable may arise from a calculation of costs and benefits, an individual's existing predisposition to trust, a detailed knowledge and understanding of exchange partners and/or a faith in social systems and institutions.

Thus, to the extent that there is vulnerability, risk and interdependence associated with the purchase of financial services, then there will be a role for trust.[10] From the perspective of retail consumers, the buying process for financial services is complicated by the variety and complexity of the products available. Intrinsically, many longer term savings and investment products are highly complex; the development of variants of the same product with slightly different features only adds to this complexity. The difficulties associated with understanding these products are compounded by the inability to judge how well they will perform in the future; the consumer can only assess the product once it has been bought and even then, that assessment may have to wait 10, 15, 25 or 40 years.

Even in the case of products whose performance can be assessed over a rather shorter term period, the consumer may find difficulties in assessing product performance. For many products, performance depends on both the skills of the product provider and the future performance of the economy as a whole. The performance of similar product types may vary considerably according to the time period over which they are assessed and the timing of initial purchase. Bad performance might be due simply to bad fortune and timing. This forces the consumer to rely heavily on credence qualities – on trust and confidence in what a provider does and has done.[11] It has been suggested that the main function of trust is to reduce uncertainty thereby making risks manageable and simplifying choice.[12]

Based on this explanation of the purchasing process, the conditions that make trust important are clearly in evidence in relation to financial services.

- Risk: although relevant to most financial services in some way or another, risk will be most in evidence in relation to savings and investment products. Risks are associated with poor product performance, which may be due to the poor quality of the product but could equally be due to misfortune. Risk is inherent in the product but is compounded by consumer's typically low levels of understanding and the impacts of uncontrollable factors.
- Vulnerability: since financial services can and do have a significant impact on the consumer's well being, a poor performing product can have a very significant impact on individual customers.
- Interdependence: the functioning of financial markets means that in general, individuals need the services of a specialist intermediary to deal with their financial needs. More significantly, product variety and complexity mean that the customer is dependent on a financial services organisation for advice and the more limited the customers understanding of financial services, the greater the dependence on a financial services provider or a financial adviser.

The specific features of financial services and the importance played by front line staff and sales staff mean that trust may be based in the organisation, the brand or the individual; traditionally, trust in the individual whether real ('the man from the Pru') or hypothetical (the 'bank manager in the cupboard') has always been of considerable significance to the industry. Increasingly though, as methods of distribution change, the importance of the brand as the basis for a relationships and a basis for trust is increasing.[13]

## Developing the trust index

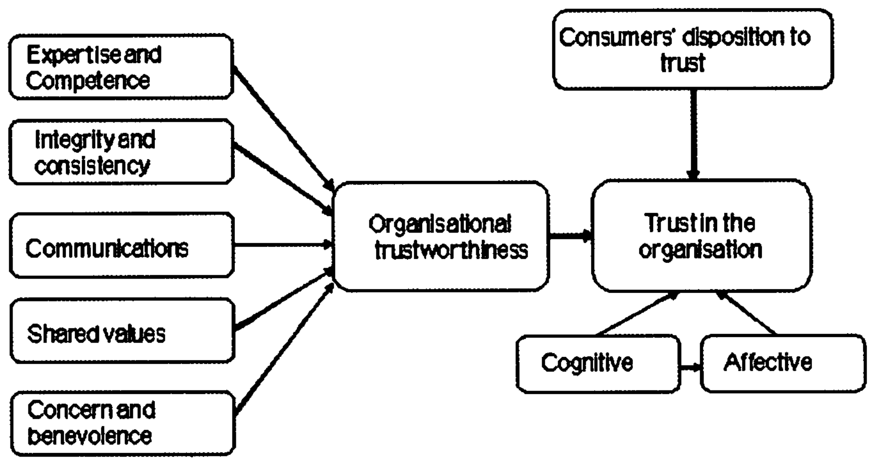
While there is widespread recognition of the importance of trust, attempts to measure trust all too often rely on simple measures of the concept, using perhaps single statements and often simple yes/no answers. Research in the area of trust (and the related concept of trustworthiness) highlights the richness and complexity of both concepts. Accordingly, in attempting to evaluate and monitor trust and trustworthiness in the financial services sector, the Financial Services Research Forum sought to develop a more robust and rich measure. The measurement framework, which is outline in Figure 1, proposed that consumer trust in an organisation may be low level or cognitive (that is, based around notions of reliability and dependability) or high level or affective (that is, based around notions of being concerned about the best interests of the customer). In line with marketing studies which have reported close associations between these forms of trust it is suggested that cognitive trust can lead to affective trust. Consumer trust is also related to individual characteristics, reflecting work within the psychology tradition which would argue that consumers may have different dispositions to trust. The other major determinant of trust is organisational trustworthiness which is determined by expertise and competence, integrity and consistency in behaviour, effective communications, shared values and concern and benevolence.

Multi-item likert-scales were developed to measure each of the above concepts, working with the definitions of trust, trustworthiness, benevolence, integrity, ability/expertise, shared values and communications. For detail on these scales is outlined in the Appendix.

### Trust

*Consumers' trust in a financial services institution.* This is an attribute of consumers. Trust may vary across consumers because of different experiences and

Figure 1 A framework for measuring trust in financial services




personality traits even where perceptions of trustworthiness are similar.

### Trustworthiness

*The extent to which an FSI is perceived as being worthy of trust.* This is an attribute of the FSI; it is central to the image and reputation of the institution and can be managed by both internal policy and practice and through external communications.

### Benevolence

*The extent to which an FSI is concerned about its customer's interests from a customer perspective.*

### Integrity

*The extent to which an FSI is honest and consistent in what it does from a customer perspective.*

### Ability/Expertise

*The extent to which an FSI is seen as having the necessary skills and ability to deliver its services from a customer perspective.*

### Shared values

*The extent to which consumers believe that an FSI has values similar to their own.*

### Communications

*The extent to which an FSI communicates well/effectively from a customer perspective.*

## Findings

Following a pilot study in February 2005, a full-scale study was carried out between October 2005 and March 2006. Over 1500 subjects were interviewed and each respondent was asked (where possible) questions relating to two organisational contexts (bank, building society, general household insurer, life insurer, investment company, broker/advisor and credit card company. This resulted in between 400 and 600 responses for each of the seven organisational contexts. In addition, respondents were asked for comparative ratings of other non-financial institutions (the NHS, the BBC, employer, supermarket and mobile phone provider) to provide a benchmark against which the performance of the financial services sector could be evaluated.

The framing of the questions for both financial services institutions and comparator institutions focused customers on the institutions they dealt with (the bank that you deal with, an investment company that you deal with, your supermarket, your employer). The only exception to this was in the case of the NHS and the BBC. Such framing was essential to ensure that respondents had the information to provide reliable answers to the questions.

Names were sampled randomly from established sampling frames representative of the UK population and the data were gathered using computer aided telephone interviewing. During the interviews, screening was undertaken to ensure a minimum number of responses for each institution type. Some additional screening was undertaken with respect to age, as initial data gathering indicated a bias towards older respondents. Refusals were particularly high among younger consumers and more so among males and females. This may reflect time pressures and interests of this group. It will also reflect the pattern of holdings of financial products, with many such products (mortgages, life insurance, investment products) having a relatively older customer base.

Key features of the sample were as follows:

- 55 per cent female, 45 per cent male.
- 60 per cent married.
- 96 per cent white.
- 40 per cent under 45.
- 20 per cent aged 65 and over.

The gender balance is slightly out of line with that of the national population, but within acceptable margins. The age distribution is broadly in line with that of the national population with a good representation of both young consumers and older consumers. The proportion of respondents who are white is rather higher than the national figure of approximately 90 per cent. The distribution of responses by lifestage is broadly in line with the age distribution.

Table 1 provides summary information on the overall measures of trust and trustworthiness. In contrast to many trust measures, which rely on a simply yes/no comparison, the approach adopted here measures degree of trust. The trust/trustworthiness measures were constructed by averaging across responses to a series of statements and then scaled so that the maximum possible score is 100 and the minimum is zero. To interpret these figures, a score of 100 would mean that all respondents strongly agreed with every statement on trust. A score of 75 would indicate that on average respondents moderately agreed with the statements on trust and a score of 50 would indicate that respondents neither agreed nor disagreed with the various statements.

**Table 1**
FSRF sample: Overall measures of trust/trustworthiness

| | Overall trust | Base level trust | Higher level trust | Trustworthiness |
|---|---|---|---|---|
| Mean | 73.01 | 74.04 | 71.02 | 75.18 |
| Std deviation | 19.97 | 19.78 | 22.21 | 19.32 |
| Minimum | 0.00 | 0.00 | 0.00 | 0.00 |
| Maximum | 100.00 | 100.00 | 100.00 | 100.00 |

Thus, in looking at Table 1, overall consumer trust is slightly below the figure of 75, suggesting that on average, respondents are moderately trusting of FSIs. Base level (cognitive) trust is significantly larger than high level (affective) trust as might be expected – that is to say, respondents are more convinced about the reliability/dependability of FSIs and less convinced about the extent to which FSIs have their interests at heart. Respondents' perceptions of the extent to which FSIs are trustworthy is significantly higher than the reported level of overall trust. This would suggest that the reputation that FSIs project may promise more trust than consumers are willing to offer, perhaps reflecting variations in individual dispositions to trust. However, the observed difference is relatively small.

These proposed influences on trust are outlined in Table 2. The figures should be interpreted in the same way as the figures relating to the aggregate measures. Based on these results, FSIs attract their highest ratings in relation to ability/expertise and are weakest in relation to shared values. Benevolence, shared values and communications display a high degree of variability relative to both expertise/ability and integrity.

**Table 2**
FSRF sample: Components of trust

| | Benevolence | Ability/ expertise | Integrity | Shared values | Comms |
|---|---|---|---|---|---|
| Mean | 73.54 | 78.72 | 65.12 | 65.12 | 74.09 |
| Std deviation | 21.54 | 18.74 | 26.54 | 26.54 | 21.76 |
| Minimum | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Maximum | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

**Table 3**
Overall measures of trust/trustworthiness by institution type (mean)

| | Overall trust | Base level trust | Higher level trust | Trustworthiness |
|---|---|---|---|---|
| Bank | 74.51 | 75.70 | 72.14 | 76.68 |
| Building society | 74.26 | 75.15 | 72.48 | 77.56 |
| General household insurance | 73.31 | 74.08 | 71.76 | 75.64 |
| Life insurance | 69.23 | 70.11 | 67.71 | 72.09 |
| Investment companies | 69.44 | 70.90 | 66.65 | 71.17 |
| Broker/ adviser | 79.08 | 79.68 | 77.87 | 78.65 |
| Credit card company | 74.39 | 75.56 | 72.05 | 76.91 |

In table 3 trust and trustworthiness are analysed by institution type. Brokers/advisers receive the highest ratings on trust and trustworthiness, followed by banks, building societies and credit card providers, all of whom receive very similar ratings. Investment companies, and Life Insurance companies receive the lowest ratings. The ratings for banks and general household insurers place them firmly in the middle of the range – higher than investment companies, and life insurers, but slightly lower than building societies, banks and credit card providers and much lower than brokers. The ratings for brokers who are independent are significantly higher than for brokers who are, in some form, tied to particular providers.

The individual components of trust by institution

**Table 4**
Components of trust/trustworthiness by institution type (mean)

| | Benevolence | Ability/ expertise | Integrity | Shared values | Comms |
|---|---|---|---|---|---|
| Bank | 74.02 | 75.88 | 75.07 | 72.12 | 75.70 |
| Building society | 75.20 | 76.41 | 76.74 | 73.33 | 75.88 |
| General household insurance | 72.53 | 75.15 | 74.61 | 69.52 | 71.93 |
| Life insurance | 69.69 | 72.44 | 71.05 | 66.68 | 69.75 |
| Investment companies | 68.23 | 71.93 | 69.81 | 61.55 | 68.76 |
| Broker/ adviser | 79.53 | 81.33 | 80.40 | 76.07 | 79.00 |
| Credit card company | 74.35 | 76.53 | 75.94 | 73.17 | 76.49 |

context are shown in Table 4. For most institution types, ability/expertise and integrity are areas of strength while shared values is an area of weakness as, to a lesser extent is benevolence. Shared values appears to be a particular weakness for investment companies.

Table 5 reports the summary ratings for respondents' trust in a series of institutions other than financial services. It is notable that the ratings for the NHS and BBC are significantly lower than those for supermarkets, mobile phone providers and employers. The two most highly rated of this set of institutions – supermarkets and employers are lower than all financial services institutions other than life companies and investment companies, an outcome which warrants more detailed investigation, not least because it of the supposed strength of customer relationships with these two types of institution.

**Table 5**

Overall measures of trust/trustworthiness by institution type (mean)

| | Overall trust (comparator) | Cognitive trust (comparator) | Affective trust (comparator) | Overall trustworthiness (comparator) |
|---|---|---|---|---|
| The NHS | 61.87 | 62.02 | 62.34 | 60.67 |
| The BBC | 56.83 | 57.56 | 55.44 | 60.95 |
| My supermarket | 66.87 | 68.53 | 63.83 | 71.74 |
| My employer | 70.23 | 70.99 | 68.73 | 72.69 |
| My mobile phone provider | 65.42 | 68.10 | 60.71 | 69.09 |

The results reported thus far would appear to be slightly surprising and certainly counter to much of the anecdotal evidence about declining and low levels of trust in financial services. Exploring the relationship between age and trust ratings provides some partial insight into why this might be the case.

Older customers in financial services have significantly higher ratings of trust and trustworthiness than younger customers. Levels of trust are remarkably similar across age groups, apart from the 65 and over group which records significant and substantially higher levels of trust and trustworthiness. This contrasts starkly with the responses for other institutions where levels of trust and trustworthiness vary but with no evidence of a significant age effects

Consistent with the findings in relation to age, those customers who have a longer relationship with a financial services supplier report higher levels of trust. Gender also has an impact on ratings of trust and trustworthiness, with female respondents being slightly (but significantly) more positive than male respondents. Unlike age, this impact is apparent for both financial and non-financial institutions.

There is also evidence to suggest that levels of trust and trustworthiness vary according to the number of products held. In particular, for the sample as a whole, consumers with one or two products from a given FSI displayed a lower level of overall trust and trustworthiness (71.9 for trust and 73.8 for trustworthiness) when compared with those consumers with more than two products from a given FSI (74.0 for trust and 76.4 for trustworthiness).

There is mixed evidence relating to the impact of channel of distribution. Trust and trustworthiness are not significantly different across preferred channel of distribution (branch, telephone, mail, Internet) for credit card providers and building societies, but in the case of banks, consumers using the internet report significantly lower degrees of trust when compared with consumers who use the telephone and the branch.

## Conclusions

Using a more comprehensive measure of trust (the 'Trust Index'), levels of trust in FSIs look surprisingly high when considered in relation to existing anecdotal evidence. However, in contrast with previous approaches to measurement, the trust index figures reported in the current study provide a more sophisticated and fine-grained measurement of trust and trustworthiness with data being collected from a large and relatively representative sample. The results suggest that levels of trust in FSIs are associated with a greater number of products held, with female respondents and, to a degree, with age.

While the comparative evidence suggests that FSIs might be re-assured about the extent to which their customers trust them, the analysis by age suggests that this position might be vulnerable in the longer term. Those aged under 65 show significantly lower degrees of trust in FSIs, perhaps reflecting different experiences of the financial services sector. This is suggestive of a significant challenge for FSIs in the future management of their relationships with customers in this age group.

## Appendix

**Table A1:** Measures of trust and trustworthiness

| My main bank ... | Strongly Disagree | | Neutral | | Strongly Agree |
|---|---|---|---|---|---|
| I trust my bank to do what it says it will do | 1 | 2 | 3 | 4 | 5 |
| I trust my bank to have my best interests at heart | 1 | 2 | 3 | 4 | 5 |
| My bank is very reliable | 1 | 2 | 3 | 4 | 5 |
| My bank is always honest with me | 1 | 2 | 3 | 4 | 5 |
| My bank is concerned about my best interests | 1 | 2 | 3 | 4 | 5 |
| Overall I feel I can trust my bank | 1 | 2 | 3 | 4 | 5 |
| My bank makes every effort to address my needs | 1 | 2 | 3 | 4 | 5 |
| My bank has a reputation for being reliable | 1 | 2 | 3 | 4 | 5 |
| My bank has a reputation for being honest | 1 | 2 | 3 | 4 | 5 |
| My bank has a reputation for being dependable | 1 | 2 | 3 | 4 | 5 |
| My bank has a reputation for looking after its customers | 1 | 2 | 3 | 4 | 5 |
| My bank has a reputation for having its customers interests at heart | 1 | 2 | 3 | 4 | 5 |
| Overall I feel my bank is trustworthy | 1 | 2 | 3 | 4 | 5 |

**Table A2:** Measures of the drivers of trustworthiness

| My main bank ... | Strongly Disagree | | Neutral | | Strongly Agree |
|---|---|---|---|---|---|
| Does whatever it takes to make me happy | 1 | 2 | 3 | 4 | 5 |
| Keeps its word | 1 | 2 | 3 | 4 | 5 |
| Acts in the best interests of its customers | 1 | 2 | 3 | 4 | 5 |
| Shows high integrity | 1 | 2 | 3 | 4 | 5 |
| Is honest | 1 | 2 | 3 | 4 | 5 |
| Conducts transactions fairly | 1 | 2 | 3 | 4 | 5 |
| Has the information it needs to conduct its business | 1 | 2 | 3 | 4 | 5 |
| Is consistent in what it does | 1 | 2 | 3 | 4 | 5 |
| Can be relied upon to give honest advice | 1 | 2 | 3 | 4 | 5 |
| Shows respect for the customer | 1 | 2 | 3 | 4 | 5 |
| Treats customers fairly | 1 | 2 | 3 | 4 | 5 |
| Has the same concerns as me | 1 | 2 | 3 | 4 | 5 |
| Is receptive to my needs | 1 | 2 | 3 | 4 | 5 |
| Competently handles all my requests | 1 | 2 | 3 | 4 | 5 |
| Is efficient | 1 | 2 | 3 | 4 | 5 |
| Communicates clearly | 1 | 2 | 3 | 4 | 5 |
| Is responsive when contacted | 1 | 2 | 3 | 4 | 5 |
| Informs me immediately of any problems | 1 | 2 | 3 | 4 | 5 |
| Has the same values as me | 1 | 2 | 3 | 4 | 5 |
| Informs me immediately of new developments | 1 | 2 | 3 | 4 | 5 |
| Acts as I would | 1 | 2 | 3 | 4 | 5 |
| Is knowledgeable | 1 | 2 | 3 | 4 | 5 |
| Communicates regularly | 1 | 2 | 3 | 4 | 5 |

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