LAWRENCE SOMERSET LIMITED

Rebuilding Trust in Private Client Businesses – Real Customer Relationship Management

The key factor in building better, more lasting customer relationships in wealth management is trust. The effect of low trust may not be readily apparent as it is most often experienced as an opportunity cost, i.e. in what is not done, but it is nonetheless stifling to growth.

In the current climate of falling returns, trust in private client business, as in all financial institutions, will suffer. It is likely to be those wealth managers that take an honest and active approach to nurturing client trust that will emerge least scathed.

A Definition of Trust

Trust is about much more than professional competence and honest dealing. It has an emotional as well as a rational element and is essentially about relationships. The person doing the trusting, the client must believe the other party is genuinely concerned for their interests, and they can only acquire this belief over time, by repeated reinforcement.

Four main dimensions to trust have been suggested:

The first three must be maximised:

- **Credibility** - demonstrating (rather than talking about) technical competence, being seen to be truthful and not concealing anything.

- **Reliability** - proving you can be depended on, repeatedly keeping promises, meeting expectations and showing that your actions match your words

- **Intimacy** - being close enough to understand and anticipate the other's needs. Good salespeople do this, but are distrusted if they are seen to be pretending friendship to win a sale.

And the fourth minimised:

- **Self-orientation** – suggesting we are thinking more about ourselves rather than the client.

Any person or organisation seeking the trust of others must satisfy all four of these requirements, it is no good being brilliantly competent if your service is inconsistent and, most crucially, **trust can be destroyed if you are seen to act in a self-serving way.**

The Determinants of Trust in Wealth Management

Our own research in these markets suggests these four dimensions can be related directly to private client business.

94 PRIORY ROAD LONDON NW6 3NT 020 7813 2197 FAX: 020 7328 8205. jlawrence@l-s-l.com
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The positive dimensions are the subject of regular management meetings:

Credibility
- Competitive products relevant to market conditions and client needs
- Performance track record
- Absolute benchmarks, rather than relative measures
- Transparency over available options and inherent risks & charges

Reliability
- Continuity of staff, premises and reporting
- Consistency of delivery
- Clear response to crises, both client and market induced

Intimacy
- Real customer knowledge, not relying mechanically on a CRM system
- Cultural affinity.
- Providing proactive advice without appearing to be maximising 'cross-selling' opportunities.

But the negative dimension is often unseen by wealth managers:

Self-orientation
- Mis-selling and pressure from highly incentivised sales staff
- Non-transparent charging or charges bearing little relation to what has been done e.g. a percentage of AUM rather than a fee for service.
- Biasing selections towards in-house funds rather than those of other firms
- Making changes to the service without inherent benefits to clients

And this is where true damage can be done. Without these failings failure in the positive dimensions can be forgiven**.**

<u>The Opportunity Cost of Low Trust</u>

All these aspects of trust have a bearing on client behaviours, but their impact is not always overt. The result of damaged trust may not be defection, but clients may not transfer additional funds to the firm, provide full information about their circumstances, or introduce friends. In an introducer context, the opportunity cost of a transgression can be enormous, and often not seen by corporate management.

The insidious effect of these opportunity costs is that apparently rational strategies around cost-reduction or pricing can damage the long-term capacity of the firm to grow.

Case Studies – The Experience of Wealth Managers

a) Research with clients of a wealth manager in 2002 revealed that clients were concerned their portfolio values had fallen – some had paper losses of 40% - 50%. However their views of the wealth manager, who had until then concentrated on customer service, were very positive.

After two years of business integration following an acquisition, requiring a lot of communication around back office integration, changes to product, relationship management and pricing, we repeated the research as part of a strategy refresh.

Portfolios had recovered but perceptions had become very negative. Clients attributed their gains to 'the market' and felt the firm was no longer looking after their interests. The reason was that communication had been about the firm's reasons for the changes, not the benefits to the client.

b) In another recent case a fund manager raised its percentage rate of charges claiming it had performed well **relative to the competition** although it had not done so in an absolute sense. This was not taken well by clients and seen as disingenuous and self-serving.

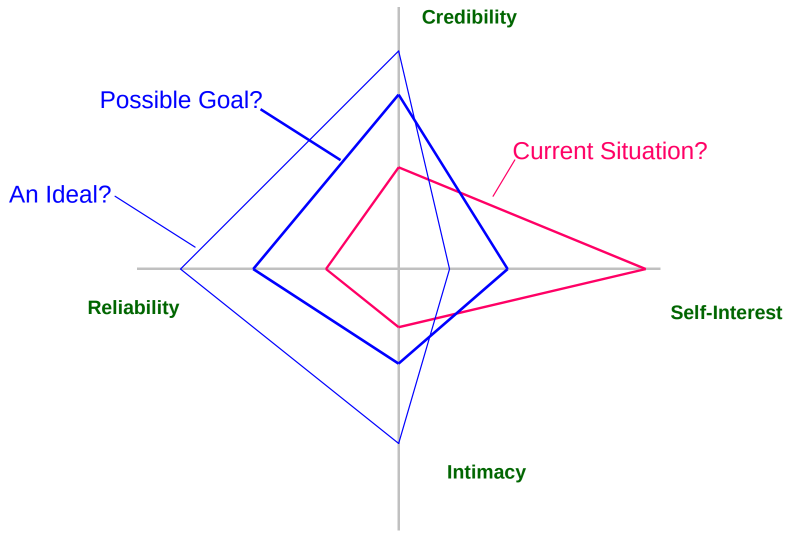
A Programme for Re-Building Trust

There is a large body of independent research that shows the most successful, profitable suppliers in all industries are those who have secured the long-term loyalty of their customers - not just by delivering outstanding value, but by demonstrating consistent reliability, understanding of their customers' needs and a willingness to put their clients' interests on a par with their own.

To do this consistently, one must understand how to measure trust - not just loyalty, which in a mechanical CRM context can be another name for inertia.

The first step is to understand how well the organisation stands on the four dimensions of trust, with clients, introducers and also with staff. A programme of well-designed research will enable the firm to produce a diagnosis of the current situation and suggest realistic goals for taking the firm forward, as illustrated.

Visualising the Dimensions of Trust



Such a pulse check will provide a sound basis for the next step, to develop a programme to prioritise and rectify the deficiencies in the current mode of operation, especially those that are seen by clients but invisible to the firm itself.

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The Author: John Lawrence is a director of Lawrence Somerset Ltd, a business strategy, innovation and research firm, working with wealth managers, stockbrokers and private banks.

www.l-s-l.com
(020)7 813 2197

jlawrence@l-s-l.com