Rebuilding Trust in Private Client Businesses – Or: 'Real Customer Relationship Management'

Introduction

The key factor in building better, more lasting customer relationships in wealth management is trust. And yet trust in financial institutions has been seriously undermined by the recent fall in asset values and revelations of unethical behaviour. The effect of low trust may not be readily apparent, it is most often experienced as an opportunity cost, ie in what is not done by clients and introducers, and therefore invisible but nonetheless stifling to growth. To restore trust, it is necessary to understand its different dimensions. Valuable lessons can be learned from recent research on the nature of trust and loyalty

The Importance of Trust In Wealth Management

Many institutions are currently revising their strategies: attacking the cost base, out sourcing, overhauling the product range, and so on. There is an expectation that when markets pick up, asset gathering can resume.

One of the consequences of the decline in asset values in the last 2-3 years has been that many investors are feeling bruised at having lost paper money, at the very least, and, in many cases, real cash. Hardest hit perhaps are those 'affluent and mass affluent customers whose retirement expectations will have to be significantly revised.

For many private clients, investors and savers, the problem is not merely one of lost money, it is one of lost confidence and trust in the equity markets and the people that put them there.

Firms will therefore need to address the issue of lost trust if they are fully to restore their ability to gather assets from new or from existing clients, particularly in a low return market.

The key question we address here is: **How can firms restore trust in their brands and in their people?**

A Definition of Trust

Trust – what it is, how it is created, and how it can be undermined – has been analysed most thoughtfully and comprehensively by Maister, Green and Galford in *The Trusted Adviser*. Being lawyers and management consultants themselves they consider trust from the perspective of professional advisers, we believe their findings are highly relevant to private banking. 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 who is doing the trusting, the client, must believe that the other party is genuinely concerned for his or her interests, not trying to maximise his own

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short-term benefit. The client can only acquire that belief over time, by repeated reinforcement.

There are four main dimensions to trust. The first three must be maximised:

- **Credibility** requires that you demonstrate (rather than talk about) your technical competence, that you are seen to be truthful and do not conceal anything.

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

- **Intimacy** means being close enough for each party to take some risks – and for the trusted party to understand and be able to 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** is the biggest barrier to establishing trust. It is not simply being greedy or selfish – anything, which suggests we are thinking more about ourselves rather than the client can undermine trust.

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 but, most crucially, **trust can be destroyed if you are seen to act in a self-serving way.**

The Determinants of Trust In Wealth Management

What does this mean for a private client business, and why is it important to consider all aspects of trust? From our own research in these markets, these four dimensions of trust can be related directly to the business system as experienced by customers as follows.

Credibility

- The **products offered** are critical to demonstrating credibility and must be competitive and relevant both to the market conditions and the client's needs
- **Track record** on performance, in an asset management context, is clearly crucial, especially over the market cycle
- **Absolute benchmarks**, rather than relative measures, are likely to become a hallmark of the company that is prepared to deal openly with its clients
- **Transparency and completeness,** are important to give the client an understanding of the available options and inherent risks, and to deal with the client in an open way in all matters.

Reliability

- **Longevity of investment and relationship staff** is the clearest indicator of commitment and of reliable performance

- **Maintenance of physical premises** for some businesses, especially regional ones
- **Reporting** clearly and consistently in a manner understood by the client
- **Consistency.** Firms also need to deliver quality day in day out, and respond well to crises

Intimacy, is founded on the quality of the personal relationships forged, and whether this is reflected in all the aspects of the firm's dealings with the client. This goes much farther than relying mechanically on a CRM system.

- **Customer knowledge** is clearly essential, but often lacking in sufficient quality. Knowledge goes beyond mere data to include a qualitative understanding of the clients' needs and preferences.
- **Style of engagement**, in the private client context is an essential ingredient to establish cultural affinity.
- **Proactivity in addressing needs** and in providing advice, is an ability that firms with good knowledge and confidence can adopt and without appearing to be maximising 'cross-selling' opportunities.

The personal relationship is essential to building intimacy and trust, although this might create a conflict for some firms seeking to wrest control of the client entirely from the RMs hands.

Self-Orientation. This is the area where the true damage is done, without overt self-orientation, failure on the above can be forgiven.

- **Pricing and charges** are the most obvious area where the firm's interests are put to the fore, especially when charges are not transparent, but also when charges bear little relation to what has been done, eg when charges are a percentage of assets under management rather than a fee for service.
- **Bias in advice**, has played a big part in creating today's situation. Many clients who thought they were getting advice found they were being sold products, which were not, in their best interests.
- **Bias in open architecture** will become more important as firms follow the trend to sourcing other firm's funds, but wish to retain revenues in house, by biasing selections towards their own funds
- **Reward systems for sales staff**, if highly incentivised, as with some broker models, can leave clients feeling pressurised and exposed.
- **Communication,** should be focused on the client more than the supplier – as one lawyer, an introducer of VHNWIs to Private Banks, described to me ' *once a quarter, we go round there and bore them, and then they come round here and bore us'.*

We have not included brand within these categories because brand is the sum of all these perceptions. The key point is that it is the clients' perception of the brand that must be understood and acted upon, not the view held by the firm itself.

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The Opportunity Cost of Low Trust

It is important to consider all these aspects of trust because they all have a bearing on market behaviours, but their impact is not always overt. The result of damaged trust may not be client defection, but rather that clients will not transfer additional or new funds to the firm, or will not provide full information about their circumstances, or will not introduce friends. In an introducer context, the opportunity cost of a transgression can be enormous: no more referrals, no referral to other private client partners or to other offices.

The insidious effect of these opportunity costs is that management can pursue apparently rational strategies around cost-reduction or pricing, and damage the long-term capacity of the firm to grow. In a 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, and its costs had gone up. The effect on clients was for them to vow not to put additional funds there, and to move existing funds only when the timing was right.

A Programme for Re-Building Trust

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

To do this consistently, one must understand how to measure trust. It is not the same as loyalty, which, in a mechanical CRM context can be another name for inertia.

Trust is measured by understanding the behaviours of clients and introducers in detail to understand how they express their trust in practice.

The first step in building trust is to understand how well the organisation stands on the four aspects 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 in the diagram.

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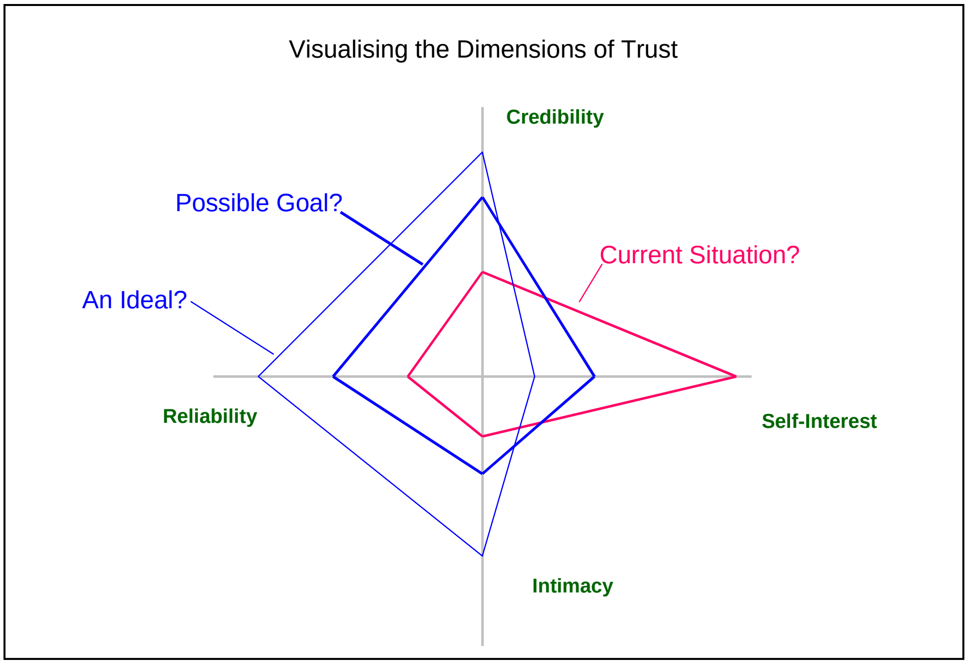

Such a pulse check will provide a sound basis for the next step, to develop a programme to prioritise and rectify the deficiencies in the current modus operandi.

Clearly organisations that have been caught lying to their clients have an almost impossible task recovering trust, as they have destroyed their right to this by showing a cynical disregard for the interests of the client. Most institutions, however, suffer not from active distrust, but rather reduced levels of trust. Once they clearly understand where their problems lie, they can take the necessary action to rebuild trust and stronger customer relationships.

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