Trust is a scarce commodity: Hearts & Wallets

By Editor Test *Mon, Apr 1, 2013*

People often trust their financial advisors to the extent that they "understand how the advisor and firm earn money," according to the Boston-area research firm.

Less than 20% of Americans fully trust their financial services provider, a five-point drop since 2010, according to Hearts & Wallets, a Boston-area research firm. The study identifies major trust factors and identifies the firms most trusted by their clients.

The study showed that 55% of investors fear being ripped off by their financial advisors. The number of investors who trust their advisors has steadily declined since Hearts & Wallets' first trust-related study five years ago.

"Trust-building initiatives aren't necessarily the first thing to come to the mind for firms who want to grow; tactics like a new product launch or rollover initiatives have typically been more common," Hearts & Wallets said in a release. "But the impact of improving trust should be on the radar screen."

Trusted providers enjoy average share of wallet that is nearly double less trusted providers, Hearts & Wallets found. Where trust is higher, investors are more likely to make referrals and plan to make future investments.

The basis of trust

Trust often depends on how well the investor "understand[s] how the advisor and firm earn money." Knowing specific fees is much less important than understanding how the advisor's system of incentives works.

"It's usually fine with investors if there is a mix of salary, fees and commissions. It's reasonable for a financial professional to earn a living, and only a few investors truly want to write checks out of pocket for the cost of expertise. The important thing is to ask, to discuss, and to understand," said Laura Varas, a Hearts & Wallets principal.

Clients say they tend to trust a provider who "is unbiased and puts my interests first," "understands me and shares my values" and is "responsive." On average, a person who is anxious about their financial future trusts their providers 0.5 rating points less than a person who feels secure.

Full-service brokerage and insurance firms slightly outperformed self-service brokerage firms in terms of customer base percentage who highly trust them. Edward Jones and Ameriprise lead in full-service brokerage with 46% to 48% of their customers rating them highly trusted. USAA leads in self-service firms at 58%.

The Hearts & Wallets Insight Module, *Trust-Building Practices: An Empirical Analysis of What Drives Trust,*

is the latest report from Hearts & Wallets' 2012/2013 Investor Quantitative Panel. This annual survey of more than 5,400 U.S. households tracks specific segments and product trends and is both a proprietary database and series of syndicated reports.

© 2013 RIJ Publishing LLC. All rights reserved.