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How to Build Trust in the Advisor-Client Relationship

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Introduction

Trust is often cited as one of the most important aspects of an advisor-client relationship, with more trust leading to higher retention levels and overall client satisfaction.[1] But not much research has been done to understand how trust can be promoted and what particular antecedents lead to the development of trust within the financial advice context. Furthermore, not many studies identify to what extent trust is related to a client's willingness to delegate financial decisions to an advisor or even recommend an advisor to their family and friends. In our research, we address these topics, focusing specifically on what behaviors and actions influence people's willingness to trust/delegate/recommend a financial advisor.

Key Takeaways

- We found that trust, delegation, and recommendations seem to emerge more so from cognitive-based actions (Expertise, Communication, and Personalization) versus affective-based actions (Shared Values, Concern, Integrity), at least in the beginning of the advisor-client relationship.
- Our findings indicate that a person's willingness to trust, delegate, and recommend an advisor likely has the same underlying drivers, as evident by the similarities between the average ranking of attributes.
- We find a strong correlation between frequency of communication and the recommendation measure, signaling the importance of advisors staying top-of-mind with their clients.

1 Bennyhoff, D.G., Kinniry Jr., F.M., & DiJoseph, M.A. The evolution of Vanguard Advisor's Alpha®: From portfolios to people.; Hansen, T. 2012. "Understanding trust in financial services: the influence of financial healthiness, knowledge, and satisfaction." *Journal of Service Research*, Vol. 15, No. 3, P. 280.

The Importance of Trust in the Advisor-Client Relationship

In any social interaction, trust is both fragile and valuable, and it is essential for any long-term cooperative relationship. According to academic literature, a few conditions must be satisfied in general for trust to develop[2]:

- Both parties must believe in the other's intention to try to improve collective outcomes.
- Both parties must benefit from the cooperative interaction.

In a relationship between a financial advisor and a client, the importance of the first condition may be amplified by the high stakes involved, for example, large amounts of money, the complexity of the offered services, the risk involved in financial decisions, and the layperson's usual lack of subject expertise.[3] In other words, the client is often especially vulnerable in this situation. Given these circumstances, trust is essential to building an efficient and enduring advisor-client relationship. Previous research finds that retention and new client acquisitions may depend more on the level of trust a client has in the advisor, versus portfolio management and performance.[4]

Given the importance of trust, some have attempted to identify how to garner trust in the advisor-client relationship. For example, some research points to the importance of asking questions during initial meetings with a new client to build a shared understanding.[5] Other research mentions the benefits of an advisor educating clients during the planning process to help them understand the reasoning behind certain recommendations.[6] In our current research, we add to the existing literature by improving our understanding of what attributes influence people's trust in a financial advisor.

Furthermore, we looked at other important consequences for financial advisors: a person's willingness to delegate financial planning decisions to their advisor and a person's willingness to recommend a financial advisor to friends and family. Although it is generally believed that these outcomes are positively correlated with trust, our research allows us to identify whether different attributes or behaviors contribute specifically to each.

Financial advisors perform a vast range of services for their clients, but, for the purposes of our study, we narrowed our focus to 18 attributes/behaviors. We collected these attributes from a variety of sources, including academic research, industry research, and popular media.[7] Each of the attributes can be organized under six overarching factors that are commonly referred to in the existing literature (for

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2 Murphy, R.O., & Ackermann, K.A. 2015. "Social preferences, positive expectations, and trust based cooperation." *Journal of Mathematical Psychology*, Vol. 67, P. 45.

3 Devlin, J.F., Ennew, C.T., Sekhon, H.S., & Roy, S.K. 2015. "Trust in financial services: Retrospect and prospect." *Journal of Financial Services Marketing*, Vol. 20, No. 4, P. 234.

4 Ibid.

5 Kitces, M., & Richards, C. 2020. "Favorite Questions to Ask A Prospective Client To Build Trust In The First Meeting." June 4, 2020. https://www.kitces.com/blog/questions-prospects-first-meeting-building-trust-kinder-sullivan-bachrach-sinek/

6 Ibid.

7 Christiansen, T., & DeVaney, S.A. 1998. "Antecedents of trust and commitment in the financial planner-client relationship." *Journal of Financial Counseling and Planning*, Vol. 9, No. 2, P. 1; Sekhon, H., Ennew, C., Kharouf, H., & Devlin, J. 2014. "Trustworthiness and trust: influences and implications." *Journal of Marketing Management*, Vol. 30 No. 3-4, P. 409; Siegrist, M., Cvetkovich, G., & Roth, C. 2000. "Salient value similarity, social trust, and risk/benefit perception." *Risk Analysis*, Vol. 20, No. 3, P.353.

example, Communication, Expertise, Integrity). Lastly, as shown in Exhibit 1, each attribute relates to either a cognitive-based factor or an affective-based factor. This breakdown refers to a common theme in the literature[8] regarding the cultivation of trust being derived more from an analytic/cold thought process—thus being more the result of System 2-based cognition than being a more emotive-based "gut instinct"—thus being a result of the affective System 1. Admittedly, the categorization of attributes into "cognitive" or "emotive" is somewhat fuzzy; nonetheless, the distinction can be useful, and the pattern of results offers some interesting insights.

Exhibit 1 Attributes (for Example, Behaviors/Actions) Included in the Research

	Factors	Attributes
Cognitive	Communication	When my advisor takes the time to explain their decisions to me When my advisor responds soon after I contact them When my advisor regularly communicates with me
	Expertise	When my advisor competently handles my requests When I see that my advisor is knowledgeable When my advisor's advice helps me make progress toward my financial goals
	Personalization	When my advisor provides advice that is suitable for me and my circumstances When my advisor listens to my point of view, suggestions, and needs and acts accordingly When I believe that my advisor understands my financial goals
Emotive	Shared Values	When my advisor has the same concerns as me When my advisor has the same values as me When my advisor acts as I would have acted
	Concern	When my advisor treats me with respect When my advisor shows consideration in their dealings with me When my advisor shows that they care about my future
	Integrity	When I see that my advisor makes efforts to treat all customers equally When my advisor acts in my best interest When my advisor keeps their word

Research Methodology

We asked 588 participants to complete our survey via the online Prolific platform.[9] Participants were randomly assigned to one of three experimental conditions: the trust ranking arm (N = 195), the delegate ranking arm (N = 201), or the Likert scale arm.

The trust ranking arm asked participants to rank the 18 attributes based on the following question: *"When it comes to developing trust in the advisor-client relationship, what behaviors are most impactful?"* The delegate ranking arm instructed participants to go through a similar exercise, but regarding the

8 Monti, M., Pelligra, V., Martignon, L., & Berg, N. 2014. "Retail investors and financial advisors: New evidence on trust and advice taking heuristics." *Journal of Business Research*, Vol. 67 No. 8, P. 1,749.

9 Only candidates who are U.S. residents and have a household income of greater than $40,000 were allowed to participate in the survey. This screening process was selected to promote an oversample of possible advisor clients and participants who already have an advisor.

following question: *"What behaviors do you believe are the most impactful when it comes to encouraging you to delegate financial planning decisions to your advisor?"* To test the efficacy of different surveying techniques, the Likert scale arm asked participants to consider each of the 18 attributes individually and rate (on a 1-7 scale) how impactful each is regarding their decision to trust an advisor, delegate financial decisions to an advisor, and recommend an advisor to family and friends. For the purposes of this paper, we will focus on the recommendation results only regarding the Likert scale arm, as the results are highly similar across techniques and the results from the ranking technique yielded cleaner results.[10]

In the next part of our analysis, we focused specifically on investors (N= 340) who are currently working with a financial advisor. We asked these participants to answer a few questions pertaining to their current advisor before continuing to the rest of the survey.

Including both clients currently with an advisor and those without (that is, general population) allows us to identify how different attributes are valued based on where a person is in their investor journey. For example, the answers of the general population as a whole give us insights into what attributes are valued by individuals who may just be starting off investing and are contemplating hiring a financial advisor. In comparison, the answers of clients currently with an advisor help us understand what attributes in particular are most impactful when developing and bolstering trust in an established advisor-client relationship.

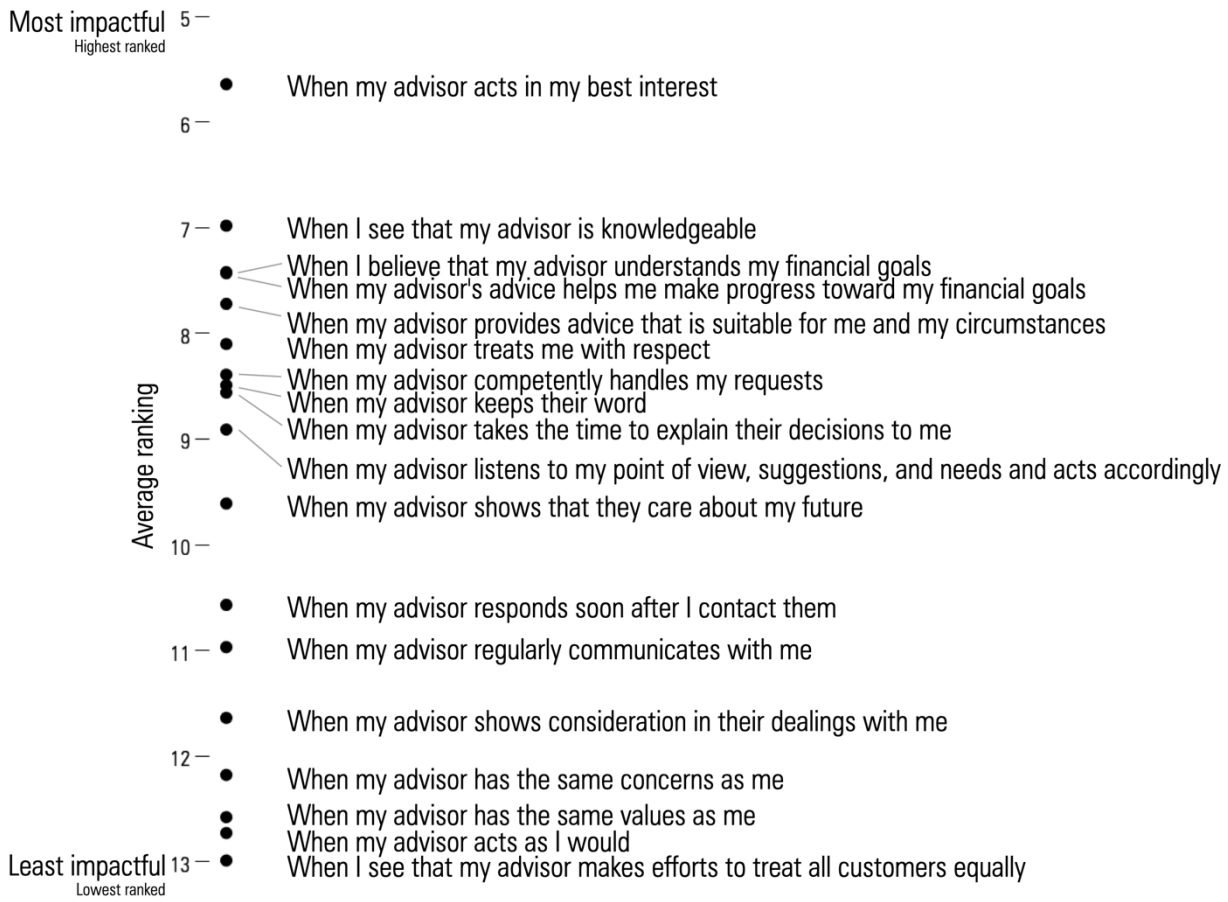
Which Attributes Rise to the Top?

When it comes to building trust, the best-interest standard is paramount.

Exhibit 2 displays the average rankings of what participants found most impactful when developing trust in the advisor-client relationship. One attribute clearly rises above the rest: "When my advisor acts in my best interest." The overwhelming support for this attribute reiterates the importance of the fiduciary standard in advising. The next top attribute pertains to an advisor's expertise, which may not be too surprising. As one would expect, investors want to make sure an advisor has the skills and knowledge necessary before engaging in an advice relationship. The subsequent attributes pertain to goals—how well an advisor understands the client's goals and helps them make progress toward those goals. At the bottom of the rankings are a few attributes that pertain to the overarching factors of Shared Values and Concern. The low rankings of these attributes do not mean that they are unimportant; instead, it seems participants value these features less than other attributes when building trust.

10 We found very similar results regarding the overall rankings of the factors on their impact of trust and delegation decisions when comparing the trust ranking arm, the delegation ranking arm, and the Likert scale arm.

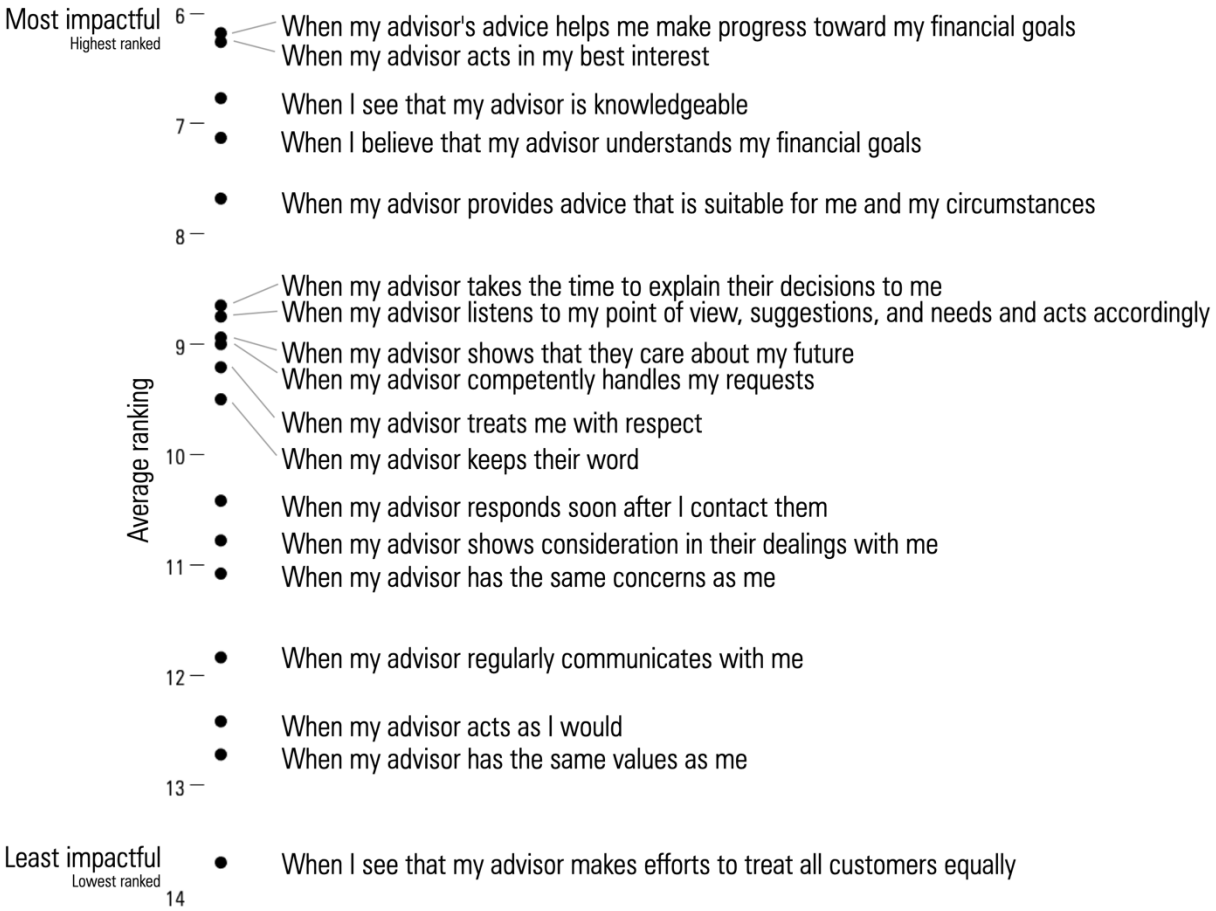
Exhibit 2 Average Ranking of Attributes Regarding Developing Trust



Delegation and Recommendation Decisions May Be Driven by the Same Underlying Drivers

Exhibit 3 displays the average ranking of attributes regarding how impactful each are when it comes to encouraging the delegation of financial planning decisions to an advisor. Overall, we see very similar results, with the correlation between the average ranking of the trust ranking arm and the delegate ranking arm being greater than positive 0.9. This similarity is evident in the same four attributes rising to the top of the average rankings for both trust and delegation, albeit in a slightly different order. We also see Shared Values and Concern-related attributes rounding out the bottom of the average rankings.

Exhibit 3 Average Ranking of Attributes Regarding Encouraging the Delegation of Financial Planning Decisions



The average ratings of the attributes regarding how impactful they are in a participant's decision to recommend an advisor to family and friends were very similar to those found for the trust and delegate ranking arms. These results indicate that a person's willingness to trust, delegate, and recommend an advisor likely have the same underlying drivers.

Are people driven more by gut feelings or cold logic when working with an advisor?

We found that trust, delegation, and recommendations seem to emerge more so from cognitive-based factors (Expertise, Communication, and Personalization) versus affective-based factors (Shared Values, Concern, Integrity). Exhibit 4 displays the average ranking per each attribute and overall factor, which we computed by grouping the averages of the attributes. As seen in Exhibit 4, on average, cognitive-based factors—such as Expertise and Personalization—are more impactful and given higher ranks than emotive factors. However, although cognitive factors seem to be somewhat stronger drivers of trust, it is important to note that it is not a large effect and that emotive attributes matter.

Exhibit 4 Average Rankings by Attribute and Factor Type

Average rank (Lower is better)	Factors	Attributes	Average rank (Lower is better)
10.0	Communication	When my advisor takes the time to explain their decisions to me When my advisor responds soon after I contact them When my advisor regularly communicates with me	8.5
7.6	Expertise	When my advisor competently handles my requests When I see that my advisor is knowledgeable When my advisor's advice helps me make progress toward my financial goals	
8.0	Personalization	When my advisor provides advice that is suitable for me and my circumstances When my advisor listens to my point of view, suggestions, and needs and acts accordingly When I believe that my advisor understands my financial goals	
12.5	Shared Values	When my advisor has the same concerns as me When my advisor has the same values as me When my advisor acts as I would have acted	10.4
9.8	Concern	When my advisor treats me with respect When my advisor shows consideration in their dealings with me When my advisor shows that they care about my future	
9	Integrity	When I see that my advisor makes efforts to treat all customers equally When my advisor acts in my best interest When my advisor keeps their word	

How Can Advisors Build Trust in Established Client Relationships?

In the next part of our analysis, we focused on only investors who currently work with a financial advisor. These individuals received questions regarding how much they trust their current advisor, how much they delegate to their current advisor, and how often they recommend their current advisor to others. They also received questions regarding the same 18 attributes, this time asking them to evaluate how often their current advisor exhibited these behaviors. Using this data, we can determine how different attributes are related to trust, delegation, and recommendations decisions.

The relationship between trust, delegation, and recommendation is not perfect.

Before diving into our findings, it's important to note the relationship between our three measures. Overall, we found that, unsurprisingly, most clients trust their financial advisors.[11] We also found generally positive ratings regarding how often a person is willing to recommend their current advisor to others. However, there is a wide range in delegation decisions, where some people choose to not delegate financial decisions to their advisors at all, whereas others delegate whenever possible, and many are somewhere in between these extremes. In a follow-up question, we asked individuals to

[11] Our results here may be subject to self-selection bias. In other words, people who have advisors must trust them/like them. An intriguing question would be why people fire advisors, but this question is outside the scope of this research.

briefly explain their views. Those who choose to delegate many or all financial decisions to their advisor indicated that they trusted their advisor and/or recognized their own lack of expertise when making these types of decisions.

Different attributes play a key role in each measure.

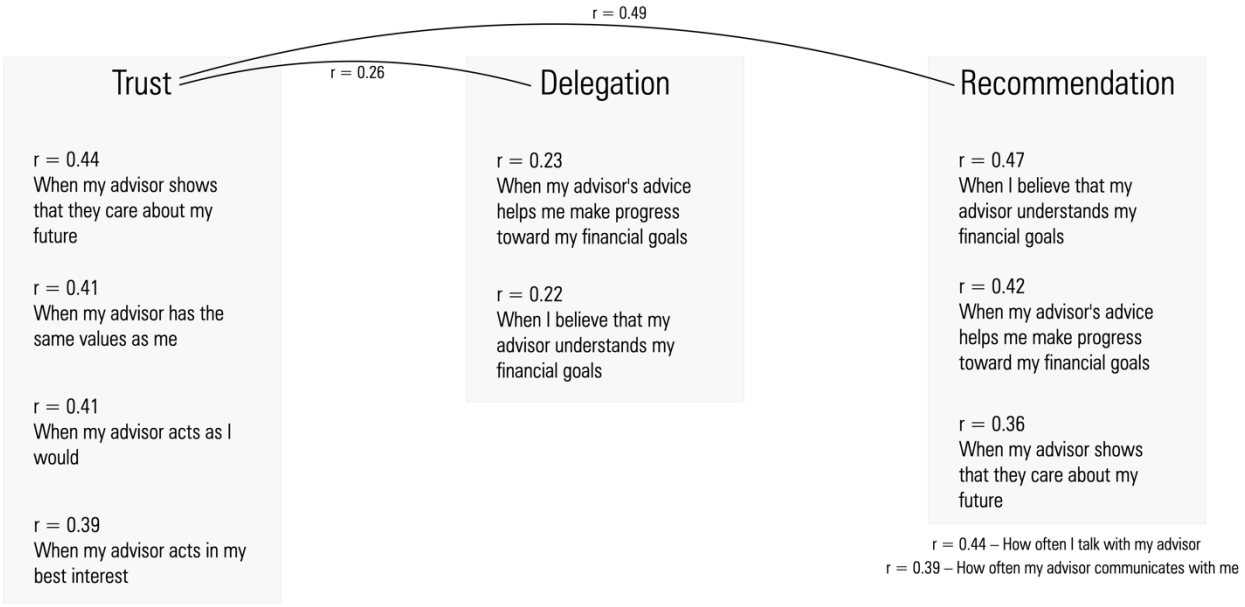
To identify the relationship between each of the 18 attributes and the trust, delegation, and recommendation measures, we calculated the correlation between how often an investor indicated their advisor exhibited each behavior and their subsequent trust, delegation, and recommendation evaluations. Exhibit 5 displays the behaviors with the highest correlations for each measure.

Regarding trust, our results indicate that some attributes that were ranked lower in our previous analysis rise to the top—specifically, attributes that pertain to emotive-based factors, such as Concern and Shared Values. This discrepancy may point out a difference in the drivers of trust, contingent on where a person is in their investor journey. Whereas cognitive-based factors may be more impactful for building trust initially in a relationship with a financial advisor, these factors may be seen as more of a given in an established advisor-client relationship. As such, the emotive-based factors may be more impactful as advisors further develop existing relationships with their clients.

Lower correlations were found between the delegation measure and the attributes, and this shows it is simply difficult to predict who will be more likely to delegate financial decisions to their advisor. This finding further emphasizes the point that a person's likelihood to delegate to their advisor depends on various aspects, such as how much they like or trust their advisor and perhaps more so a client's intrinsic personal preferences around control and independence.

Recommendation decisions seem to be more goal-centric, where individuals place more importance on personalization and performance-based metrics before deciding to recommend an advisor to family and friends. We also asked current advisor clients questions related to how often their advisor communicated with them, either directly via a phone call or generally through emails or newsletters. We find a strong correlation between frequency of communication and the recommendation measure, signaling the importance of advisors staying top-of-mind with their clients.

Exhibit 5 Highest Correlations Between Each Measure and Attributes



N = 329 Focusing only on investors currently working with an advisor

Conclusion

According to the most recent results of the Financial Trust Index,[12] trust in financial institutions has dropped since 2019, with only about 33% of Americans indicating that they trust financial institutions. As financial advisors engage with individual investors, they must remember that individuals may be coming from a low level of general trust at the industry level. At the same time, as other studies have also demonstrated, our results show that trust is critically important in the advisor-client relationship as a way for advisors to be effective and grow their business.

In our research, we endeavored to help advisors as they face this uphill battle in their quest to build trust in the advisor-client relationship. When looking at the drivers of trust, we find that best-interest, goal-centricity, and expertise all rise to the top. The idea that an investor looks to their advisor to help them navigate the complex financial industry may not be too surprising for many. However, investors' focus on goal-centricity and best-interest standards notes a key shift in the advising industry. Investors' focus on the incentives of advisors is a nod to the secular trend toward fiduciary standards. Also, our findings suggest that investors acknowledge the value of a holistic approach to financial advising, one that helps them achieve their personal financial goals. This theme may also pertain to the new role of personalization in financial advising, as can be seen by the recent push toward things like direct

12 Sapienza, P., & Zingales, L. 2021. "The Results: Wave 29." Financial Trust Index.

indexing, sustainable investing, and goals-based investing. These findings indicate that there are "levers" advisors can pull to help cultivate trust with their clients, focused not only on performance metrics but also the personal relationship they develop with their clients.

Building Trust: A checklist to help cultivate trust in the advisor-client relationship

Trust is essential in the advisor-client relationship. Not only does it allow advisors to be effective and grow their business but it also helps investors take full advantage of all an advisor has to offer. Without trust, investors may never seek financial advice when they need it or they may be stubbornly skeptical of advice they do receive. Either way, it is important for both advisors and investors to build and cultivate trust to create shared value.

Morningstar's behavioral insights group created this checklist to help advisors build trust at a client's first touchpoint with your business: your website. Based on our research, here are a few things we advise you to evaluate when reviewing your business website:

- Make it clear that you put your client's interests first.
  According to our study, one of the most important attributes for building trust is "When my advisor acts in my best interest." One clear way to demonstrate this attribute on your website is to showcase that you are a fiduciary. However, it is also important to explain what that means. Many individual investors may not be familiar with that term, so make sure you provide a simple explanation along with links to a few resources for them to learn more about what it means to be a fiduciary.

- Demonstrate your financial expertise.
  Another attribute that rose to the top in our research was: "When I see that my advisor is knowledgeable." One simple way to display your capabilities is to show your credentials, whether those are certifications or degrees. Another strategy is to display experience. This is traditionally done by stating the years you have been in practice or your assets under management, but one option is to consider stating how many families you have helped or your average tenure with clients.

- Place personalization and goals at the forefront.
  The next top attributes that drive trust have to do with the advisor having a deep understanding of the investor: their personal circumstances, financial behaviors, and financial goals. On your company site, make sure to emphasize how a client's personal preferences, characteristics, and financial goals are incorporated at every step of the financial planning process, from the beginning conversation(s) focused on building an in-depth understanding of the client and their financial goals to the final plan that will get them closer to achieving those goals.

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