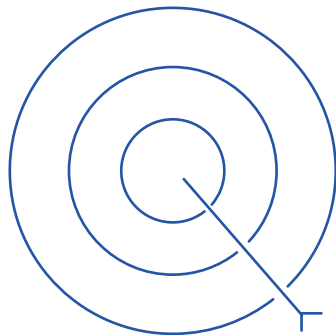
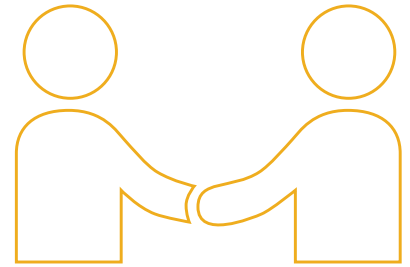


Adviser industry insights
from Morningstar Wealth

How to Build Trust in the Adviser-Client Relationship



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Introduction

Trust is often cited as one of the most important aspects of an adviser-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 adviser or even recommend an adviser to their family and friends. In our research, we address these topics, focusing specifically on what behaviours and actions influence people's willingness to trust/delegate/recommend a financial advise.

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We found that trust, delegation, and recommendations seem to emerge more so from cognitive-based actions (expertise, communication and personalisation) versus affective-based actions (shared values, concern, integrity), at least in the beginning of the adviser-client relationship.



Our findings indicate that a person's willingness to trust, delegate, and recommend an adviser 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 advisers staying top-of-mind with their clients.

¹ Bennyhoff, D.G., Kinniry Jr., F.M., & DiJoseph, M.A. The evolution of Vanguard Adviser'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 adviser-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 develop²:

- ▶ 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 adviser 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 adviser-client relationship.

Previous research finds that retention and new client acquisitions may depend more on the level of trust a client has in the adviser, versus portfolio management and performance.⁴

Given the importance of trust, some have attempted to identify how to garner trust in the adviser-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 adviser 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 adviser.

Furthermore, we looked at other important consequences for financial advisers: a person's willingness to delegate financial planning decisions to their adviser and a person's willingness to recommend a financial adviser 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 behaviours contribute specifically to each.

Financial advisers perform a vast range of services for their clients, but, for the purposes of our study, we narrowed our focus to 18 attributes/behaviours. 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 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 literature⁸ 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.

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.

Exhibit 1: Attributes (for example, behaviours/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 |
| | Personalisation | ▶ 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 adviser-client relationship, what behaviours are most impactful?” The delegate ranking arm instructed participants to go through a similar exercise, but regarding the following question: “What behaviours do you believe are the most impactful when it comes to encouraging you to delegate financial planning decisions to your adviser?” 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 adviser, delegate financial decisions to an adviser, and recommend an adviser 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 adviser. We asked these participants to answer a few questions pertaining to their current adviser before continuing to the rest of the survey.

Including both clients currently with an adviser 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 adviser. In comparison, the answers of clients currently with an adviser help us understand what attributes in particular are most impactful when developing and bolstering trust in an established adviser-client relationship.

8 Monti, M., Pelligra, V., Martignon, L., & Berg, N. 2014. “Retail investors and financial advisers: 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 adviser clients and participants who already have an adviser.

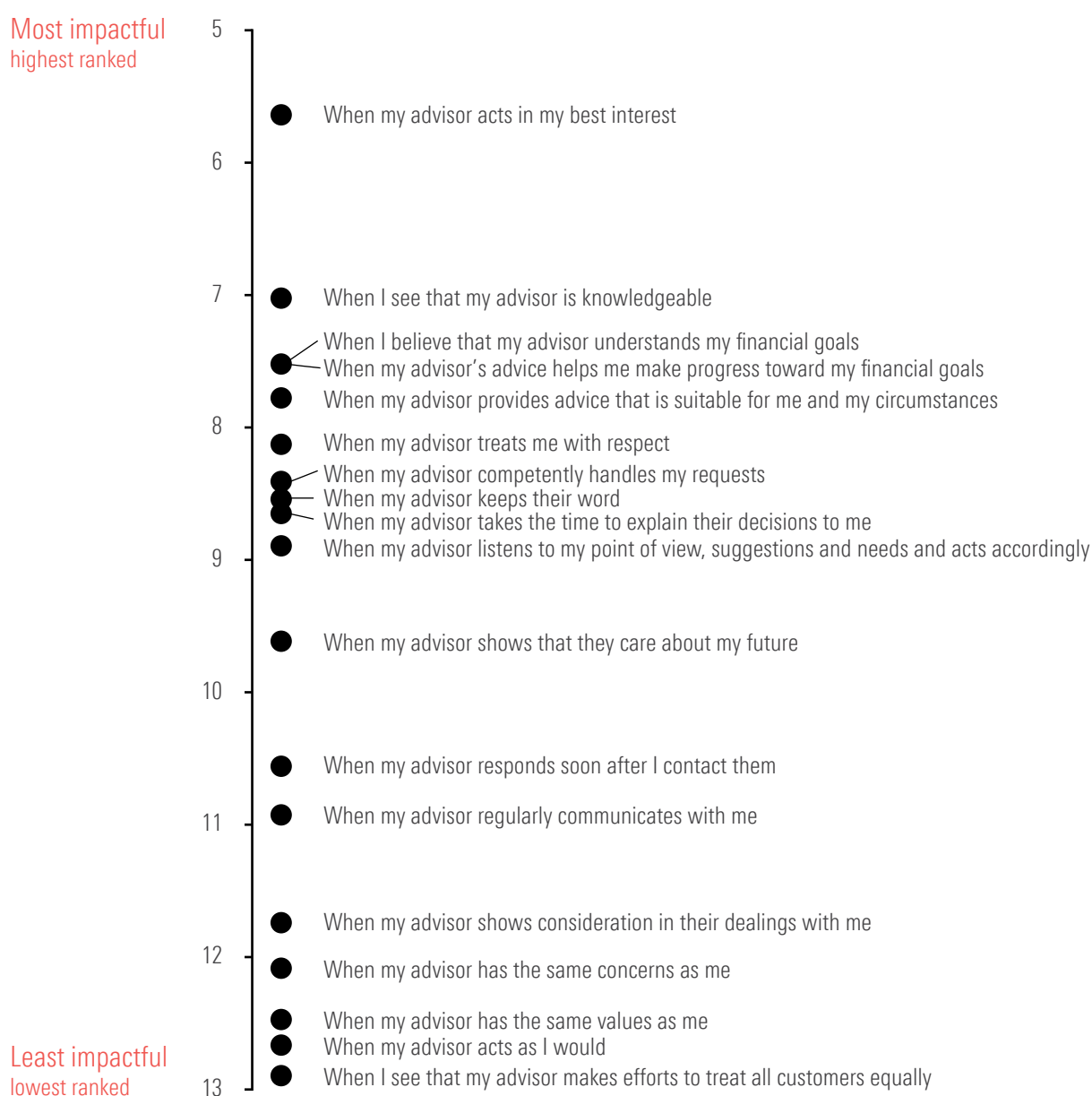
10 We found very similar results regarding the overall rankings of the factors on their impact of trust and delegation decisions when comparing the trust ranking arm, the delegation ranking arm, and the Likert scale arm.

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 adviser-client relationship. One attribute clearly rises above the rest: “When my adviser 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 adviser’s expertise, which may not be too surprising. As one would expect, investors want to make sure an adviser has the skills and knowledge necessary before engaging in an advice relationship. The subsequent attributes pertain to goals—how well an adviser 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.

Exhibit 2: Average ranking of attributes regarding developing trust



Delegation and recommendation decisions may be driven by the same underlying drivers

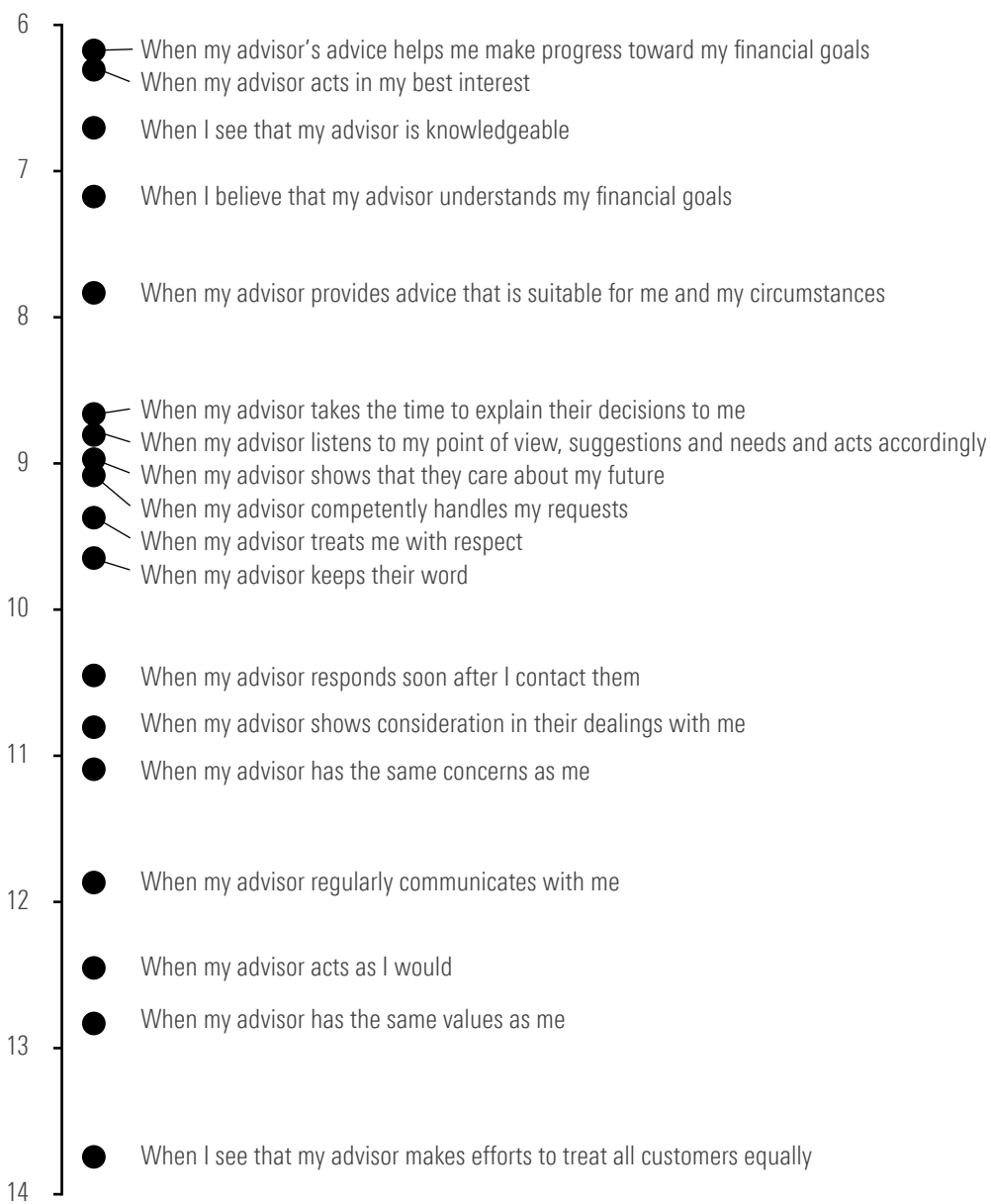
Exhibit 3 displays the average ranking of attributes regarding how impactful each are when it comes to encouraging the delegation of financial planning decisions to an adviser. Overall, we see very similar results, with the correlation between the average ranking of the trust ranking arm and the delegate

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.

The average ratings of the attributes regarding how impactful they are in a participant's decision to recommend an adviser 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 adviser likely have the same underlying drivers.

Exhibit 3: Average ranking of attributes regarding encouraging the delegation of financial planning decisions

Most impactful
highest ranked



Least impactful
lowest ranked

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

We found that trust, delegation, and recommendations seem to emerge more so from cognitive-based factors (Expertise, Communication, and Personalisation) 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 Personalisation—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 | <ul style="list-style-type: none"> ▶ 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 | <ul style="list-style-type: none"> ▶ 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 | Personalisation | <ul style="list-style-type: none"> ▶ 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 | <ul style="list-style-type: none"> ▶ 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 | <ul style="list-style-type: none"> ▶ 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 | <ul style="list-style-type: none"> ▶ 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 advisers build trust in established client relationships?

In the next part of our analysis, we focused on only investors who currently work with a financial adviser. These individuals received questions regarding how much they trust their current adviser, how much they delegate to their current adviser, and how often they recommend their current adviser to others. They also received questions regarding the same 18 attributes, this time asking them to evaluate how often their current adviser exhibited these behaviours. 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 advisers.¹¹ We also found generally positive ratings regarding how often a person is willing to recommend their current adviser to others. However, there is a wide range in delegation decisions, where some people choose to not delegate financial decisions to their advisers at all, whereas others delegate whenever possible, and many are somewhere in between these extremes. In a follow-up question, we asked individuals to briefly explain their views. Those who choose to delegate many or all financial decisions to their adviser indicated that they trusted their adviser 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 adviser exhibited each behaviour and their subsequent trust, delegation, and recommendation evaluations. Exhibit 5 displays the behaviours with the highest correlations for each measure.

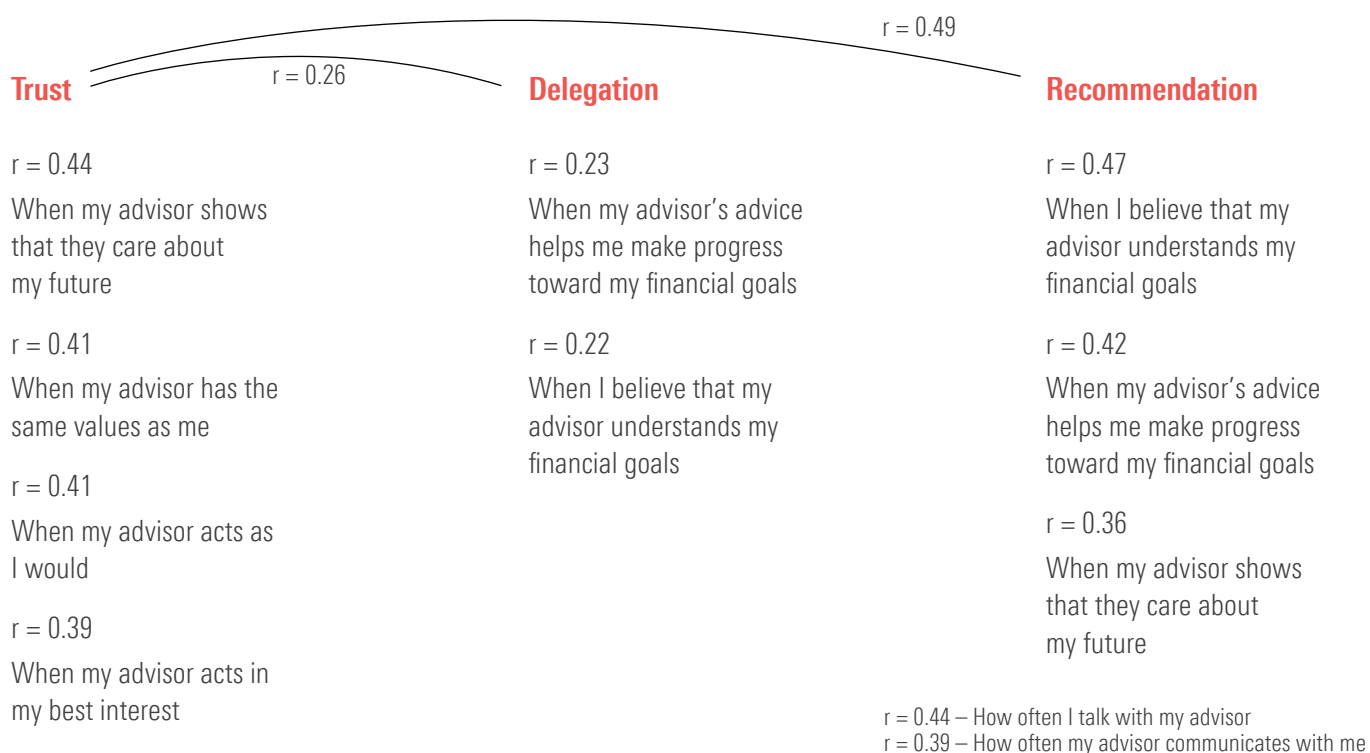
Regarding trust, our results indicate that some attributes that were ranked lower in our previous analysis rise to the top — specifically, attributes that pertain to emotive-based factors, such as Concern and Shared Values. This discrepancy may point out a difference in the drivers of trust, contingent 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 adviser, these factors may be seen as more of a given in an established adviser-client relationship. As such, the emotive-based factors may be more impactful as advisers 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 adviser. This finding further emphasizes the point that a person's likelihood to delegate to their adviser depends on various aspects, such as how much they like or trust their adviser 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 personalisation and performance-based metrics before deciding to recommend an adviser to family and friends. We also asked current adviser clients questions related to how often their adviser 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 advisers staying top-of-mind with their clients.

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

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 advisers 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 adviser-client relationship as a way for advisers to be effective and grow their business.

In our research, we endeavored to help advisers as they face this uphill battle in their quest to build trust in the adviser-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 adviser 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 advisers 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 personalisation in financial advising, as can be seen by the recent push toward things like direct indexing, sustainable investing, and goals-based investing. These findings indicate that there are "levers" advisers 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.

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



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