Editorial

Why trust is important in customer relationships and how to achieve it

In recent years there has been a growing interest among financial institutions, as well as other types of businesses, in the cultivation of customer relationships. The reasons for this are based on the recognition that building long-term relationships offers a way of reducing defection rates, reducing costs and increasing revenues. Consequently, any activity associated with customer relationships seems to be given high priority, such as Customer Relationship Management (CRM) initiatives, the appointment of relationship managers and customised mailings that attempt to initiate a dialogue with individual customers.

While many companies are eager to build relationships with their customers, not all customers perceive themselves as having a relationship with the companies with whom they do business. Interestingly, research by The Henley Centre finds that financial institutions seem to be among the few types of companies with whom customers do feel they have a relationship. From an academic standpoint it is easy to understand why it might be in the customer's interests to develop a relationship in a financial services context. Financial services are highly intangible and, therefore, often difficult to understand. Information asymmetries are pronounced and there is heavy reliance on credence qualities for many products, placing greater emphasis on the role of advice from professionals. Not surprisingly, the perceived risk associated with the purchase of many financial products is particularly high.

In practice, however, it is thought that customer relationships with financial institutions may have developed as a result of traditionally limited methods of distribution. Before technology revolutionised the way customers could make contact with their bank or insurance company, distribution was largely restricted to the branch network or door-to-door sales reps; both relying on personal contact. Because of this, it has been suggested that relationships between financial institutions and their customers developed by default. By the same token, it is conceivable that as financial institutions become increasingly remote in their contacts with customers and encourage customers to make greater use of low-cost automated delivery channels, there are likely to be repercussions in terms of customer relationship development. As contact is no longer channelled through person-to-person interaction, the emotional nature of the relationship changes.

Relationships based on a high degree of personal contact often benefit from the development of trust. Trust is important because financial institutions have an implicit responsibility for the management of their customers' funds and the nature of financial advice supplied, otherwise referred to as fiduciary responsibility. In a financial services marketing exchange the customer is essentially buying a set of promises: the financial institution promises to take responsibility for looking after the buyer's funds and their financial welfare. Thus, trust is a generalised expectancy of how the financial institution will behave in the future. This generalised expectancy of behaviour can be derived from beliefs of acceptable behaviour or norms, or can be based on previous experience of the financial institution.

Some might argue that the mere act of selling destroys the conditions required for trust to develop. This highlights the inherent conflicts facing organisations that are attempting both to build trust and to sell products or services. Financial institutions are not off to a good start with this since many financial products are 'sold' and not 'bought'. For example, there might not always be an identified need for the product: customers may be acting on the advice of professionals, with limited knowledge of the products themselves, or there may be a legal obligation to buy. Hence the general perception that financial services are a necessary evil. Furthermore, the mis-selling of pensions and endowment mortgages, by certain firms, has only served to highlight the behaviour of the industry as untrustworthy in the eyes of some consumers and fuelled feelings of distrust as all companies tend to be tarred with the same brush.

So, what can financial institutions do to redress the balance of trust in customer relationships? The extent to which the company is customer or market-oriented, and believed by customers to be so, is important. For example, the extent to which customers trust the company or its sales personnel will depend on whether they feel the company/sales rep is acting in their best interests or in the best interests of the company. This is the difference between being customer-focused and being sales-focused. Financial institutions are businesses and must achieve targets, but targets do not need to be made explicit to customers. Customers need to feel that they are being put first and that their welfare matters to the financial institution. So, how does the financial institution do this to instil trust in the customer? The following are some strategies for establishing and maintaining trust to the benefit of longer-term relationships:

— *Reduce the perceived risk*: Situations involving trust constitute a subclass of those involving risk, ie the risk one takes depends on the performance of another. Financial institutions can reduce the perceived risk for their customers by making more information available to them. This requires an understanding of the nature and type of information required and the desired format (whether it is preferred in the form of literature or in a personal presentation). Improving both the quantity and quality of information can result in customers who are more aware and better educated. Perceived risk can also be reduced by understanding the level of risk customers are willing to take and by matching investments and advice accordingly. Offering contractual safeguards (see below), where possible, to guarantee products, processes or procedures can also reduce risk.
— *Offer contractual safeguards*: Contractual safeguards, such as guarantees, warranties and other explicit promises, essentially preclude the need for trusting behaviour. Safeguards guaranteeing the outcome of a financial relationship, such as the value of an investment in *x* years time, are not common, as such outcomes are determined by factors outside the control of the financial institution. Yet, safeguards can be offered for certain aspects of service provision, particularly those involving the processes and

procedures of service delivery, such as distribution systems and conduct of personnel. These are largely within the control of the organisation and safeguards can be put into place to ensure that actions are consistent with words. Where inconsistencies arise, customers can at least trust that they will be compensated or will be made aware of corrective action.

— *Build customer confidence*: An act of trust occurs when the customer has confidence that the financial institution will honour its promises. Confidence can be derived from several sources. If customers have had previous experience with the financial institution and were satisfied with the experience, they have every reason to trust that a similarly satisfying experience will be had in the future. Hence, a previous satisfying experience reduces the risk and increases trust. If no prior experience exists, recommendations based on the experience of others can serve to increase confidence and trust. Thus, it is important to manage positive word-of-mouth, good publicity and advertising from credible sources to this effect.

— *Emphasise competence*: Competence refers to the company's expertise and ability to provide quality products and services and to offer accurate technical knowledge from its staff. It also refers to competence in understanding the customer's requirements and being able to meet customer requirements accordingly. The former can be assured by professional qualifications and certifications, with which advisers must comply. Yet, as these become industry standard, it does little perhaps to differentiate the competence of firms. Also, lack of understanding of the specifics that make up the professional qualifications does little to assist the customer in evaluating professional standards of competence. So consumers are more likely to evaluate the ability and competence of the firm to address their specific needs. In emphasising competence in this area financial institutions need to ensure that customer records are accurate, databases are up to date and that mailings and targeted advertising are appropriate and relevant to customer requirements.

— *Communicate*: Communication is the exchange of information. It is important and is believed to be a strong determinant of trust. Communication means developing a shared understanding of the relationship and is achieved by keeping an open dialogue with customers, hearing complaints and acting on them, and above all keeping customers informed of changes so that they are not the last to find out.

— *Signal commitment to the customer*: The parties involved in a relationship expect each other to be committed to what they have in common. Commitment can be exhibited in a number of ways, like adjusting products to meet customer requirements or by investing in the relationship. Commitment clearly shows customers that they are being put first and is a key manifestation of a market orientation.

— *Resolve conflicts*: It has already been noted that conflict is inherent in a financial services–customer relationship. The issue, however, is how the institution deals with conflicts as they arise. Some anticipated conflicts may be protected by safeguards. In unexpected circumstances, however, the company should show responsibility and where possible offer compensation to the customer. For many conflicts that arise on a day-to-day basis, it is important that personnel are empowered to take corrective action.

— *Make trust part of the corporate culture*: All financial institutions operate within the same environment and compete against the same safeguards offered by regulation. Some strategic advantage may be gained from organisation-specific safeguards, however, such as corporate culture. If the institution is known for investing in people or has won service quality awards, this can increase the customer's trust in it. Making trust part of the culture involves embedding many of the above issues into the procedures, policies and practice of the financial institution and its employees.

Establishing and maintaining the trust of customers can be very beneficial in cementing the bond between customer and company. Conversely, breaking the trust of one's customers can lead to an early divorce in the relationship!

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