

# TRUST AS A FOUNDATION FOR RESILIENCY

April 2018

Robert Stammers, CFA  
Director, Investor Engagement  
Future of Finance



# INVESTOR TRUST IS CHANGING



CFA Institute, *The Next Generation of Trust: A Global Survey on the State of Investor Trust* (Charlottesville, VA: CFA Institute, 2018).

*A new generation of investors  
&  
A new generation of investing tools*

**Website:**

[nextgentrust.cfainstitute.org](http://nextgentrust.cfainstitute.org)

# METHODOLOGY

Greenwich Associates gathered responses from 3,127 retail investors and 829 institutional investors from 12 markets in November and December 2017.

Retail investor profile: 25 years or older, investible assets of at least \$100,000.

Institutional investor profile: those responsible for investment decisions at entities with at least \$50 million in assets under management, from public and private pension funds, endowments and foundations, insurance companies and sovereign wealth funds.

Margin of error: retail investors +/- 1.9% and institutional investors +/- 2.1%.

## Methodology enhancements in 2018

More narrowly defined “stronger conviction” trust that investment firms can more readily leverage for stronger relationships

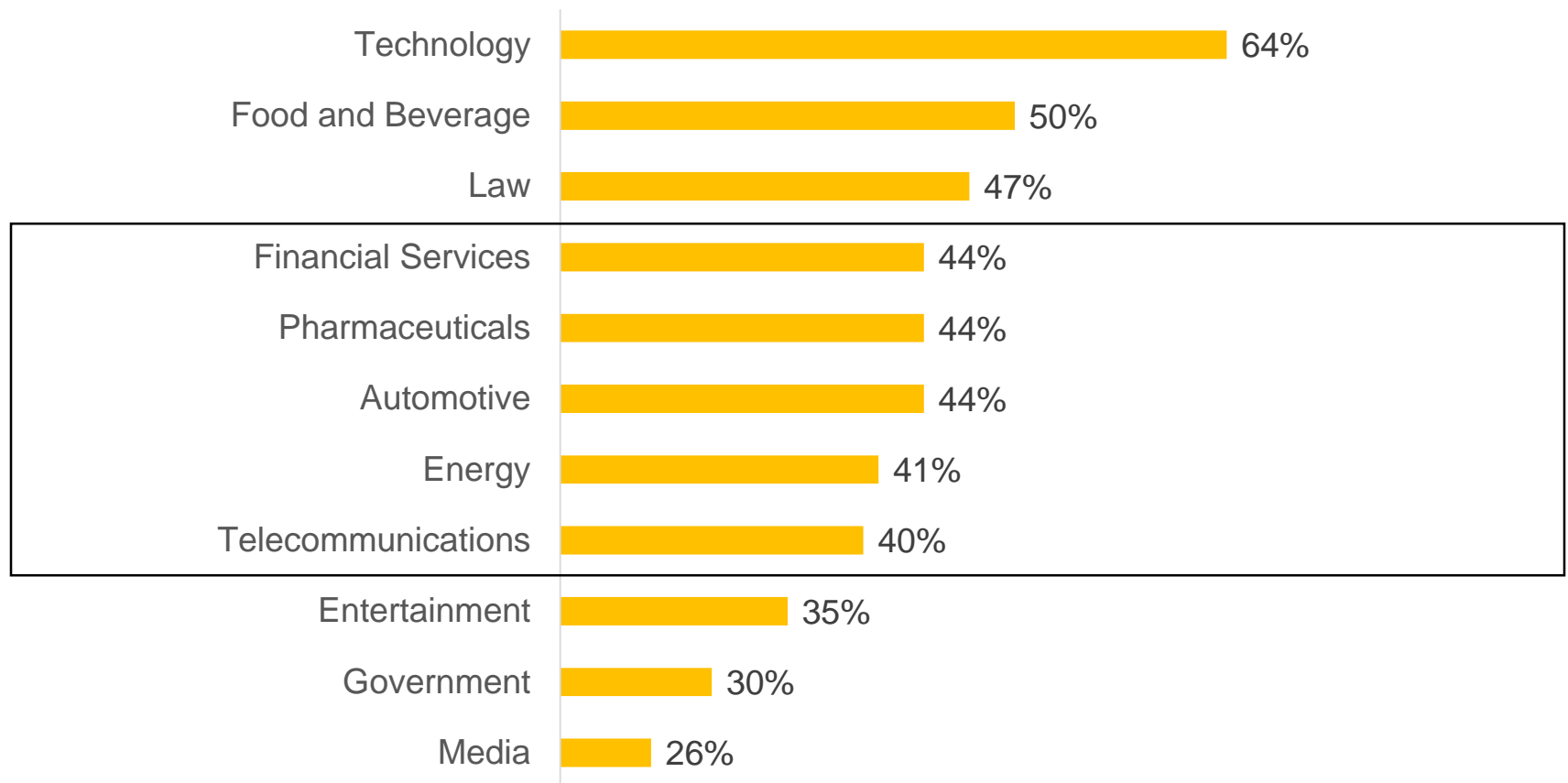
Higher quality institutional investors, with minimum AUM increased from US\$10 million to US\$50 million, and coverage across all 12 markets

	Retail	Institutional
Australia	250	61
Brazil	325	114
Canada	501	36
China	200	76
France	200	75
Germany	250	76
Hong Kong	100	25
India	100	84
Singapore	100	25
United Arab Emirates	100	57
United Kingdom	501	50
United States	500	150
<b>Total Respondents</b>	<b>3,127</b>	<b>829</b>

# FINANCIAL SERVICES INDUSTRY RANKS IN THE MIDDLE TIER FOR TRUST

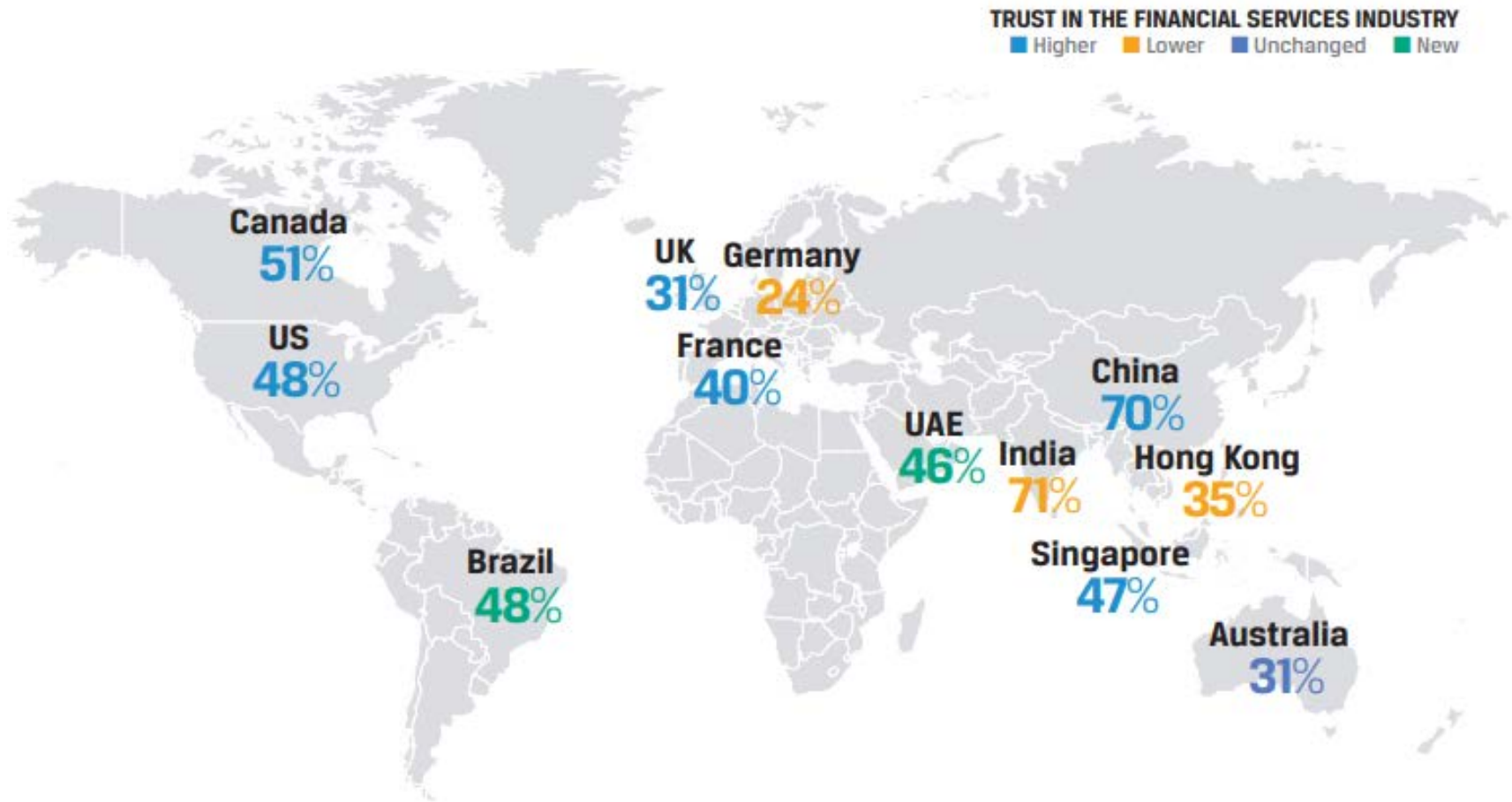


2018 Industry Trust Levels by Retail Investors



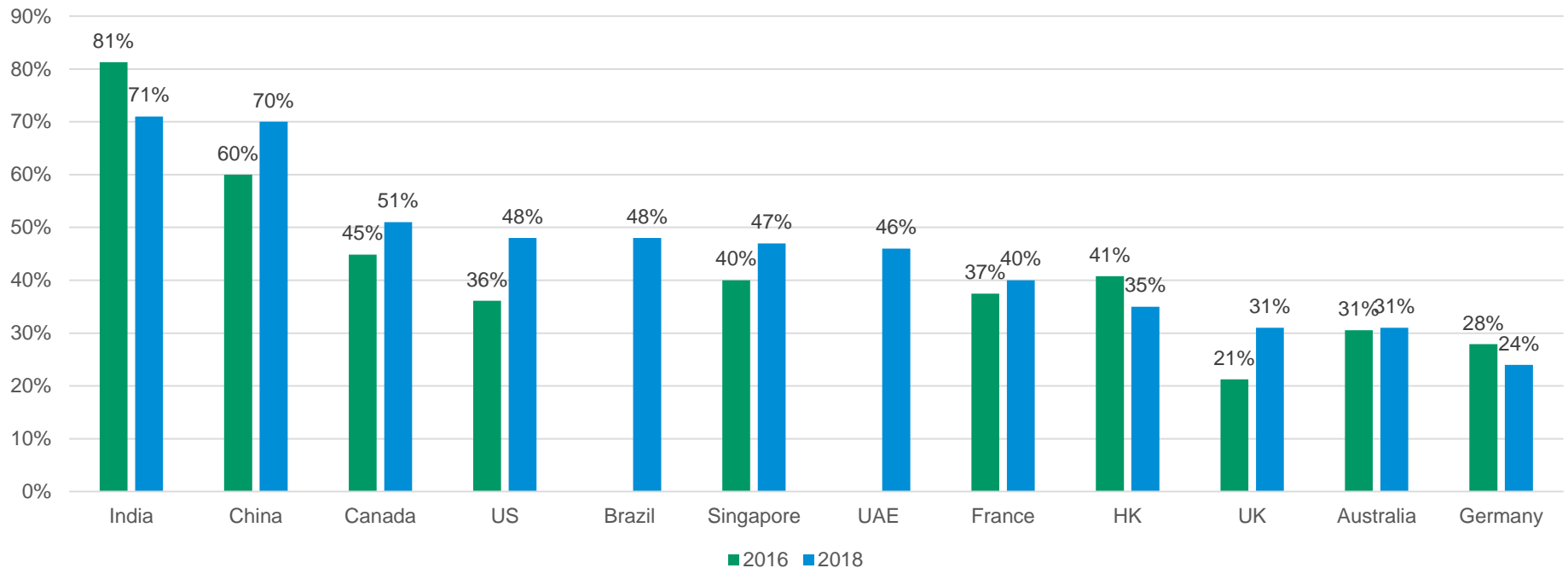


# RETAIL INVESTOR TRUST LEVELS IN FINANCIAL SERVICES INCREASE IN MOST COUNTRIES



# RETAIL INVESTOR TRUST LEVELS IN FINANCIAL SERVICES INCREASE IN MOST COUNTRIES

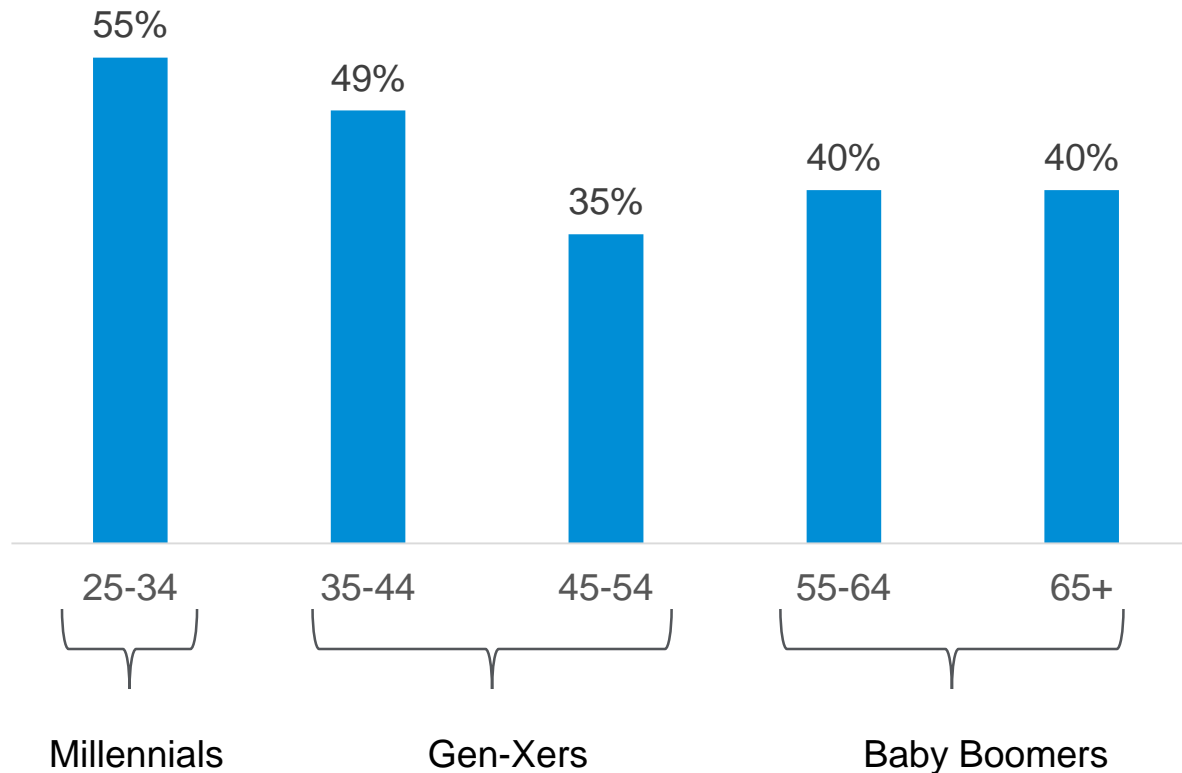
## Trust decreases in India, Hong Kong, and Germany





# MILLENNIALS AND YOUNGER GEN-XERS MORE TRUSTING OF FINANCIAL SERVICES

Trust in Financial Services by Age  
(retail investors)



Note: These generational definitions are similar to those defined by the Pew Research Center, in which Millennials are currently age 20–37, Gen-Xers are 38–53, and Baby Boomers are 54–72.



# OVERALL RETAIL INVESTOR EXPECTATIONS INCREASE SLIGHTLY, SATISFACTION LEVELS STABLE

## Biggest gap is disclosure of conflicts of interest

How important are each of the following factors in creating a trusted relationship with an investment adviser?  
How well do you think investment advisers, in general, are delivering on each of the statements today?

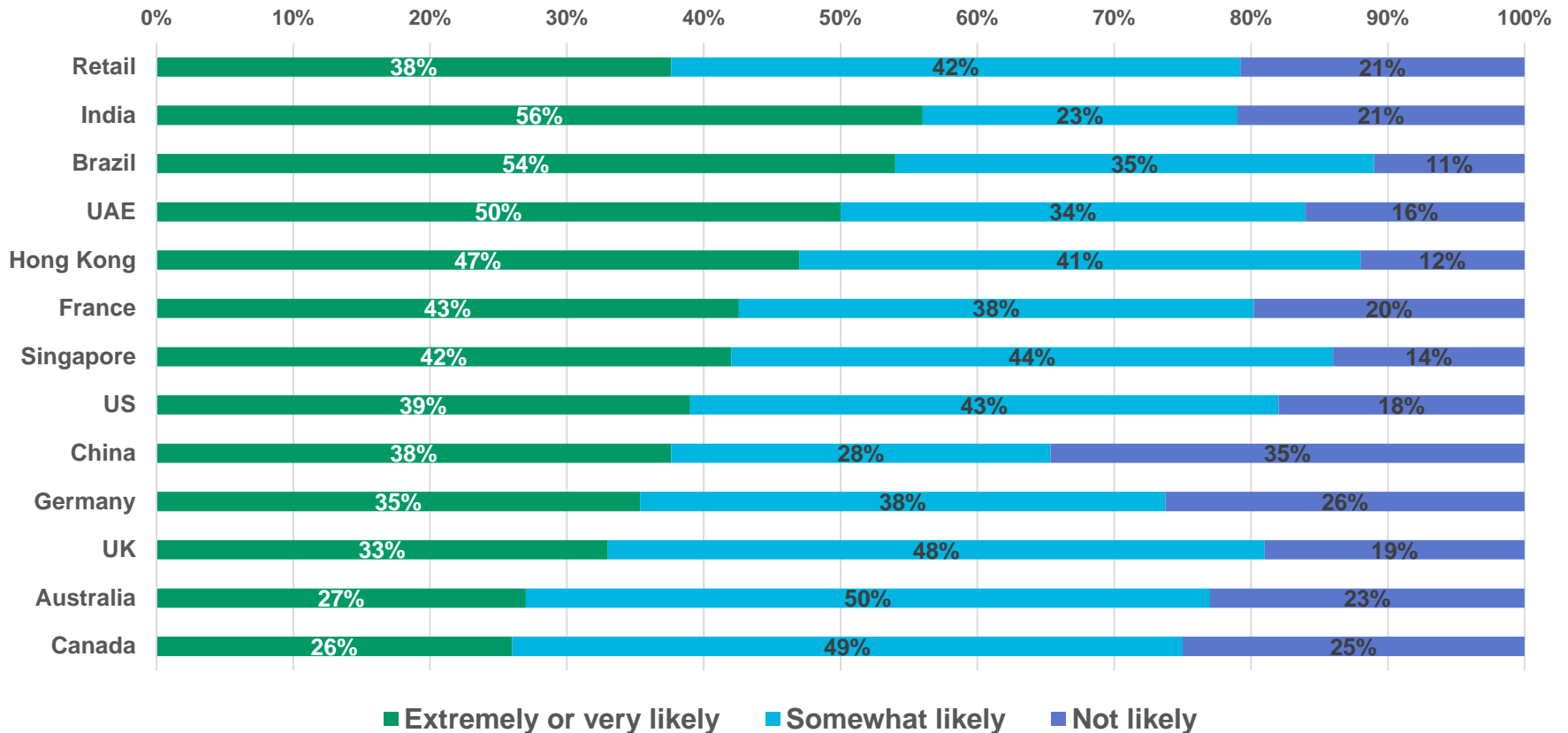




# MORE THAN A THIRD OF RETAIL INVESTORS EXPECT ANOTHER FINANCIAL CRISIS IN THE NEXT 3 YEARS

## The majority in India and Brazil expect a crisis soon

How likely do you think it is that there will be another financial crisis within the next 3 years?

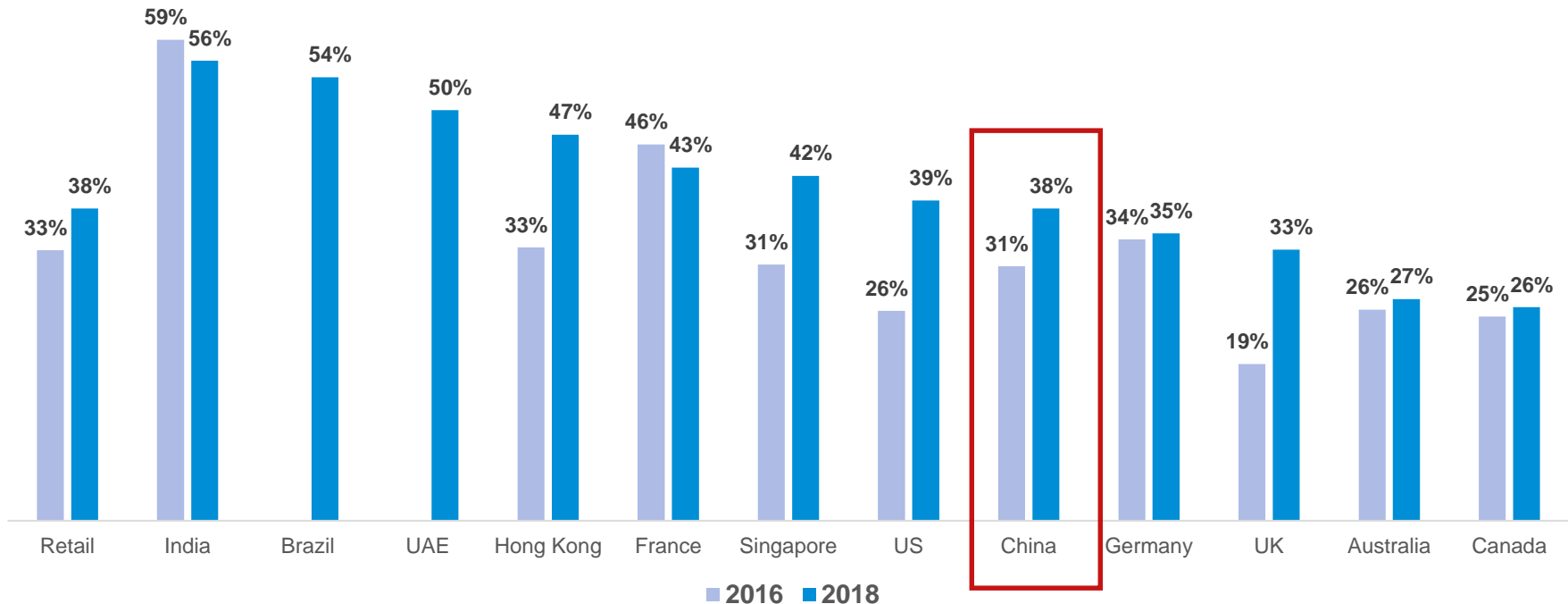


# RETAIL INVESTOR EXPECTATIONS FOR A CRISIS HAVE INCREASED IN EVERY MARKET EXCEPT INDIA AND FRANCE



## Largest increases in US, UK, and Hong Kong

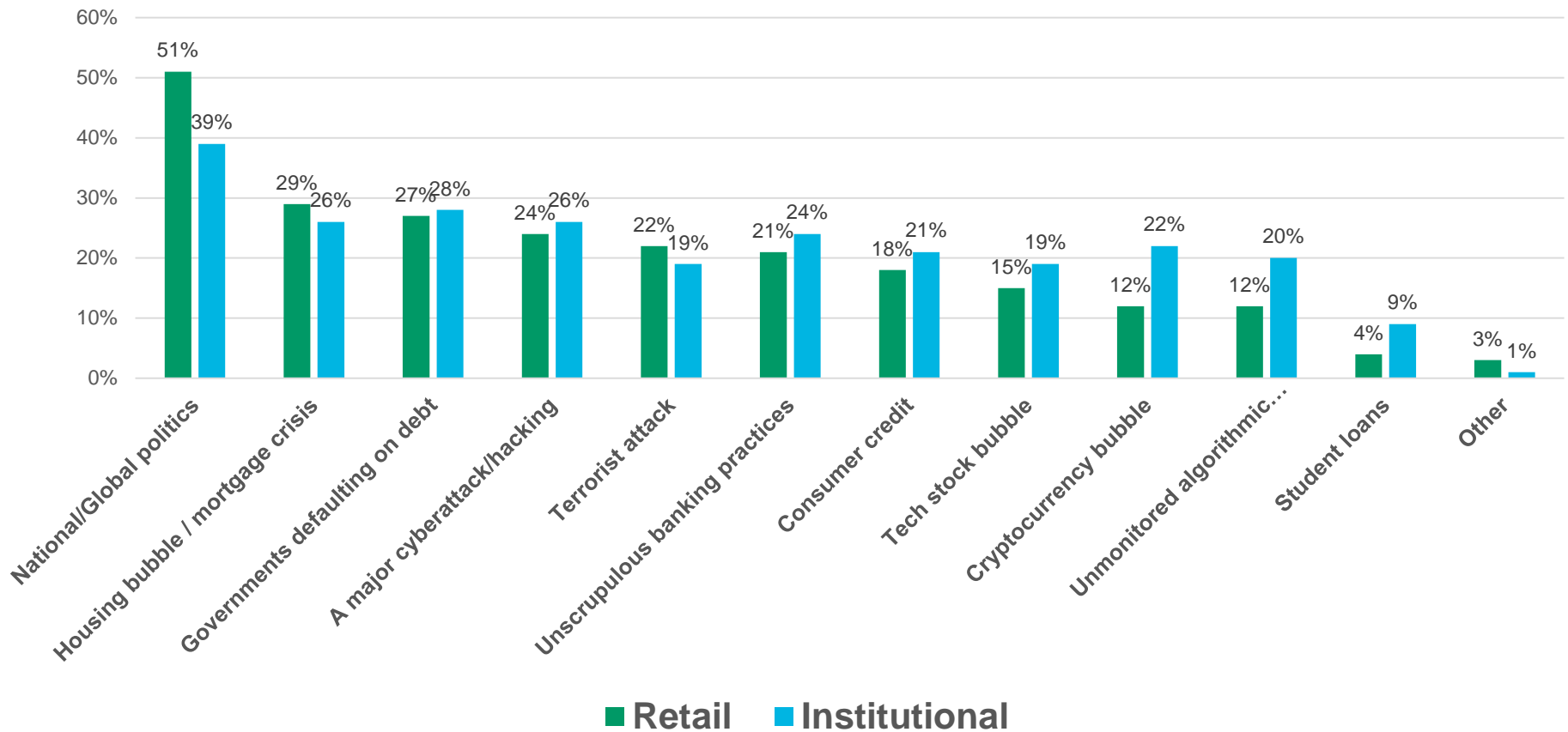
Retail Investors Who Believe There Will Be a Financial Crisis in the Next 3 Years



# POLITICS THE MOST EXPECTED SOURCE OF NEXT FINANCIAL CRISIS

**Housing bubble, sovereign defaults, and cyberattacks rank next**

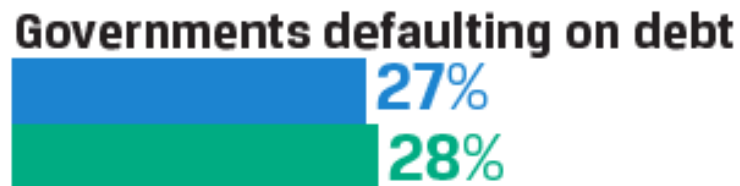
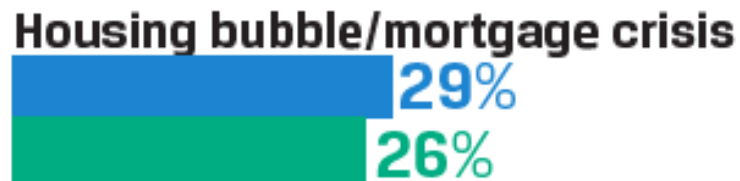
## Possible Sources of Next Financial Crisis



# SOURCES OF NEXT FINANCIAL CRISIS

## POTENTIAL CAUSES OF THE NEXT FINANCIAL CRISIS

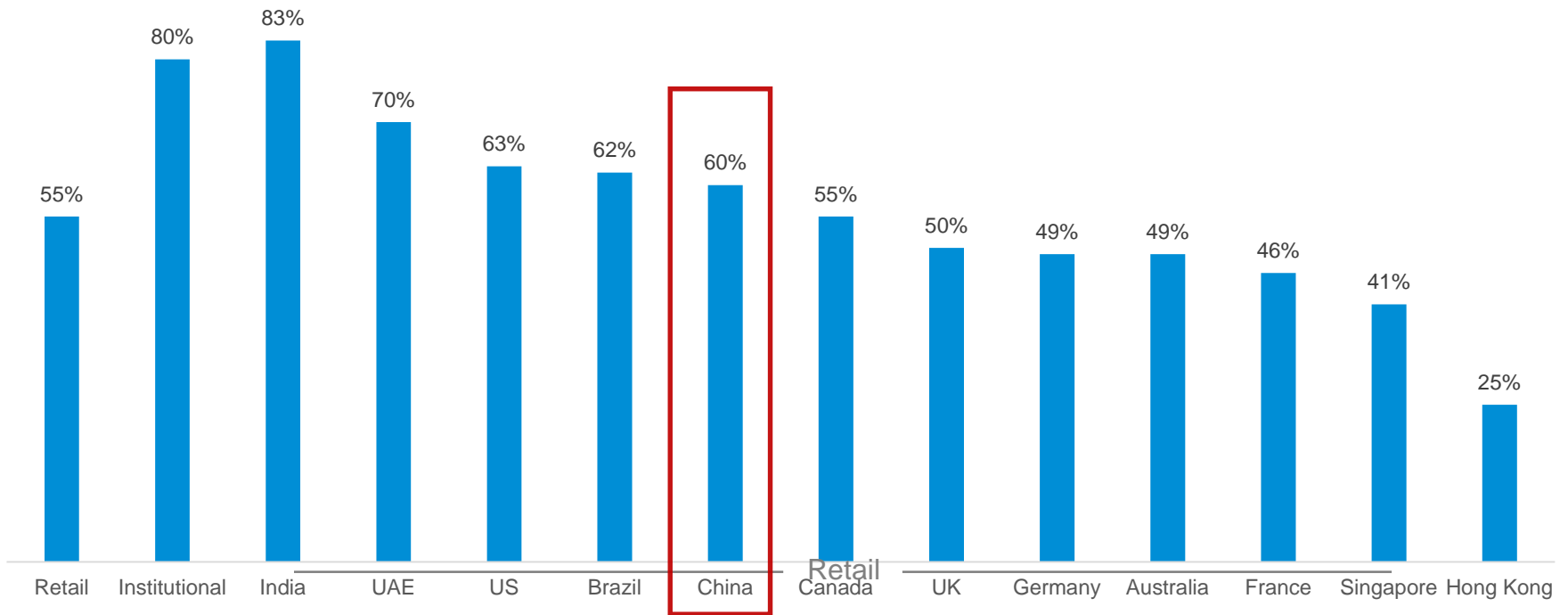
■ Retail ■ Institutional





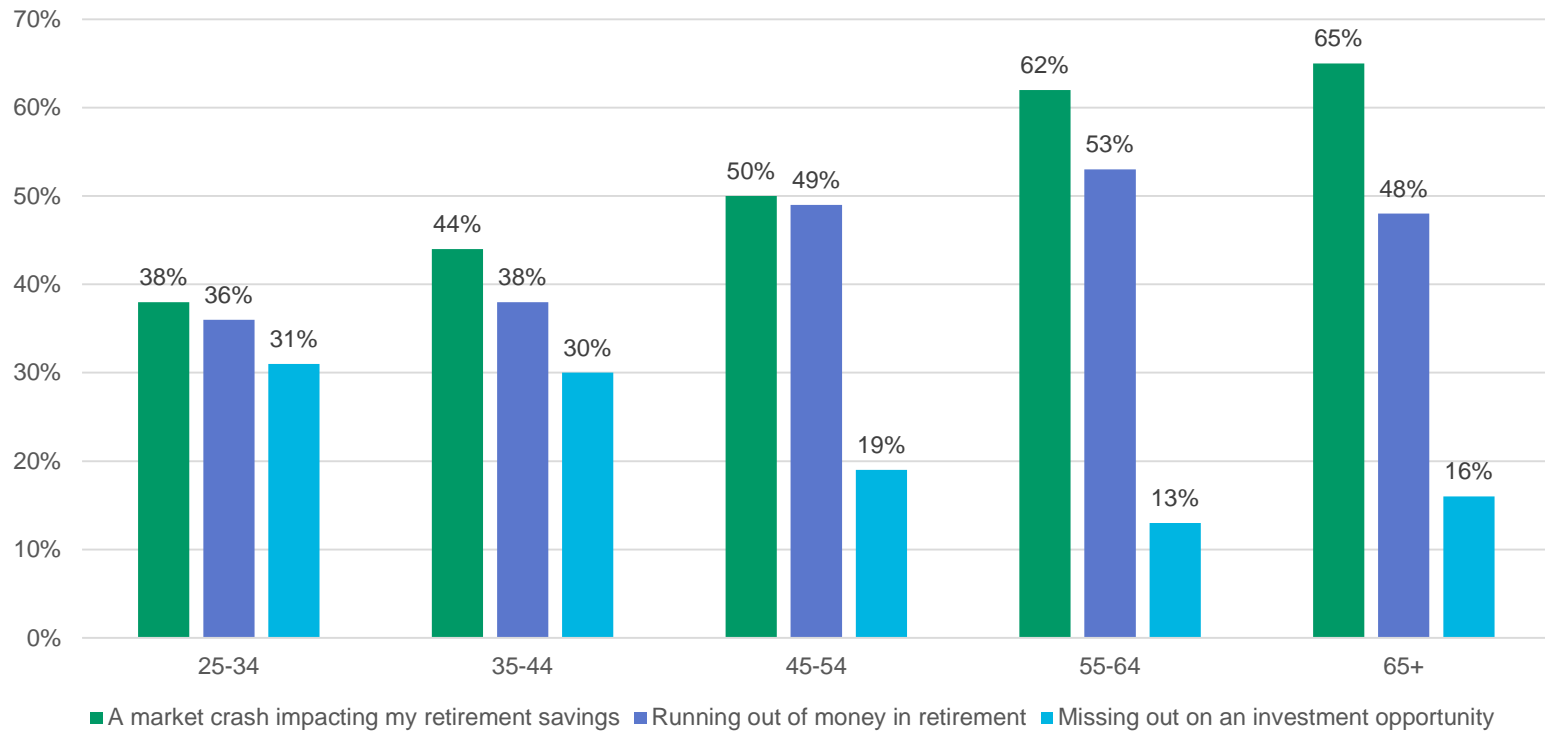
# MOST INSTITUTIONAL INVESTORS AND THE MAJORITY OF RETAIL INVESTORS THINK THEIR INVESTMENT FIRM IS WELL PREPARED TO HANDLE A FINANCIAL CRISIS

Investors Who Think Their Investment Firm(s) Are Very Well Prepared or Well Prepared for a Financial Crisis



# OLDER RETAIL INVESTORS MORE LIKELY TO FEAR RETIREMENT SECURITY; YOUNGER INVESTORS HAVE FEAR OF MISSING OUT

Biggest Investment Concerns, by Age





# TRUST EQUATION



*In Future State of the Investment Profession,* CFA Institute introduced a Trust Equation to outline some of the components of trust. In the equation, trust and value are a function of both credibility and professionalism.

**Credibility = Credentials, Track Record, & Brand**

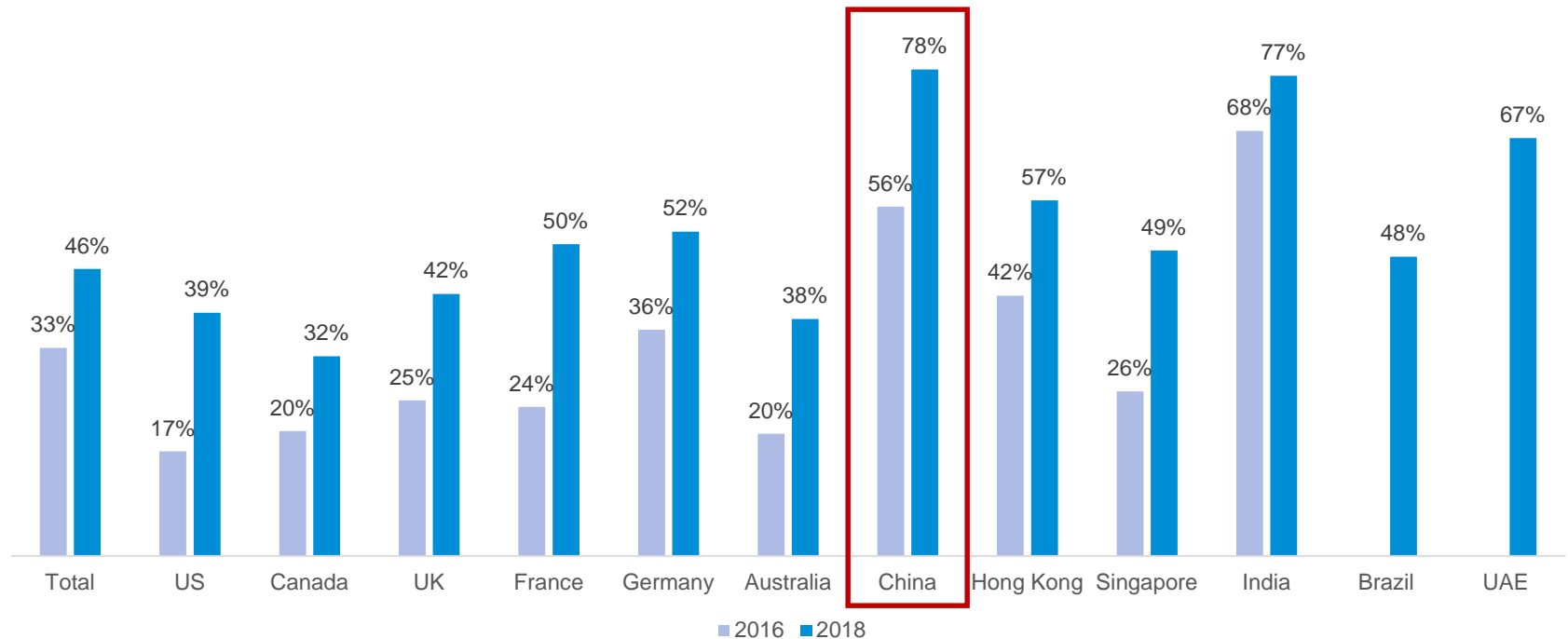
**Professionalism = Competency & Values**



# IMPORTANCE OF BRAND VS PEOPLE

**Brand becoming more important to retail investors in every market**

Importance of Investment Firm Brand



Question: When thinking about an investment firm to work with, which of the following is more important to you? Options: A brand I can trust, or People I can count on





# TRUST EQUATION



## COMPETENCY



*Investors that would be more trusting of investment firms that promote ongoing professional development*

**Professionalism** is hard to quantify, but includes the trust-building elements of competency and values such as empathy, transparency, honesty, and alignment of interests.

# 85%

**of Chinese investors would trust their adviser/ firm more if it works as a philanthropic partner for community efforts.**



# TRUST EQUATION



**Professionalism** is hard to quantify, but includes the trust-building elements of competency and values such as empathy, transparency, honesty, and alignment of interests.

## VALUES



*Investors that believe that their adviser always puts client interests first*

**29%**

**35%**  
**Global**

*of Chinese investors say the top attribute in selecting an adviser is putting the client first*

**23%**

**14%**  
**Global**

*of Chinese investors believe ethical conduct is the most important factor in choosing an adviser*

# 8 STEPS TO INCREASING TRUST

## Credibility

- 1 Maintain strong brand identity and follow through on brand promises
- 2 Employ professionals with credentials from respected industry organizations
- 3 Stay focused on building a long-term track record to demonstrate competence
- 4 Adopt a code of conduct to reinforce your firm's commitment to ethics

## Professionalism

- 5 Improve transparency and clarity regarding fees, security, and conflicts of interest
- 6 Use clear language to demonstrate that client interests come first
- 7 Showcase your ongoing professional development to improve investment knowledge
- 8 Demonstrate your dedication to the values that clients hold dear