Institutional Trust and the Financial Adviser

Summary

This explorative qualitative study examines and identifies the components and structure of 'institution based' or 'system' trust in the context of the relationship between a UK consumer and their financial adviser against the background of the 2008 financial services crisis and other more recent scandals that have afflicted the financial services industry.

The findings of this study demonstrate the central of the statutory regulation surrounding the industry in building trust but challenge existing literature regarding membership of professional organisations, professional qualification and testimonials and presents new findings that links consumer needs for privacy, confidentiality and data security to premises design.

This paper offers information that can inform future academic research and considerations for managers in the financial services industry.

Track: Marketing and Retail

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Institutional Trust and the Financial Adviser

1.0 Introduction

Trust is widely acknowledged to be important if not indispensable in all aspects of social life where interaction with others is either necessary or desired (Lewis and Weigert 1985, p. 968; Sitkin and Roth 1993, p. 367; McKnight and Chervany 2001, p. 28.) This importance extends into the business world where trust is seen as being central to all business transactions (Dasgupta 2000, p. 49), has been considered a catalyst in such transactions for some time (Yousafzai *et al* 2009, p. 592), and is described as being both critical and central to developing and maintaining business consumer relationships (Ennew et al 2011, p. 66; Hansen 2012, p. 280.) The importance of trust is enhanced in service industries due to additional uncertainty caused by product intangibility (Diacon and Ennew 2007, p. 77.)

Financial services products are often highly intangible credence products with information asymmetry existing between the provider and consumer (Diacon and Ennew 2007, pp. 77-78) and a lack of physical evidence of service quality giving rise to a reliance by many consumers upon trust when purchasing such products (Ennew *et al* 2011, p.66.) It can therefore be argued that trust is of particular importance in the financial services industry. This argument is given further weight given the loss of consumer confidence in the industry following the 2008 financial crisis and subsequent bad publicity caused by a variety of scandals such as the PPI miss-selling scandal and the LIBOR rate fixing scandal (Diacon and Ennew 2007, p. 77; Hansen 2012, p. 280; Uslaner 2010, p. 110.)

In addition to playing a central role in the purchase of a financial services product by a consumer, trust has also been found by many authors such as Sharma and Patterson (1999), Harrison *et al* (2006) and Howcroft *et al* (2003) to play a central role in the relationship between a consumer and their financial adviser. However the conduct of financial advisers has also been called into question in the past with regard to the miss-selling of both mortgage related endowment policies and personal pensions (Ennew *et al* 2011, p. 65; Gill 2008, p. 148.) In addition there has been concern regarding an apparent emphasis upon the sale of products that pay the highest rates of commission (Inderst and Ottaviani 2012, p. 394) leading consumers to become cynical about the trustworthiness of the advice given by financial advisers (Harrison *et al* 2006, p. 975.)

Given this background it is perhaps surprising that 'there is an absence of systematic and detailed evaluations of consumer trust in the UK financial services sector' (Ennew *et al* 2011, p.66.) This paucity of research into this area was confirmed by a literature search carried out in July 2013 that found only five papers that address the conceptualization and meaning of trust in the context of either the relationship between a consumer and providers of financial services products or between a consumer and financial advisers.

This paper reports an exploratory qualitative study of institution based (or system) trust in the context of the relationship between a UK consumer and an individual financial adviser and contributes to knowledge by developing a model for institution based trust in this context including antecedents and mediating and moderating factors.

This model was developed using the McKnight and Chervany (2001, p. 33) cross disciplinary model of trust as a theoretical basis and will be used to inform future quantitative studies of this subject area. In addition to identifying the sub-components of institution based trust in this context, this paper also aims to identify the effect of each identified sub-component of institution based trust on the trusting beliefs and trusting intentions dimensions of the McKnight and Chervany model (2001, p. 33.)

The next section of this paper reviews the literature relevant to this study, whilst section three discusses the methodology used. Section four presents the findings which are then discussed in section five. Section six concludes this paper and addresses both the implications for managers of this study and directions for future research.

2.0 Literature review

Trust as a concept

Trust has many differing meanings, has been defined and conceptualized in many different ways, and is seen as a highly complex, multidimensional contextual concept that crosses interdisciplinary boundaries which has a variety of different antecedents and outcomes (Lewis and Weigert 1985, p. 976; McAllister 1995, pp. 26-32; Sitkin and Roth 1993, p. 368; McKnight and Chervany 2001, pp. 28-30.) This variety of differing cross-disciplinary approaches to the study and conceptualisation of trust has given rise to a plethora of definitions and models of trust with the result that the concept of trust became both elusive and confusing (McKnight and Chervany 2001, p. 28; Colquitt et al 2007, p. 909.)

In an attempt to rationalise this confusion, McKnight and Chervany (2001, pp. 28-33) analysed definitions of trust taken from 65 papers across five disciplines and conceptually compared them in order to develop the cross disciplinary conceptual model of trust shown in figure 1.0.

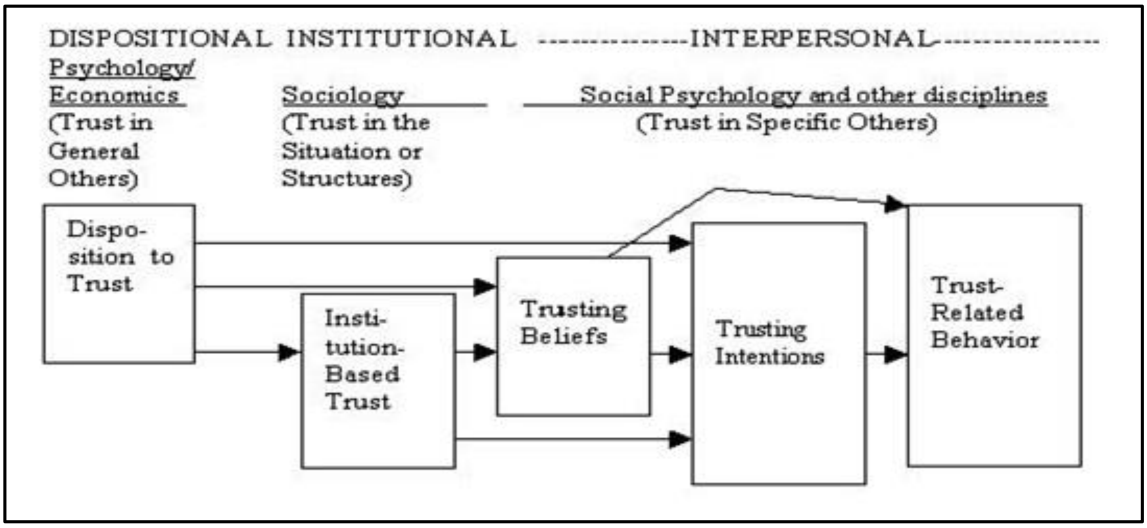

Figure 1.0 Interdisciplinary model of trust developed by McKnight and Chervany (2001, p. 33)

Given this rigorous, thorough and robust approach used to develop this model, this paper uses this comprehensive model as a theoretical basis.

Existing research

As already noted there is a paucity of research in this area. Of the five papers found during the literature review that examine trust in this context, only one, Greyson *et al* (2008), partially examined the subject of institution based trust that this paper is concerned with, and did so as part of a study to test two competing theories (functionalist theory and institutional theory) rather than to establish and identify the components of institution based trust in this context. This paper is therefore the first to investigate the constitution of institution based trust in this context.

It should also be noted that institution based trust is context specific in that it relates to an individual consumer's perception of how a particular sector of industry or commerce is regulated. Any individual consumer can have a positive perception of the regulation of one particular sector whilst holding a different perception about the regulation of another which will lead to a different levels of institution based trust in those sectors (Grayson *et al* 2008, p. 243.)

Institution based trust – structural assurance

'Institutional' or 'system' trust reflects the arguments of Zucker (1986, p. 57) that rules and regulations produce trust by creating rules that govern exchange thereby standardising organisational behaviour across the particular market in question. Effectively, a consumer substitutes interpersonal trust such as their expectations, knowledge or personal experience of a third party for a reliance upon formal regulation of that third party to constrain their actions and keep them within acceptable limits (Sitkin and Roth 1993, p. 368) and reflects a belief on the part of that consumer that the conditions, structure and environment are conducive to success in any particular transaction (McKnight and Chervany (2001, p. 37.)

In the UK financial services marketplace such rules and regulation are primarily provided by the statutory governing body, the Financial Conduct Authority (FCA), whose main responsibility is to 'regulate financial services firms in the UK, including banks and building societies, mortgage and insurance brokers, and financial advisers' (Financial Conduct Authority, no date.) In addition further regulation is provided by the Data Protection Act 1984 (DPA), which is enforced by the Information Commissioners Office (ICO). This further regulation is required as the nature of the financial services industry is such that during the course of obtaining financial advice and the subsequent purchase of a product, a consumer will almost invariably be expected to divulge highly sensitive personal information. Divulging such sensitive information and the subsequent use of that information has been recognised to give rise to serious consumer concern with issues such as privacy, confidentiality and data security (Yousafzai *et al* 2005, p. 186.)

Whilst such rules and regulations are often provided and enforced by governmental or statutory bodies, Zucker (1986, pp. 63-64) also argues that membership of an industry association signals a willingness by an individual or organisation to conform to societal expectations thereby engendering institutional trust. This view is supported by Neu (1991, p.188), Atchinson (2005, p. 478) and Blois (2013, p. 191) who all argue that membership of such an organisation, particularly where qualifications are held as part of that membership, can engender trust amongst consumers.

There are several such organisations open to financial advisers in the UK such as the society of financial advisers (SOFA) and the Chartered Institute of Insurers (CII) who offer professional qualifications to their membership and could therefore engender trust amongst consumers.

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In the McKnight and Chervany Model (2001, p. 33) trust engendered by such rules and regulations is incorporated into the institution based trust sub-dimension of structural assurance which also includes guarantees and warranties that are offered to the consumer.

The Financial Services Compensations Scheme (FSCS) provides compensation for a consumer where that consumer has received incorrect or bad financial advice from a financial adviser who has subsequently ceased trading. Membership of this scheme is mandatory for all financial advisers (Financial Services Compensation Scheme, no date.) Many financial advisers are also required by the FCA to hold Professional Indemnity Insurance (PII). The purpose of holding such insurance is to provide redress for a consumer in the event of malfeasance. (Financial Conduct Authority, no date)

The FSCS and the requirement for many advisers to hold PII are therefore effectively statutory guarantees or warranties against bad advice or malfeasance on the part of a financial adviser and as such meet the definition of a sub-component of structural assurance given by authors such as McKnight *et al* (1998, p. 478) and Pennington *et al (*2003, p. 201) and could therefore engender trust amongst consumers.

Institution based trust – situational normality

In addition to the sub-dimension of structural assurance, the McKnight and Chervany (2001, p. 33) model also includes the sub-dimension of situational normality as a component of institution based trust. Situational normality refers to a situation or environment that a consumer finds to be normal, customary and properly ordered and therefore conducive to the success of any particular transaction (McKnight *et al* 1998, p. 478; Gefen et al 2003, p. 64; Pennington *et al* 2003, p.201; McKnight *et al* 2011, p. 8.) Where a situation is observed as being normal then 'one has a basis for trusting people in the situation.' (McKnight and Chervany 2001, p. 38) as individuals will extend a greater level of trust where they perceive the nature of a transaction to be both typical and as expected (Gefen *et al* 2003, p. 64.)

Authors such as McKnight *et al* (1998, pp. 478-479) and Gefen *et al* (2003, p.64) suggest that an individual consumer will have expectations concerning the appearance of both an organisations business premises and the appearance of the employees of that organisation. Whilst these authors used different example (banks and shops respectively) to illustrate their arguments, both authors imply that such expectations are dependent upon the nature of the business that the organisation conducts and the role that individual employees engage in. Both also imply that meeting such expectations will engender a situation that is perceived to be normal by the consumer and therefore conducive to the success of a transaction.

Testimonials provide a potential customer with information from other customers concerning the past performance and ability of an organisation to successfully conduct a transaction (Yousafzai 2005, p. 188.) The provision of such information could therefore be regarded as demonstrating that it is normal for a transaction with that organisation to be successful thereby creating an expectation that the provision of such testimonials is normal. Similarly, the recommendation of another may also create an expectation that it is normal for a transaction with a recommended third party to be successful, particularly where that recommendation is made by a trusted and knowledgeable third party. In addition to the provision of testimonials, such a recommendation may engender a perception of situational normality, particularly as the recommendation of another has been found to play a significant role in the selection of a financial adviser by a consumer (Devlin 2007, pp. 638-645; Gough and Nurullah 2009, p. 160.)

Yousafzai (2005, p. 188) argues that a strong brand can engender consumer trust in an intangible product by providing supporting cues for a consumer considering the purchase of such a product. The presence of a recognisable brand could therefore be seen as providing reassurance to a consumer that a transaction involving an intangible product such as financial advice will be successfully completed and that a situation is normal.

Obtaining a professional qualification demonstrates a willingness to conform to societal expectations on the part of an individual thereby encouraging the formation of trust (Neu 1991, p. 188). It could therefore be argued that a consumer may therefore hold an expectation that a professional individual such as a financial adviser or solicitor is appropriately qualified to conduct their profession, and that providing evidence of that qualification is both expected and normal. The possession of such a qualification could be evidenced by means of the display of a certificate within the business premises of that professional.

Trusting beliefs and trusting intentions

The dimension of institution based trust is shown in the McKnight and Chervany model (2001, p. 33) as an antecedent of the dimensions of trusting beliefs and trusting intentions.

Trusting beliefs reflects Lewis and Weigert's (1995, pp. 970-971) cognitive and affective aspects of trust together with Mayer *et al's* (1995, p. 717) components of trustworthiness and is the extent to which an individual believes that a specific third party possesses characteristics that are beneficial to their interests and comprises of the three components of competence (ability), benevolence and integrity.

Competence is context specific and relates to the competence and capability of the trustee to deliver what is promised, benevolence is the extent to which the trustee is motivated to act in the trustor's best interests, and integrity is the extent to which the trustee acts in good faith, has sound ethical and moral principles that are acceptable to the trustor, and that the trustee can be relied upon to keep their word (Mayer *et al* 1995, pp. 717-721; McKnight and Chervany 2001, p. 36; Colquitt *et al* 2007, p. 911-911.)

Trusting intentions relates to the willingness of an individual to depend or intention to depend upon a third party despite their lack of control over that third party and the potential for negative consequences (McKnight and Chervany 2001, p. 34.)

<u>3.0 Methodology</u>

A series of focus groups and semi-structured interviews using open-ended questions was carried out in order to explore the factors identified in the literature review above as being potential components of either structural assurance or situational normality (see Appendix one for interview agenda.) The use of such qualitative data collection methodology encourages respondents to share rich descriptions of a phenomenon with a researcher (DiCicco-Bloom and Crabtree 2006, p. 314.) In-depth interviews using open ended questions are 'an established approach when researching a complex area' (Hughes 2006, p. 117) which allow a researcher to probe more deeply and gain a greater understanding of beliefs and attitudes than would otherwise be possible, and contribute knowledge based upon the meaning of the life experiences of respondents (Burgess 1984, pp. 101-107; Arskey and Knight 1999, pp. 4-9; DiCicco-Bloom and Crabtree 2006, pp. 314-315.)

Focus groups, a form of group interview, use open-ended questions to allow interaction between individual participants who 'both query each other and explain themselves to each other' (Morgan 1996, p.139.) This interaction also allows the collection of more in-depth information which in turn leads to both a deeper insight into, and greater understanding of a subject than would otherwise be possible. A further advantage of utilising focus groups is that they allow a large amount of rich and varied data to be collected quickly (Kitzinger 1994, pp. 103-104; Kitzinger 1995, p. 299; Morgan 1996, p. 137; Morgan 1997, pp. 13-17.)

Sample

Two focus groups with nine participants and a series of 12 individual interviews together with a joint interview with a married couple were carried out with participants being selected on convenience basis. All had held meetings with a financial adviser within the previous 12 months and were drawn from the author's network of contacts (details of the sample can be found in Appendix two.) Further interviews were not arranged as saturation was achieved and no new themes were emerging from the interviews (DiCicco-Bloom and Crabtree 2006, pp. 317-318.)

All participants were guaranteed anonymity and confidentiality and all agreed to the focus groups and interviews being recorded. Two interviews were conducted using the telephone with the remainder being carried out on a face to face basis and typically lasted around 45 minutes. The recordings were subsequently transcribed verbatim by the researcher and anonymised.

Analysis

Once transcribed, a strategy of thematic analysis using the six stage process identified by Braun and Clarke (2006, p.87) was adopted to analyse the data. This is a flexible analysis methodology which is independent of any particular ontological or epistemological perspective and can provide a complex, detailed and rich account of data that can be used to examine the 'experiences, meanings and the reality of participants' (Braun and Clarke, 2006, pp. 78-81.)

Initial codes were drawn from the section of the literature review relating to the potential sub-components of institution based trust in this context, with further codes and themes initially being identified at a semantic rather than latent level using methods drawn from the decision tree suggested by Ryan and Bernard (2003, p. 102.) As latent meaning has been of 'long standing interest in the social sciences' (Glassner and Corzine 1992, pp. 306) once this initial coding had been completed, the data was again reviewed in order to identify further codes and themes at a latent level.

Implicit in this method of data analysis is the removal of the data from its context which carries the potential consequence of a loss of meaning or inference (Malhotra and Birks 2007, p. 251.) Care was taken to avoid both this potential risk and also the possibility of the incorrect inference of latent meaning which can put at risk both objectivity and validity (Berelson 1952, pp. 16-17.)

It is perhaps worth noting at this point that the researcher has over 15 years' experience in the financial services industry as both a marketing manager and financial adviser.

4.0 Findings

This section explores the themes that emerged from the data during analysis with the objective of identifying the sub-components of both structural assurance and situational normality together with their antecedents, mitigating and moderating factors and their effect on other dimensions of the McKnight and Chervany (2001 p. 33) model such as Trusting Beliefs and Trusting Intentions.

Structural Assurance

Statutory regulation and the DPA

Few participants were aware of the full extent of the statutory regulation provided by the FCA with most having only a basic understanding of the role of the FCA. Participants were however generally more knowledgeable about the provision of the DPA, perhaps because it is ubiquitous in a modern technologically driven society

Participants generally viewed the regulatory framework provided by the FCA and the DPA as reassuring and positive. Examination of the data indicates that participants saw the main role of regulation provided by the FCA as ensuring the competence or ability of financial advisers which in turn ensures high standards of advice.

> *"You expect because they are regulated that they are complying with a certain level of expertise and that in itself will give you the feeling that you are dealing with a professional person and therefore getting professional advice in the right way." (P2)*

In addition a theme emerged from the data that indicated that participants felt the provision of sanction or punishment against an adviser that failed to act in their best interests was also a significant role of the statutory regulation provided by the FCA as this would help to ensure that financial advisers acted in the best interests of their clients, or effectively, ensuring that financial advisers had integrity.

> *"I would trust their advice more because I know if they were saying something that was blatantly wrong then they would suffer" (P1)*

All participants expressed some level of reluctance to divulge sensitive personal information, however all recognised the need to do so as not to would restrict the ability of the financial adviser to provide relevant high quality advice. The reasons for this reluctance centred upon privacy concerns and the security of the information they gave to their financial advisers. Participants generally saw the DPA as essential in providing reassurance over such issues, mitigating these concerns and ensuring that financial advisers acted with integrity in relation to their sensitive personal information.

In both cases these findings conform to the findings of Zucker (1986, p. 57) that regulations produce trust. In addition the finding concerning the provision of sanction or punishment conforms to the findings of Hardin (2006, p. 31) that an essential part of the role of any statutory regulation whose aim is to foster or engender trust is the provision of such sanction or punishment for those that breach rules and regulations, a role that is strengthened by the fact that the need for such provision is also briefly identified as being relevant to structural assurance by both Sitkin and Roth (1993, p. 369) and Greyson *et al* (2008, p. 242.) However it should also be noted that the data suggests that whilst structural assurance fosters trust it does not serve as a substitute for it confirming the findings of Grayson *et al* (2008, p. 242.)

Brand and organisation

Whilst the literature suggests that structural assurance is provided by either Government regulation or rules and regulations resulting from membership of a professional organisation, a further theme to emerge from the data was that participants felt reassured where a financial adviser was employed by a larger organisation rather than operating as a "one man band". Participants perceived that this larger organisation would, for reputational risk reasons, ensure that the financial advisers that they employed were competent and suitably qualified, acted with integrity and in the best interests of consumers, and that should they fail to do so, would provide a means of redress to consumers that would include disciplinary action against the adviser concerned. This reassurance was present in most cases irrespective of whether the participant used an adviser employed by a well-known organisation or brand such as a major bank or a much smaller operation with a limited number of offices and employees that was not widely known. In effect, the participant's perception was that the structural assurance normally provided by the statutory regulator (The FCA) and the DPA was being substituted for structural assurance provided by the employing organisation. It can therefore be concluded that the employment of a financial adviser by an organisation of any size, with or without a well-known brand, is a mediating factor of the need by a consumer for the reassurance provided by the statutory regulation provided by both the FCA and the DPA.

> *"it doesn't have to be a big name, it has to mean that he is working for somebody so there is a company associated with him that is responsible for what he does, that's the advantage of the company, to have somebody responsible that you can go up to and say right, where is my money?"* (P4)

Whilst several participants, particularly those with less experience of financial services, found the presence of a brand to be reassuring, the fact that many participants perceived this reassurance irrespective of the presence of a well-known brand adds weight to the claims by Devlin (2007, p. 647) that '…financial services consumers do not really engage with the brand reputation of financial services firms…' However, it should also be noted that those participants who actually used a financial adviser employed by a well-known brand, drew reassurance from the presence of that brand reflecting the argument that 'research has identified brand as a surrogate for trust' (Yousafzai *et al* 2005, p.189.)

Employer

In a similar manner a further theme to emerge from the data was that all three participants whose employer had introduced them to their financial adviser felt that their employer would have first ensured that the financial adviser was competent and had integrity. As a consequence these participants perceived that the re-assurance provided by the statutory regulatory framework was of little importance to them suggesting that the need for structural assurance on the part of a consumer provided by Government regulation is mediated by the introduction of a financial adviser by a consumer's employer. This could be explained by

Heider's balance theory (1946, pp. 107 – 112) whereby the attitude of the consumer towards a third party, in this case a financial adviser, is influenced by the attitude of another, in this case, that consumer's employer. As the employer has adopted a positive attitude towards the financial adviser there will be a tendency for the consumer to adopt a similar attitude otherwise a state of tension will arise between them (Heider 1946, pp. 107-108.)

> *"The reason I chose him was I thought the (name of employer) aren't going to get somebody who is a complete fool or even worse who is a complete crook and so he can't be bad and I'll try him out" (P4)*

Membership of a professional body or organisation

Neu (1991, p. 188) and Atchinson *et al* (2005, p. 478) both suggest that membership of a professional body or organisation can engender consumer trust by providing structural assurance to consumers. However the theme that emerged from the data was that generally participants were sceptical of membership of such organisations as they perceived that membership often did not require a prospective member to prove their ability by means of an entry examination or the holding of relevant professional qualifications, and that such organisations provided no means of redress or sanction against a financial adviser who acted against their best interests. Many participants also felt that they did not have sufficient information or knowledge about such organisations to effectively assess the potential protection offered to them as consumers.

> *"Some associations don't require examination and you pay a membership fee to join and then that association doesn't monitor or police what you do. You've got to have somebody that has teeth." (P2 of FG2)*

Redress, the FSCS and PII

The common theme to emerge from the data was that participants felt that the provision of redress was an essential part of structural assurance as regulation *"means precious little really unless it gives you some form of comeback" (P5).* Whilst most participants were aware of the FSCS, few were aware that it applied in the context of financial advice and only the participants with experience in the financial services industry were aware of the requirement for financial advisers to hold PII. However, once an explanation had been given, participants effectively perceived the FSCS and PII as a guarantee or warranty against malfeasance on the part of their financial adviser thereby meeting the definition of a component of structural assurance as defined by authors such as McKnight *et al* (1998, p. 478) and Gefen *et al* (2003, p. 65.)

Knowledge and experience

A further theme to emerge from the data indicates that more experienced and knowledgeable consumers require less reassurance from Government sponsored regulation than those who are inexperienced and have less knowledge, suggesting that in this context knowledge and experience is a moderating factor of the need for structural assurance.

> *"I'm not suggesting you don't need the regulation. I'm suggesting that where I was coming from I was working a different frame of reference. I wasn't coming to it I hope as a complete numbskull. My sister-in-law may*

well have needed that protection - she doesn't have a clue what she was doing. From her point of view it was perhaps very important that it (regulation) protects her. It protects me, but maybe wrongly I don't feel I need protection - she definitely needs protection."(P4)

An explanation for this finding could be the arguments of Mitra *et al* (1999, p. 211) that where a consumer has a lower level of knowledge and experience, that consumer will perceive a higher degree of risk when purchasing a high risk credence based product (such as a financial services product.) This in turn could lead to a greater reliance upon the reassurance provided by structural assurance for consumers with a low level of knowledge or experience with the implication that a consumer with a higher level of knowledge, possibly gained through experience, will perceive less risk and therefore be less reliant upon structural assurance as such experience would enable a consumer to gain insights into the benevolence of either an individual or an industry that they are conducting business with leading to a change in the way that trust between a consumer and a third party is constructed (Mayer *et al* 1995, p. 722.)

Situational normality

Adviser appearance

All participants held an expectation that a financial adviser should generally be attired in a smart, business-like manner. Whilst the exact expectation varied between participants, one theme to emerge from the data was that this was particularly important at the first meeting with a financial adviser with most participants comparing this scenario to that of a job interview. A further theme to emerge from the data was that where a financial adviser failed to meet these expectations then there would be a reduction in the willingness of that participant to conduct business with that financial adviser due to concerns over trust related issues such as the safety of investments made and the professionalism of the adviser. This finding reflects the arguments of Gefen *et al* (2003, p. 64) that the failure of an organisations employees to meet expectations in this regard erodes trust as trust is a product of fulfilled expectations.

"Yes, and that might be completely wrong because they could be the most trustworthy individual but because their physical appearance is such that it is not what I am expecting then yes I would question the trust element." (P4 FG2)

Age, similarity and ability emerged from the data as moderating factors for adviser appearance with older participants expressing clear expectations that an adviser should wear a suit and tie whilst younger participants expressed expectations of a generally smart appearance but felt that a suit and tie was not necessary to achieve this often reflecting their own attire whilst working. Many participants expressed the opinion that appearance was of less importance where the adviser had a high level of ability.

"It really doesn't matter a fig what he wears, it is how much money he makes for us. That's what you are engaging an IFA for, to make you money" (P4)

Business premises

In a similar manner all participants held expectations regarding the business premises of a financial adviser with a theme emerging from the data that the premises should convey security and solvency, and that the failure to meet these expectations would lead to questions concerning the ability and professionalism of the adviser thereby eroding trust. Again this reflects the arguments of Gefen *et al* (2003, p. 64) given above.

> *"if my expectations were not met then I would definitely have reservations about continuing to use them." (P2 FG1)*

Provision of testimonials and the display of certificates

Participants indicated that they would gain little if any reassurance from either the provision of testimonials or the display of certificates of professional qualification at the business premises of their financial adviser. These findings are contrary to the arguments of authors such as Neu (1991, p. 188) that obtaining and displaying professional qualifications signals a willingness to conform to societal expectation thereby engendering trust but conform to the findings of Yousafzai *et al* (2005, p. 195) that the provision of testimonials does not enhance consumer trust in e-commerce transactions.

Themes emerged from the data that indicated that participants felt unable to accurately judge the validity or worth of certificates of professional qualification *"I don't know the details of those qualifications, it's not my industry."(P9)*, that testimonials would always reflect positively upon the party providing them *"They are not going to put negative press on there" (Male I3)* and that testimonials would be irrelevant due to the unique nature of the participants own personal financial circumstances.

> *"Because that persons circumstances may be vastly different to mine they may not have transacted with a client like me, with my needs, in the past" (P8)*

Privacy and confidentiality

A further theme that emerged from the data was that participants held very clear expectations that the business premises of a financial adviser should reflect their needs for data security, confidentiality and privacy, and that the failure to meet these expectations would have an adverse impact upon their willingness to transact. Participants held an expectation that a separate meeting room should be provided to enable them to discuss their business privately and confidentially, and that their needs for their personal information to be held safely and securely should be reflected by the presence or locked filing cabinets and the absence of notes and files relating to other clients being left in full view.

The data suggests that participants would not consider the business premises of a financial adviser to be 'normal' if these expectations were not met which indicates that the need for the business premises of a financial adviser to convey data security, confidentiality and privacy is an antecedent of situational normality in this context. This finding is not suggested in the academic literature.

"If I was unhappy or felt insecure in any way I would ask to re-convene the meeting either in my home or in a place that was more suitable and I would say why it wasn't suitable - well look you've got these people over there that I think are listening to us."(P7)

Recommendation of another

No evidence can be found in the data that suggests that the recommendation of another to a financial adviser is expected, considered normal, conducive to the success of a transaction or engenders trust. However a theme emerged from the data that such a recommendation made participants more open to the idea of meeting with the recommended adviser and that participants would also be more open during that meeting as a result of that recommendation. This suggests that recommendation by another may be a mediating factor of the dimension of trust related behaviour.

Brand

Whilst the data contains evidence that less experienced consumers draw reassurance from the presence of a well-known brand, there is no evidence in the data to suggest that this is expected, considered normal, conducive to the success of a transaction or engenders trust. This finding supports the arguments of Devlin (2007, p. 647) that consumers do not engage with the brand reputation of financial services organisations.

5.0 Discussion

This study explores how institution based trust is constructed in the context of the relationship between UK consumers and their financial advisers, an area with a distinct paucity of previous research.

Based upon the findings of this study, it is possible to produce conceptual models showing the sub-components of both structural assurance (figure 2.0) and situational normality (figure 3.0) in this context together with their antecedents and also to map each of these sub-components onto the trusting beliefs dimension of the McKnight and Chervany model (2001, p.33) sub-components of competence, integrity and benevolence.

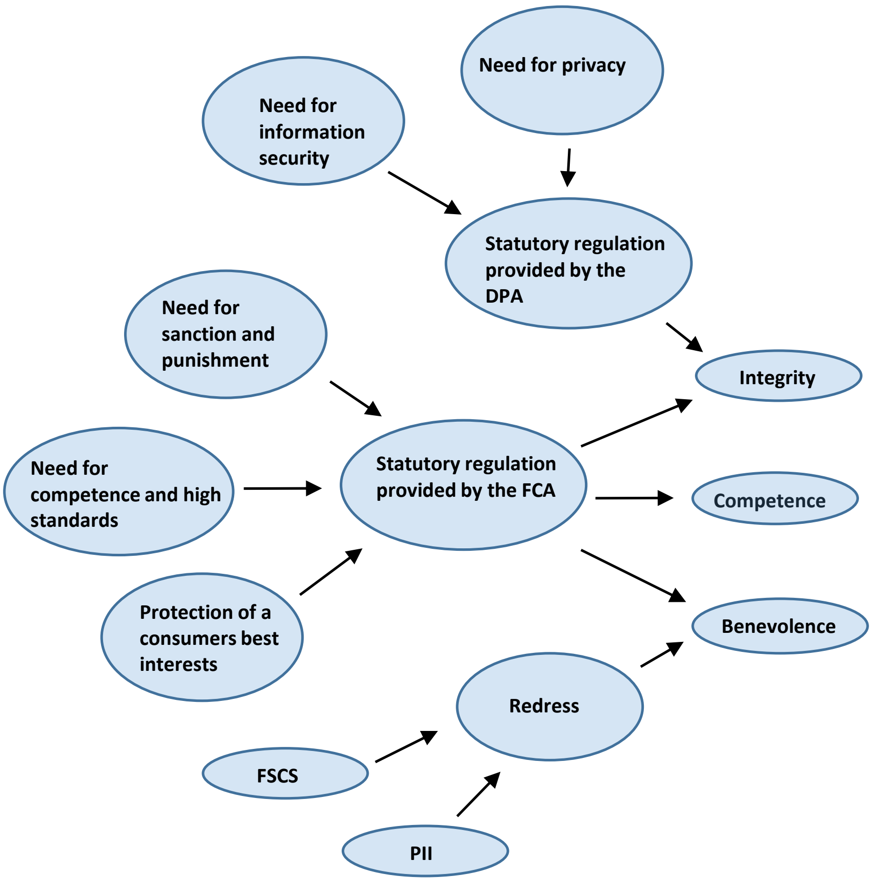

Figure 2.0 Structural assurance in this context

Figure 2.0 shows the central role played by the statutory regulation provided by the FCA in structural assurance ensuring that financial advisers are competent, benevolent and have integrity. The findings above also indicate that this role, along with that played by the DPA, can be substituted in the perception of a consumer by the organisation that employs the financial adviser, irrelevant of the size of that employer or the possession of a well-known brand. Furthermore the findings indicate that the need for the reassurance provided by the FCA and the DPA can be mitigated by the introduction to a financial adviser by a consumer's employer or by a consumer's experience or knowledge of the industry.

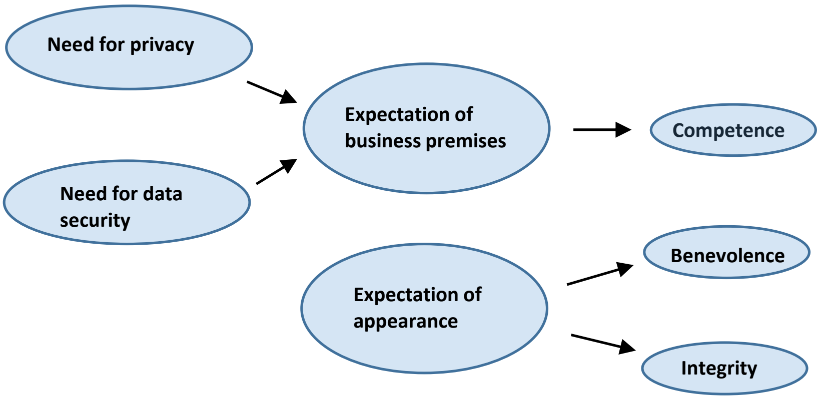

Figure 3.0 Situational normality in this context

Figure 3.0 shows the impact that the appearance of a financial adviser has upon the perception of that adviser's benevolence and integrity. Whilst not having a direct impact upon the perception of that adviser's competence, the findings above also indicate that competence can moderate the need for a good appearance on the part of the adviser. In addition, the effect that a consumer's desire for privacy and data security has on their expectation regarding the adviser's business premises is also shown.

6.0 Conclusion

Whilst many of the findings such as the reassurance provided to consumers by the regulatory framework provided by the FCA and the DPA conformed to what was suggested by the academic literature, others, such as consumers see little value in and therefore drew little reassurance from the membership of a professional body were contrary to what was suggested by the literature. Other findings, such as the link between consumer expectations of data security and confidentiality and situational normality in this context were not suggested in the academic literature. This not only demonstrates that institution based trust is context specific as argued by Greyson *et al* (2008, p. 243) but also the value of carrying out this study and the contribution to knowledge that it makes and also provide a foundation for further research in this area.

Implications for industry and managers

This study found that consumers generally do draw considerable reassurance from the regulatory regime that governs the activities of financial advisers in the UK, and therefore carries the implication that managers should embrace regulation and promote the applicability of the various components of that regulation to their clients. The findings of this study suggest that this may be of particular importance where a consumer lacks either knowledge or experience of the financial services industry.

The finding of this study linking consumer's needs privacy and information security with situational normality carries the implication that managers need to ensure that their business premises convey that these needs are taken seriously. This could be achieved in a number of ways such as the provision of private meeting rooms, the implementation of a strict clear desk policy and measures such as ensuring that workstation screens are not visible to visitors.

Reflections and future research

Whilst previous research has been carried out in this area, this is the first paper that specifically examines institution based or system trust in this context. Not only does this study identify the specific sub-components of institution based trust together with their antecedents and possible moderating and mediating factors, it also links these sub-components to specific sub-components of the trusting beliefs dimension of the McKnight and Chervany model (2001, p. 33) providing insight into consumer perceptions. As stated in the introduction, the findings from this study will be used to inform subsequent quantitative research into this area. It is also planned to extend this research into areas such as the effect this model has upon consumer intentions and satisfaction.

In addition to several themes have also emerged from this study that may warrant further research.

For example, one theme to emerge from the data that may warrant further research is the implication of the findings relating to the moderating effect of knowledge and experience on the need for structural assurance and the implication that can be drawn from this that structural assurance plays a more important role in trust formation than in ongoing trust. In addition, as these findings specifically relate to the effects of higher levels of knowledge and experience, research could also be undertaken to determine the effects of low levels of knowledge and experience on the need for both structural assurance and situational normality and the suggestion by some participants that brand may be of importance in such circumstances.

In addition to these suggestions, various opportunities arise from this study to test the findings in other contexts, particularly those relating to membership of professional bodies, the display of qualification certificates and the provision of testimonials. One emergent theme not explored further by this study that ran through the data was that participants held a negative perception of such issues due to the advent of the internet and desktop publishing technology. Many participants expressed a belief that new technology made it inexpensive and easy to manufacture fraudulent or fake membership or qualification documents and testimonials thereby undermining the credibility of such items.

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Institutional Trust and the Financial Adviser

Appendix one – interview agenda

Section one – general information

- Gender, Age, Occupation, Ethnic background, Marital Status
- Type of adviser used i.e. bank, IFA, well known company etc
- If not a well-known company size of company
- How was the participant introduced to the adviser/find the adviser?

Section two

Legal and regulatory compliance

- Are you aware of how financial advisers are regulated and by whom?
- Are you aware of the compulsory nature of the regulation?
- How does this contribute to the formation of trust\trust between you and your financial adviser?

Compensation schemes

- Are you aware of the Financial Services Compensation Scheme and what it covers?
- Are you aware that it is compulsory for your adviser to be a member of this scheme?
- How does this contribute to the formation of trust\trust between you and your financial adviser?

Professional Indemnity Insurance

- Are you aware that your financial adviser (or the organisation that he/she works for) must hold Professional Indemnity insurance? (Explain if required)
- How does this contribute to the formation of trust\trust between you and your financial adviser?

Membership of professional bodies and associations

- Is your adviser a member of a professional body or association?
- If so, does how does membership of that organisation contribute to your trust in your financial adviser?

Institutional Trust and the Financial Adviser

Confidentiality and privacy

- Are you concerned about the security, confidentiality of the information that your adviser holds about you?
- Are you aware of the Data Protection Act and that your adviser must comply with data protection regulations?
- How does this contribute to the formation of trust\trust between you and your financial adviser?
- What actions, if any, could your financial adviser take to reassure you in this respect?
- Do you perceive that you have control over the information your financial adviser holds about you and how it is used?
- Does this control\lack of control affect the trust you place in your financial adviser?

Testimonials, recommendation of others and reputation

- To what extent does the recommendation of others influence the formation of trust \ trust between you and your financial adviser?
- To what extent is this formation of trust \ trust affected by the source of the recommendation (i.e. family, friend, professional etc)?
- Would the provision of testimonials from other clients of the financial adviser enhance your trust of that financial adviser?

Situational normality

- To what extent does the physical appearance of an adviser's office influence the formation of trust \ trust between you and your financial adviser?
- To what extent does the physical appearance of the adviser them self (and associated items such as car, briefcase etc.) influence the formation of trust \ trust between you and your financial adviser?

Brand

- To what extent does the employment of your adviser by a well-known brand influence the formation of trust \ trust between you and your financial adviser?
- To what extent does the lack of a well-known brand hinder this?

Qualifications

- Does your financial adviser hold formal qualifications?
- If so, to what extent does this influence the formation of trust \ trust between you and your financial adviser?

Appendix two – Sample frame

The following table gives further details of each of the participants.

Participant/interview number	Gender	Ethnicity	Age Group	Status	Occupation
Participant 1	Male	Br White	40-45	Single	Self-Employed
Participant 2	Male	Br White	50-55	Married	Manager
Male Participant 3	Male	Br White	40-45	Married	Pilot
Female Participant 3	Female	Br White	35-40	Married	Senior Nurse
Participant 4	Male	Br White	70 +	Married	Retired
Participant 5	Female	Br White	40-45	Divorced	Lecturer
Participant 6	Female	Br White	60-65	Married	Semi-retired clerk
Participant 7	Male	Br White	55-60	Married	Chaplain
Participant 8	Male	Br Black A/C	40-45	Married	Manager
Participant 9	Female	Br White	25-30	Single	Manager
Participant 10	Male	Br White	55-60	Married	Semi-retired
Participant 11	Female	Br White	55-60	Divorced	Retired
Participant 12	Female	Br White	65-70	Widowed	Retired
Participant 13	Female	Br White	80+	Widowed	Retired
Participant 1 of FG1	Male	Br White	20-25	Single	Planning Consultant
Participant 2 of FG1	Male	Br White	40-45	Single	Self-employed
Participant 3 of FG1	Male	Br White	25-30	Single	Mature Student
Participant 1 of FG2	Male	Br White	65-70	Married	Retired
Participant 2 of FG2	Male	Br White	70 +	Married	Retired
Participant 3 of FG2	Male	Br White	45-50	Married	IT Manager
Participant 4 of FG2	Male	Br White	50-55	Married	Manager
Participant 5 of FG2	Male	Br White	40-45	Single	Self- Employed
Participant 6 of FG2	Male	Br White	60-65	Married	Farmer