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Why Our Trust in Banks Hasn't Been Restored

by David De Cremer

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Since the financial crisis of 2008, a major question has been how banks can restore the trust of their clients. To address this concern, banks have been hiring an increasing number of compliance officers. For example, JP Morgan has hired an additional 13,000 people in the area of compliance since 2012.

And yet it's fair to say that this strategy of rebuilding trust has more or less failed. The latest Edelman Trust Barometer – an annual survey conducted across 27 countries that assesses attitudes about the state of trust in different institutions – shows that very little has changed since 2008, and the only industry trusted less than finance and banking (and by just a hair's breadth) is the

media.

Banks might be better served by focusing less on compliance and more on benevolence. Research has demonstrated that perceived trustworthiness includes three elements: ability (are you competent?), integrity (are you honest?), and benevolence (do you care about my interests?). Both competence and integrity are recurring themes in many discussions concerning the financial crisis. Benevolence, however, is not used very often - if at all. At the same time, banking clients particularly express concerns about whether the bank cares about their interests as well as its own interests. Put simply, a certain "morality of care" is missing in the discussion. As a consequence, it also seems to be missing from efforts to restore trust in banks.

Research by Madan Pillutla, a professor at the London Business School, and his colleagues provides strong evidence for the importance of benevolence. They examined trust development in the context of a game. In the game, Player 1 has to decide how much money of a fixed endowment to send to an anonymous Player 2. Any amount sent will be tripled. Player 2 then decides how much to give back to Player 1. It is clear that by enlarging the pie both parties can earn more, but this can only be done when Player 1 trusts Player 2. The results showed that only if Player 1 gave almost everything or everything from his or her endowment did Player 2 reciprocate and both earn significantly more after simply one round.

The message is clear: only if you signal benevolence clearly - indicating you care about the other's interests - do people reciprocate, leading to long-term and trust-building relationships.

But I'm not sure that bankers realize how important benevolence is. A remark by an investment banker I recently spoke with may be very telling in this respect. He told me that in his profession benevolence does not exist, nor is it necessary.

Why would he think that? Some of my own recent research indicates that it may be because he spends a significant portion of his day thinking about money. I conducted a

study that used the same trust game mentioned earlier, and found that working directly with money may undermine benevolence-driven actions and decisions. I primed a set of people in the Player 2 role to think of money by instructing them to describe five characteristics of a one-dollar note. This group did not reciprocate the benevolence communicated by Party 1 participants. But when I gave a control group of Player 2 participants the financially neutral task of describing a wooden chair, they did reciprocate. These results indicate that once money is on your mind, you're less likely to care about others' interests.

But bankers beware. It's not enough to simply say you care. The recent experience of a client of an internationally renowned bank illustrates this very well. A prospective client asked about opening a new account, and the banker explained that he had to ask several questions meant to protect the client's interests. After half an hour, the client asked the banker whether he had to go through the list of questions frequently. The banker nodded and said he did this several times per day, but it was worth it because clients mattered. A few minutes later, the client asked the banker whether he could tell her two questions that were on that list – without looking at it. The dumbfounded banker could not recall any of the questions. At that point, the client left his office, saying she did not understand why he was telling her the bank cared about her when he could not even recall the questions that were supposedly in place to protect her.

The message is clear here: you must be sincere in caring about others. And it is exactly the fact that banks do not believe in benevolence, and thus do not signal it as an important value to their employees, that leads to clients not trusting them.

Trust will be built only when clients perceive that benevolence, truly felt, is underlying the decisions and actions of their bank. It is imperative that banks are able to connect with their clients on a personal level. Unfortunately, banks are increasingly investing in the efficient use of IT applications, and as a consequence are removing the personal element necessary for true benevolent interactions with clients. And until the board and top management model the value of benevolence - as something to demonstrate, not just talk about - levels of trust will remain low.

Hiring more compliance officers is not going to help. Instead, banks must recognize that winning the trust of their clients will take more than complying with the law.

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Charles Green 12 days ago

The formulation of competence, integrity and benevolence was originally developed by psychologists to describe the perspective of the one doing the trusting, the trustor, the one taking a risk.

A more direct measure of trustworthiness, i.e. the qualities of the person being trusted, comes from the Trust Equation: (Credibility + Reliability + Intimacy) / Self-Orientation.

There is some overlap, of course, between reliability and integrity, and between (low) self orientation