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Understanding trust and deepening client relationships

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Moving beyond a transactional relationship and becoming a "trusted partner" to a client requires an understanding of how humans trust one another. This paper examines:

- Cognitive vs. affective trust
- Similarity vs. empathy
- The advantages of "performing empathy"
- Leveraging empathy to initiate legacy planning conversations

In order to engage in productive, meaningful legacy planning conversations, a financial professional must take on a more significant, immersed role. We refer to this role as the "trusted partner" — one who moves beyond the identification and implementation of tactics in the financial planning process to conversations that elicit the "deep goals" of the client. These deep goals reflect the values-based motivations that drive wealth accumulation and legacy planning decisions.

Because deep goals are identified in community with others, the trusted partner develops close relationships with the people in the client's inner circle. The trusted partner is also at the nexus of the client's professional relationships. In essence, they become the "keeper of the vision," coordinating the efforts of others, such as an attorney or CPA, who also support the client.

Elevation to the role of the trusted partner is a process that might require increasing current levels of trust. Given trust's importance, we want to look beyond what we think we know about it and get a more empirical understanding of the concept. This paper will explore the nuanced "anatomy" of trust and its value to future client interactions. Supported by recent research, these insights will enable us to build a road map that financial professionals can use to effectively build and maintain client trust.

The anatomy of trust

Trust involves vulnerability

The thread that runs through every form of trust is vulnerability. When we trust someone, we make the decision to reveal ourselves in some way with the belief that the other party will not take advantage of us or exploit any weakness we may show.

We can make ourselves vulnerable to others in two ways:

- When we give them access to important information, things and people
- When we give them control to act on our behalf

Giving others access to important information about ourselves is the form of vulnerability that is the basis of the trust we have with our partners, families and close friends. We reveal information about our hopes and dreams, our fears and insecurities, our values and beliefs. We show people who we are.

We also make ourselves vulnerable when we give others access to things we value, such as loaning your car to a friend. Perhaps less obviously, we risk vulnerability when we provide others with access to people we value — which is why referrals are a form of trust. When clients refer friends to a financial professional, they are "putting themselves out there" by endorsing the financial professional's skills and integrity. That endorsement is a building block of trust in the new relationship — and it is much easier to build trust when that stone is in place.

We most certainly make ourselves vulnerable to others when we cede control to another person to act on our behalf. A relevant example is the discretionary authority a client can give to their financial professional.

The client is vulnerable in that they do not have a line of sight into the actions the professional is taking on their behalf and, in addition, might lack the ability to assess whether those actions are in their best interest.

This information asymmetry is nobody's fault. It's simply due to the professional having knowledge that the client does not. Most of our professional relationships involve this level of information mismatch, as anyone who has tried to read their medical results can attest to. Efforts in the financial services industry toward greater disclosure of information are designed to increase transparency and client trust.

Trust is indicated by client behavior

Nobel Prize-winning economist Paul Samuelson famously said that we truly know people's preferences only by what they choose, not by what they say. The insight is that the presence of trust within a relationship should lead to different behavior patterns than would occur in its absence.

Generally, people understand that trust varies by degrees. Trust can be increased by either "going broader" or "going deeper." As trust deepens, the client is willing to be more vulnerable in the relationship with a trusted partner. A deeper level of trust could drive client actions, such as sharing more personal information. Conversely, trust is broadened when a client is willing to expand the scope of the relationship. A broader level of trust might involve the client entrusting their financial professional with a greater portion of their assets or allowing more discretionary authority to act on their behalf.

A leap of faith

The decision to trust can be highly emotional. We might not be fully confident that the other party won't exploit shared information or somehow use it against us. We also run the risk of being misunderstood about something that is important or that is connected to our sense of self. We have different dispositions toward trust that inform both our willingness to trust and our speed to trust. But whether we proceed carefully or run full speed ahead, revealing ourselves to others is always a risk. Yet it is a risk that people are willing to take because connection with other people — the feeling of being known and accepted — is a powerful motivator.

Trust does not happen in a vacuum

It is certainly possible for an individual to risk vulnerability with a person they don't know well enough to trust. For example, we might freely hand over sums of cash to a bank teller or disclose private information to a medical assistant. We typically feel safe doing so not because of confidence in that particular person but because of confidence that there is an effective system of checks in place. In other words, we trust the system rather than the person.

Within the financial services industry, the trust-building process is influenced by a client's perceptions. What are their views regarding the trustworthiness of the financial professional's firm? How do they perceive the financial services industry as a whole? Do they have confidence in the set of institutions designed to protect their interests?

Both private institutions (such as financial services firms) and public institutions (such as regulatory organizations) attempt to reduce the level of trust required for a client to make that leap of faith. They design rules to help ensure that financial professionals do not exploit their clients. These rules operate as deterrents, increasing the consequences for those who harm their clients. However, the amount of trust required of a client is reduced only if they believe that the institutions and deterrents are effective in protecting their interests.

A client's pathway to trust is also affected by a variety of factors that are unique to that individual. These factors affect both their level of willingness to build trust and how they build trust; this is their trust-building mode. As trust increases, clients then feel more comfortable to express their deep goals and take the next step in the partnership.

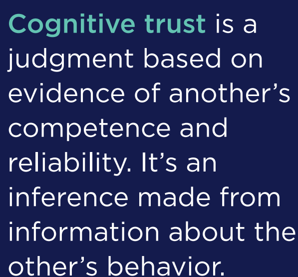
A road map to trust

Now that we've explored the anatomy of trust, what can financial professionals do to deepen the trust in their client relationships? Nationwide Financial engaged in proprietary research[1] that offers novel and interesting insights that can guide you.

Our research, based on previous work by Johnson and Grayson,[2] focused on the difference between "cognitive trust" and "affective trust," which we can think of as "head trust" and "heart trust," respectively. It is important to remember that both types of trust focus on *why* clients make the decision to trust.

Nationwide broadened the earlier research with the addition of an "empathy" construct. We looked at three cognitive factors (service provider expertise, product performance and satisfaction with previous interactions) and three affective factors (empathy, similarity and firm reputation) to determine which was the most impactful in driving future client interactions. Our research allowed us the opportunity to distinguish between "similarity" and "empathy" to determine the effect each had on the presence of trust.

Cognitive vs. affective trust



Cognitive trust is a judgment based on evidence of another's competence and reliability. It's an inference made from information about the other's behavior.

By contrast, **affective trust** is a bond that arises from one's own emotions — and a sense of the other's feelings and motives. With affective trust, individuals express care and concern for the welfare of their partners and believe in the virtue of such relationships.[3]

The difference between similarity and empathy

Similarity

My financial professional and I:

- Have similar interests
- Have similar values
- Are alike in many ways

Empathy

My financial professional:

- Understands my emotions, feelings and concerns
- Seems concerned about me and my family
- Can view things from my perspective (see things as I see them)
- Asks about what is happening in my daily life

What is striking is that across all the various demographic groups surveyed in our research (age, sex and asset levels), the most impactful factor driving trust was empathy.

A new standard: Performing empathy

Most successful financial professionals are deeply empathetic people in that they care to understand the worldviews and perspectives of their clients. In fact, figuring out how people tick is often a primary motivator that leads individuals into a career in the advisory business. However, it is not enough to merely be empathetic. It is necessary to be able to communicate empathy in a way that is understood and perceived as such by the client. We call this "performing empathy," where the client consciously experiences the financial professional as being empathetic. The skill is to be able to demonstrate that you are someone who both understands their point of view and cares about them and their family.

Trust — the sort of trust that causes a client to continue the relationship — is primarily driven by the client's belief that their financial professional cares for them. When empathy is performed and care is detected, the client believes that their point of view is seen and their concerns are understood.

> **"People don't care how much you know until they know how much you care."**
>
> — Theodore Roosevelt

Finding a balance

There might be a temptation to look at these findings and conclude that because of the importance of affective trust, we should de-emphasize the focus on cognitive factors that drive trust. But doing so would be a mistake. Both forms of trust make up the reasons why people take that leap of faith.

Recall that this research measures the intention to engage in future interactions. We can view the cognitive factors of product performance, expertise and satisfaction with previous interactions as "table stakes." Clients presume a foundational level of competence, meaning that cognitive factors matter a great deal. It is the affective factors, however, that motivate clients to continue to work with their financial professional in the future.

Conclusion

Financial professionals hope to have long and fruitful relationships with their clients — ideally lasting decades. When successful, those relationships create zones of safety where legacy planning can be discussed. It's a delicate topic, though, and it might require the financial professional to operate on a different level: as a trusted partner.

Even the strongest client relationships might have room to grow through affective trust. This white paper revealed that performing empathy is the key to developing that trust.

The challenge for financial professionals is to honestly assess where they could enhance their affective trust. The Legacy Essentials program from the Nationwide Retirement Institute® can help you on your journey with relevant insights and a range of helpful tools and resources.

Explore our Legacy Essentials materials at NationwideFinancial.com/Legacy-Essentials.

[1] "Advisor Trust," conducted by Socratic Technologies Inc. on behalf of the Nationwide Retirement Institute (2019). The survey was conducted online within the United States throughout August 2019, among 1,807 adults ages 18 and older.

[2] "Cognitive and Affective Trust in Service Relationships," Journal of Business Research (April 2005).

[3] "From the Head and the Heart: Locating Cognition- and Affect-Based Trust in Managers' Professional Networks," Roy Yong Joo Chua, Paul Ingram and Michael W. Morris, Academy of Management Journal, Vol. 51, No. 3 (2008), pages 436-452.

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