Perspectives: Financial Services

Trust in Financial Services: The Future Is Now

A More Transparent Future Will Challenge Financial Services Companies

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Executive Overview

New interactive technologies enable people to comparison shop not just for price but for a better customer experience, and the financial services sector is likely to be particularly hard hit by a growing customer demand for businesses to demonstrate proactive trustworthiness, or "trustability" – especially because the economic crisis has already fed suspicions that financial services firms are selfish, sneaky, and untrustworthy.

So how can any individual financial services company earn and maintain the respect and trust of the customers it serves?

Most financial services firms today consider themselves to be trustworthy, and by yesterday's standards they are. They post their prices and rates honestly, they try their best to maintain the quality and reliability of their service, they protect the security of their customers' funds, and they generally do what they promise. But even though they don't actually lie or steal, the fact is that the vast majority of financial services companies still generate substantial profits by fooling customers, or by capitalizing on their mistakes, or by taking advantage of them when they simply aren't paying attention.

And now interactions among people are becoming faster, cheaper, and more pervasive at the pace of Moore's Law, rapidly leading to more transparency and a substantial increase in the level of trustworthiness we demand from others. Financial services companies will be particularly affected by this because a lot of today's profit in the category comes from inattentive, misinformed, or error-prone customers. Failing to respect a customer's own interests – by taking advantage of the customer's lack of knowledge, for instance – often leads to a bad customer experience, and today that experience gets quickly shared with other customers via any one of a growing number of online platforms. As the future becomes even more transparent, any company that isn't genuinely trustable – in other words, any firm that doesn't proactively protect the interest of its customers – will be exposed and competed out of business.

In this position paper, Peppers & Rogers Group explores how financial services companies can earn and maintain the trust and respect of their customers. This paper answers the questions:

- What does a trustable financial services company look like?
- What can it do differently?
- How does a trustable company operate?

Your customers hold your reputation in their keyboards

It has always been the case that making a profit from a customer's oversight or error might (if the customer eventually found out) jeopardize a firm's relationship with that individual customer. Tomorrow's untrustable behavior, however, will be much more widely publicized, arousing the righteous indignation of completely uninvolved customers, many of whom will take satisfaction in "punishing" a firm by withholding their own patronage and spreading the news of their bad deeds to others. As a result, simple trustability will soon become one of the most important ingredients of acceptable customer service in every business category, but particularly in the financial services industry, already afflicted with a tarnished reputation as a result of the economic crisis and its fallout. In the e-social future, a bank or other financial services firm will only be able to succeed, competitively, if it enjoys the extreme trust of each customer in the same way a friend enjoys the extreme trust of another friend.

Unfortunately, pricing complexity, rapid technological change, and the increasing diversity of services offered mean that today's financial services firms are ideally positioned to make money through hidden fees or consumer error, and many of them gleefully do so. About half of US banks' operating profits ($36 billion in 2006) come from overdraft fees and other charges, and most banks actually go out of their way to encourage overdrafts. For instance, banks encourage consumers to use debit cards

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instead of credit cards for purchases not because it's better financial discipline for the customer, but because debit cards generate overdraft fees, while credit cards do not. And when a consumer checks her "available balance" at an ATM, the bank often includes the "courtesy overdraft" amount in the total, virtually inviting the customer to overdraw her account and incur the notorious NSF charge. If you have $200 in your account and a courtesy overdraft amount of $250, for example, the bank will report your "available balance" as $450 – conveniently omitting the fact that if you actually use more than $200 of that balance you'll be subject to a $35 overdraft fee. Moreover, when banks reconcile your account daily they clear the biggest charges first, so that if you overdraw once, you'll be overdrawing repeatedly. If you have $1000 in your account and incur charges of $5, $300, $75, $18, and $750 all on one day, you'll generate four NSF charges on those five expenditures, even if the $750 charge was done last!

Credit cards are also notorious for their hidden charges and other untrustable practices. One government study estimated that every year about a third of US credit card customers incur at least one penalty fee, averaging about $34 each, and generating some $17 billion in total for the industry.[1] A credit card holder who can't resist temptation, rolls his balance from month to month at an exorbitant interest rate, and regularly incurs late fees is a credit card firm's most valuable customer. By contrast, a customer who pays his credit card bill in full every month is referred to, in the twisted jargon of this industry, as a "deadbeat."

Given all this, it ought to be no surprise that surveys reveal consumers to have little sympathy for the travails suffered by financial services firms during the recent crisis. But what, actually, would a genuinely trustable financial services company look like? What would it do differently? How would it operate if it wanted to demonstrate trustability?

- While there is obviously no requirement for any financial institution to extend credit to a customer (or to cover an overdraft without charging a fee), a large proportion of "penalty" fees are incurred by customers who are in fact creditworthy. A genuinely trustable retail bank would use easily available information to assess customers automatically for their creditworthiness, eliminating many such charges, and possibly offering an automatic e-transfer among accounts when such a transfer is available but just hasn't yet been elected by the customer.

- A genuinely trustable credit card company would counsel its customers to spend wisely and use the card prudently (not unlike a utility company reminding customers to manage their thermostats more carefully). It would encourage customers to pay off their balances, perhaps offering a reduced interest rate for a lower balance. Such a company would be careful not to earn excessive profits from late fees, which would indicate a flaw in the business model, and would in fact let the customer specify the monthly due date to coordinate with the customer's paydays. It might offer an extra incentive or rebate for on-time payments, along with services designed to encourage saving and thriftiness – perhaps a savings account fed by a small percentage charge applied each month to a customer's bill, so that the more a customer spends, the more she saves.

- A genuinely trustable retail bank would disclose its fees in advance to consumers. Even though US banks are required by law to do so, multiples studies show that the majority of banks make information about fees either completely inaccessible to consumers or difficult to find.[2] Small banks and credit unions are more likely to disclose fees, but in the transparent future even the large, publicly held financial institutions that are so notoriously devious today will be forced by competitive pressure to do so.

- And any genuinely trustable financial institution would allow its customers to post their own reviews of its services and products (including comparisons with other companies' offerings) on the company's own web site, making these reviews freely and impartially available to other customers.

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The four keys to survival

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The technology behind this trend is inevitable. Customers will in fact share their opinions, and they will want to do so closer and closer to the actual point of purchase. Already, online tools such as Google's Sidewiki allow web visitors to post their personal opinions and comments where they are immediately available to other viewers of a web publisher's site even without the publisher's permission.

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The problem is that trustability, as a business practice, is very difficult for any company to embrace, because it flies directly in the face of most firms' deepest instincts to "keep the cash" and maximize short-term profits. And no business category has been more tarnished by self-interested short-termism than financial services.

Acting in the customer's interest, by contrast, may require a firm to balance the benefit of an immediate profit against the cost of earning the respect and confidence of a customer – an asset that is, in the long term, far more valuable. Financial services companies must become more trustable, because as the rising power of customers exposes untrustable behavior the question of a company's trustability will go to the heart of its value proposition. Trustability will become an essential element of any bank's customer service in the future in much the same way that having a Web site has become an essential element of customer service today.

To survive in this new, hyper-transparent world in which extreme trust is a prerequisite for business success, a financial services firm must pursue four basic courses of action:

- **Good intentions.** Having empathy for customers, and treating each one the way you yourself would want to be treated if you were that customer, is the single most important element of trustability. To be trustable, you have to adopt a customer-centric philosophy, and then re-engineer your value proposition and customer experience from the standpoint of the customer. This will have consequences for your operating policies, of course, but the eventual implications for your firm's culture will be even more profound. If your own call center reps, tellers, and loan officers don't believe you are a trustable company, then your customers won't either.

- **Rethinking control.** In the transparent future, you won't be able to retain control over communications about your brand. The only thing you will control is how well your business processes protect your customers' interests. To make your command-and-control, hierarchical firm more trustable you will have to give more authority to individual employees, empowering them to "sense and respond" in real time to customer issues. And don't be too afraid to allow your workers to show your company's human side, including its vulnerability. A little vulnerability will encourage customers to be empathetic to you, and empathy generates trust.

- **Community.** One of the secrets behind the e-social revolution is that people have an irresistible urge to share with others. They make their opinions known, they contribute ideas, they collaborate on things such as Wikipedia and open-source software, and many companies even find that customers provide the best kind of customer service for other customers. If you want to become more trustable you have to tap this sharing instinct, first by sharing your own honest counsel with customers. Talk to them not just in terms of how they can get more value from their financial products, but how they can better manage their resources, and how they can save and spend responsibly. Facilitate customers collaborating with other customers, through online community platforms, social sharing sites, product reviews, and problem-solving customer forums.

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- **Competence.** To be trustable not only must your intention be to act in the customer's interest , but you also have to have the competence to act on that intention. On a basic level this means paying close attention to the quality of your product and service. But just as important, you should upgrade your data, analytics, and systems. Quantifying the financial benefits of long-term customer trust and confidence requires good analytics. Customer lifetime values are not easy to compute, but in the financial services industry, more than in most other categories, the statistical data is clearly available and there is no shortage of analytical tools to make these calculations. If you want your company to become more trustable, you'll have to begin paying attention to the data and pushing the envelope on analysis.

The bottom line: In a world of extreme trust you always have to take a step back from whatever business policy you're considering, whatever new idea you're thinking about, and ask yourself: "If this became public, would it be an embarrassment to us? Would we be proud of it? Would any of our customers hold it against us?" Because in the highly interactive, extremely transparent future everything you do, every policy you have, will become public. Hidden fees won't remain hidden, and bad intentions will be quickly exposed. If you want your financial services company to be genuinely trustable, then you have to have clean hands, not just a good alibi. ■

Endnotes

[1] Government Accounting Office. (2008). *Bank Fees: Federal banking regulators could better ensure that consumers have required disclosure documents prior to opening checking or savings accounts* (GAO-08-281)

[2] Sullivan, Bob. (2011, April 28) *Study: Banks hiding fee info, skirting law*. Retrieved May 11, 2011 from http://redtape.msnbc.msn.com/_nv/more/section/archive?date=2011/4

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About the Authors

Don Peppers, *Founding Partner*, Peppers & Rogers Group

Recognized as one of the leading authorities on customer-focused relationship management strategies, Don Peppers is an acclaimed author and a founding partner of Peppers & Rogers Group. The Times of London has listed him among their "Top 50 Business Brains," and the United Kingdom's premier marketing organization, the Chartered Institute for Marketing, cited Don among their listing of the 50 "most influential thinkers in marketing and business today."

With co-author Martha Rogers, Ph.D., Don has produced a legacy of international best-sellers that have collectively sold well over a million copies in 18 languages. In addition, his compelling, clear and concise way of articulating his insights places Don in high demand as both a speaker and a management advisor.

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Recognized for well over a decade as one of the leading authorities on customer-focused relationship management strategies, Dr. Martha Rogers is an acclaimed author, business strategist, and a founding partner of Peppers & Rogers Group, the world's premier customer-centered consultancy.

An Adjunct Professor at the Fuqua School of Business at Duke University, Martha has been the co-director of the Duke Center for Customer Relationship Management. She is widely published in academic and trade journals, including Harvard Business Review, Journal of Advertising Research, Journal of Public Policy and Marketing, and Journal of Applied Psychology. She has been named International Sales and Marketing Executives' Educator of the Year.

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