

# Addressing the trust gap

Renewing confidence  
in the financial services  
industry



Freddie Hospedales

There are things that we take for granted. We trust and rely on what are 'givens.' We turn on a tap and, in most places, water comes out. We put money in a bank without question, and when we want it, it's there. The conventional assumption is that the organization, and by association the people running it, can be relied upon. However, in the past 18 months this convention has been broken. **Freddie Hospedales** argues that rebuilding trust requires rebuilding brand identity in the widest sense.



### The Trust Gap

The reputation and credibility of many financial institutions, and the people who work in them, have been significantly compromised. It is not just that the system we have assumed was safe has failed; trust in whatever comes next is lacking.

In the US, a recent survey<sup>1</sup> shows that only 19 percent of Americans now trust the financial system, and just 13 percent trust the stock market. In the UK, research by a large advertising agency has shown that 25 percent of the UK population has no trust in banks<sup>2</sup>.

By contrast, trust in banks in several emerging economies has actually increased. While trust in banking has dropped by 33 percentage points in the United States, in China trust has risen from 72 percent to 84 percent, and in Brazil from 52 percent to 59 percent<sup>3</sup>.

### Part of the cure is recognizing the problem

While the focus for many organizations over recent months has rightly been on liquidity, capital and risk management issues, the media have almost daily picked on the leadership of one financial institution or another, intimating bad management and greed as factors leading to the crisis. This impacts on trust in a number of ways. First, general public confidence is damaged. But the same is true of capital markets, whose confidence is fragile at best and which only need the slightest hint of bad news to send markets falling.

This perhaps goes some way to explaining the increasing search for blame, particularly since September 2008: people not knowing what they are buying or selling; bonuses paid on short term risk and in failed companies; management not aware of systemic risk; regulators focused on capital not necessarily liquidity; politicians seeking national political gain ignoring the fact this is a global issue. The list of those attracting blame is long. For many, it is time to review or re-think all, or parts of, their business models and strategies.

### The new stakeholder landscape

In many countries, a new stakeholder landscape is evolving. It is important to changing perceptions that financial institutions understand this change, and do not assume that circumstances will ultimately go back to how they were.

Traditionally, core stakeholders included investors, regulators, staff, customers and the media. This is still the case, but today, stakeholder groups should be re-evaluated. Two examples illustrate this. A significant development in the past nine months has been the increase in government involvement in financial markets. While governments have always been significant stakeholders, their role as major shareholders or funders of financial institutions now gives them greater influence. The reaction to bonus payments by western governments is one obvious example.

Another stakeholder group to be re-assessed is the media, particularly in view of their role at the height of the crisis, which some within the industry argue exacerbated market turmoil. Some financial journalists, who have spent years obtaining a living from the industry, were noteworthy in talking down the market rather than talking it up when it needed it. Clearly their role in the recovery is going to be important.

### Bridging the trust gap

Some firms have put in place classic reputational risk management programs to monitor, measure and report on their reputation. This is a great way to prepare for and react to developments, whether operational or in the external environment. However, in the current climate the wider debate should focus on perceptions and positioning of the brand. Aspects of this have been overlooked or certainly under-valued by some in the past 18 months.

In relation to brand perception, I am referring not just to the retail context of financial services as is easy to assume, but to the wider market including rating agencies, fund managers, wholesale banks and re-insurers. The modern brand is increasingly concerned with

19%

.....  
of Americans trust the financial system, and...

13%

.....  
trust the stock market.

25%

.....  
of the UK population has no trust in banks.

.....  
While trust in banking in the United States dropped by

-33%

.....  
...trust in banks in China rose by

+12%

.....  
...and in Brazil by

+7%



In banking especially, the need to be seen as a 'safe pair of hands' will be one of the first priorities.

assembling and maintaining a mix of values both tangible and intangible. In simple terms for this article, we can look at a brand as comprising three core elements: what it does; the way it does that (its culture/personality); and the symbols associated with that organization, its logos, colors, imagery etc.

Looking at *what a company does*, much has been written since the end of 2008 about how many banks need to review their business models, release non-core assets and revert to being traditional banks (narrow banking). In addition, the competitive landscape is changing. As trust in banks - places to keep our money safe, for companies to borrow funds from to develop and grow - has eroded, alternatives with names we trust more become more attractive. For example, in the UK some well known high street non-banking brands are looking at providing a wider range of offerings in the personal finance space. In investment management a number of boutique houses are setting up, for some, to move away from the damaged reputations of larger institutions.

Turning to *the way a company does things*, a number of changes should happen. The increased role of governments in the ownership of financial institutions will influence their future behavior. This also raises the influence of the general public's perception of how financial services companies are seen to behave. Alistair Darling, UK Chancellor of the Exchequer, speaking before the Parliamentary expenses scandal in May, said 'Banks need to demonstrate to the public that they've learned lessons from recent events,' and continued, 'but in order to rebuild public trust, we also need to reform banks' culture'<sup>4</sup>.

Looking ahead, managing reputational risks will be a basic requirement. But more widely, being clear 'what you will be known for' to various core stakeholders will be important in the new business environment after the crisis. In banking especially, the need to be seen as a 'safe pair of hands' will be one of the first priorities. However, regardless of which sector of financial services, restoring confidence requires

regaining trust. For many this will require reviewing the business strategy, the brand in its widest sense and how that is communicated in the new stakeholder landscape. Failure to do this may well mean that the long road to recovery will be longer than it need be.

For more information please contact:  
**Freddie Hospedales**  
 Head of Marketing & Communications,  
 Financial Services  
 KPMG in the UK  
 Tel: +44 20 7311 5264  
 e-Mail: [freddie.hospedales@kpmg.co.uk](mailto:freddie.hospedales@kpmg.co.uk)

1. The Chicago Booth/Kellogg School Financial Trust Index survey of more than 1,000 US households, conducted over two weeks in March 2009. The data was analyzed by two academics, Paola Sapienza of the Kellogg School of Management at Northwestern University and Luigi Zingales University of Chicago Booth School of Business. [www.financialtrustindex.org](http://www.financialtrustindex.org)  
 2. The McCann Erickson's latest Moodier Britain survey, 2008. Jeremy Lee, Marketing, November 25, 2008.  
 3. 10th edition of the annual Edelman Trust Barometer, January 27, 2009. [www.edelman.co.uk](http://www.edelman.co.uk)  
 4. BBC News, [www.bbc.co.uk](http://www.bbc.co.uk), March 27, 2009.