



THE NEXT GENERATION OF TRUST

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CFA Institute



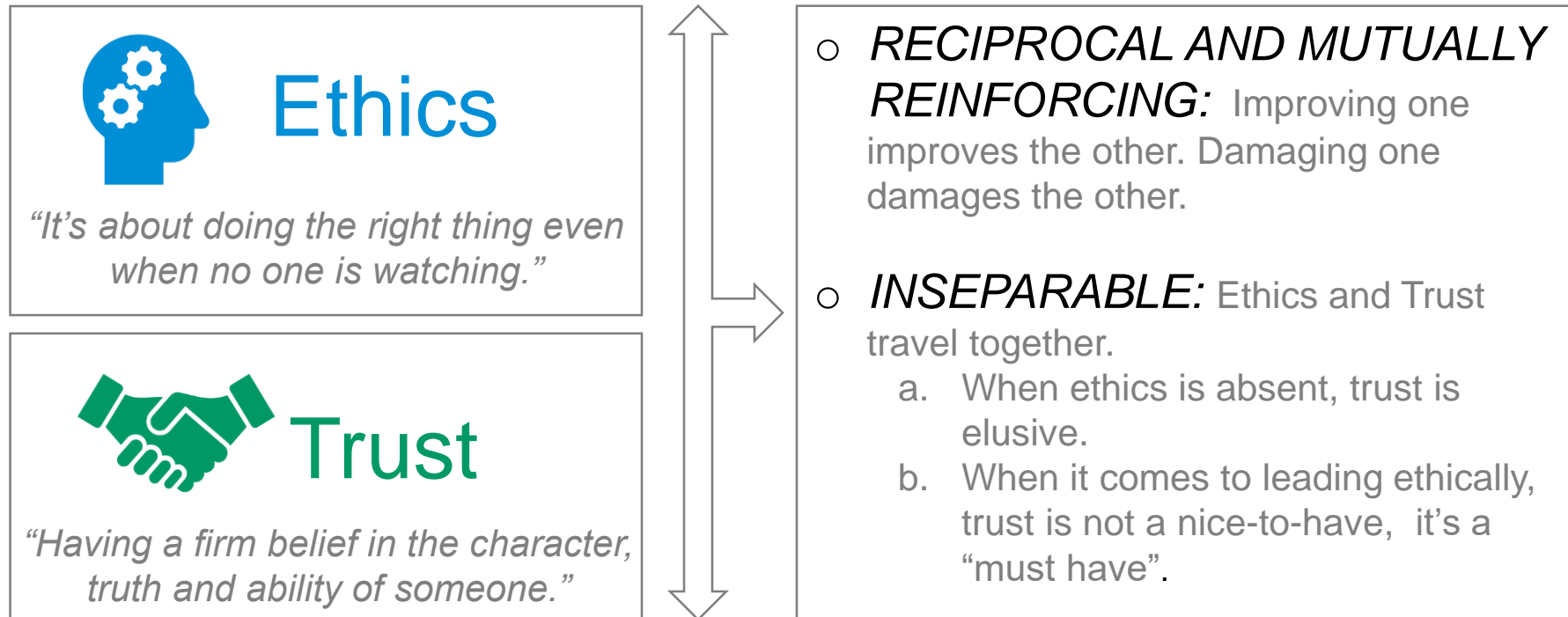
CFA INSTITUTE LEADS THE INVESTMENT PROFESSION GLOBALLY

By promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society



ETHICS AND TRUST: WHAT IS THEIR RELATIONSHIP

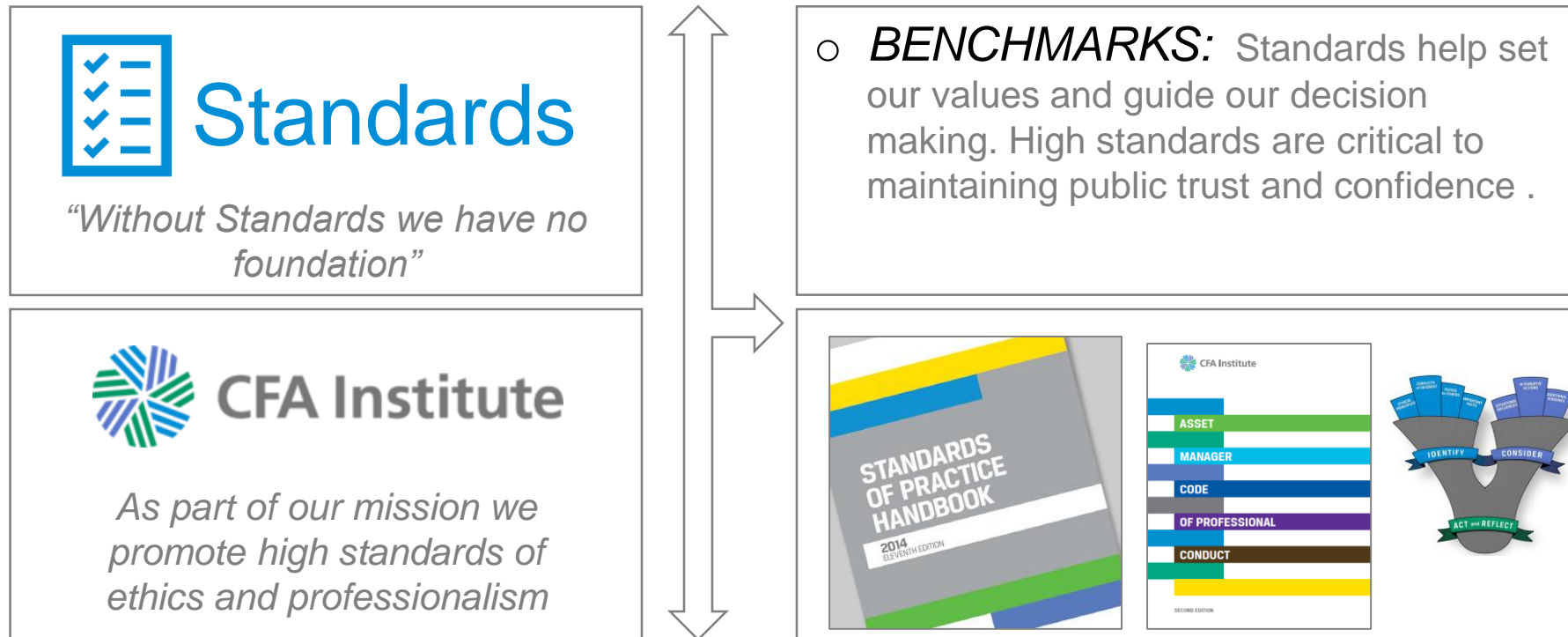
Here are some observations about Ethics and Trust:



ETHICS IS PART OF WHAT IT TAKES TO BUILD TRUST

WHAT ABOUT STANDARDS?

Standards are benchmarks that are necessary to guide our Decision Making. Having high Standards also enhances Trust.



HIGH STANDARDS HELP MAINTAIN TRUST

ETHICS OR TRUST: WHICH ONE MATTERS MORE?

In our relationships, we humans are much more concerned about assessing trustworthiness than ethical conduct. In the Edelman Trust Barometer study:

67% of respondents mentioned **Trust** as being the most important factor.

However,

Ethics only ranked **6th** in importance.

THE THEORY BEHIND TRUST

The mountain image below depicts our human situation of uncertainty



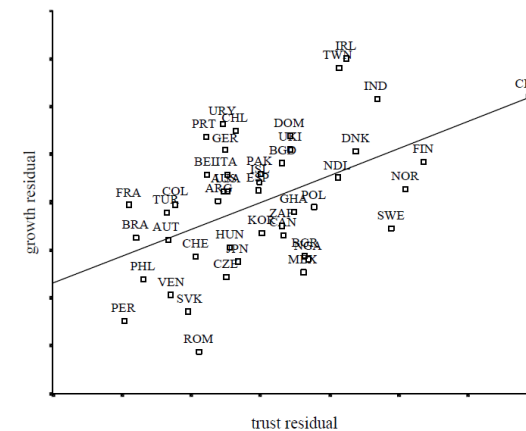
- There is a calculated risk in deciding to trust someone
- Assessment of the evidence for the other's trustworthiness takes you to the "edge" of the risk.
- A level of conviction/ confidence enable the leap

TRUST AND SUSTAINABLE DEVELOPMENT

- Of the 2030 Sustainable Development Goals, the Financial Industry can have a big impact on many of these goals including #8 Economic Growth and #9 Industry, Innovation and Infrastructure.



- There is empirical evidence that **Trust** positively affects economic growth and innovation.



A GLOBAL SURVEY ON THE STATE OF TRUST IN THE FINANCIAL INDUSTRY



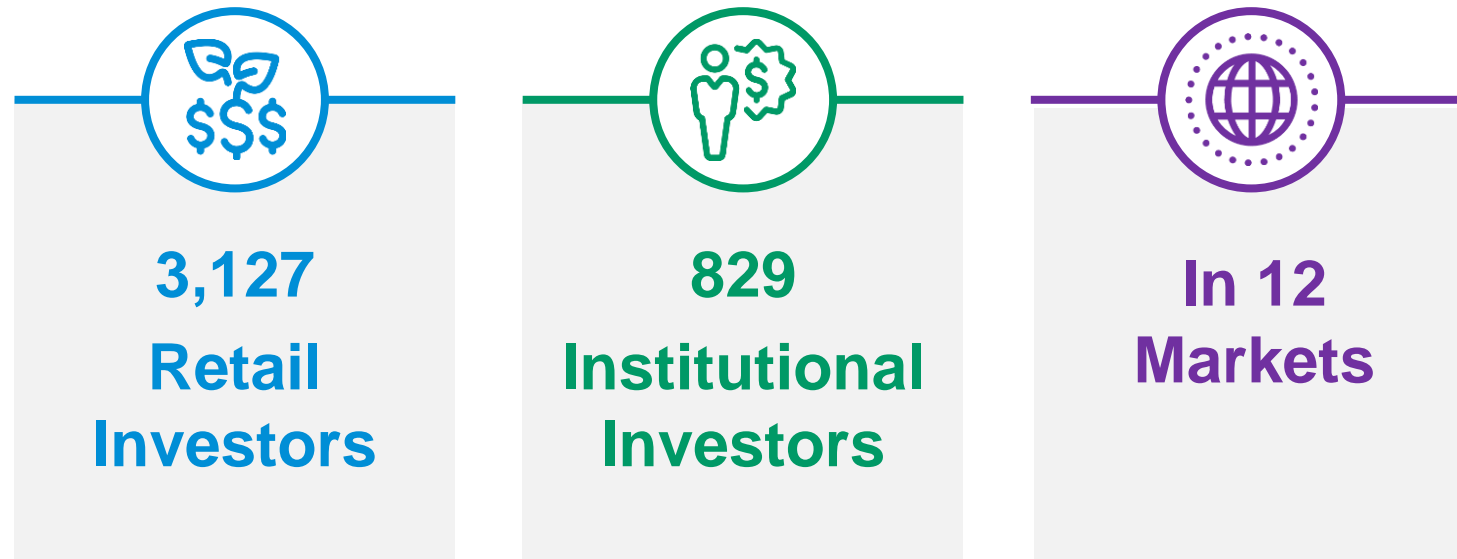
*A new generation of investors
&
A new generation of investing tools*

Please visit the web site:

<https://nextgentrust.cfainstitute.org/>

STUDY DEMOGRAPHICS

To determine the state of Trust we surveyed Investors from around the World:



THEME 1



REPUTATION VERSUS REALITIES

While the industry has struggled with its reputation, there are many positive signs regarding actual client experiences. Reputational issues for the industry remain, but there are ways investment professionals are effectively building and maintaining trust with clients.

WHERE ARE WE COMING FROM?

Following the Global Financial Crisis, there was:



**Severe loss of confidence
in the financial system.**

(The system broke)



**Least trusted Industry for
several years.**

(Technology the most trusted)

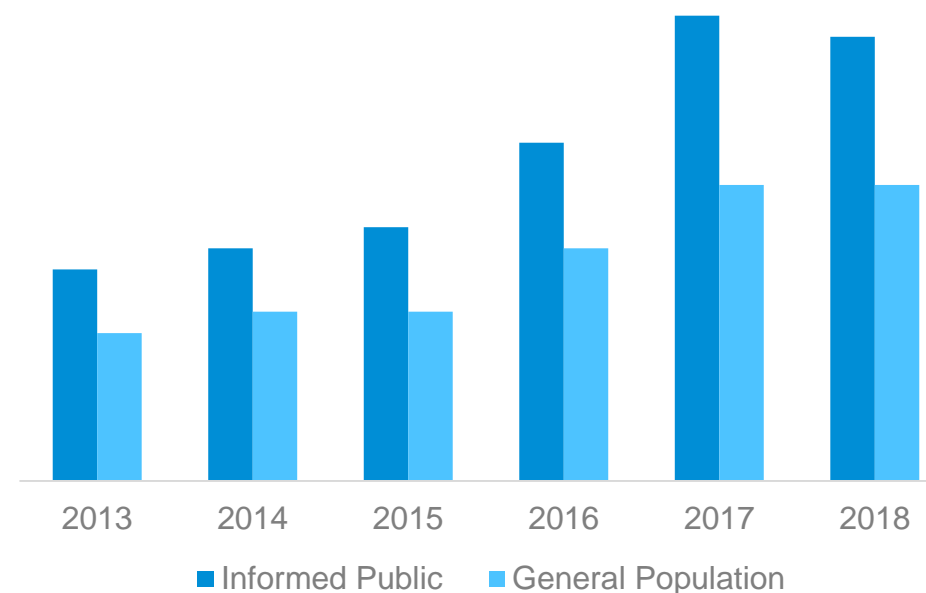


**Trust has finally
rebounded.**

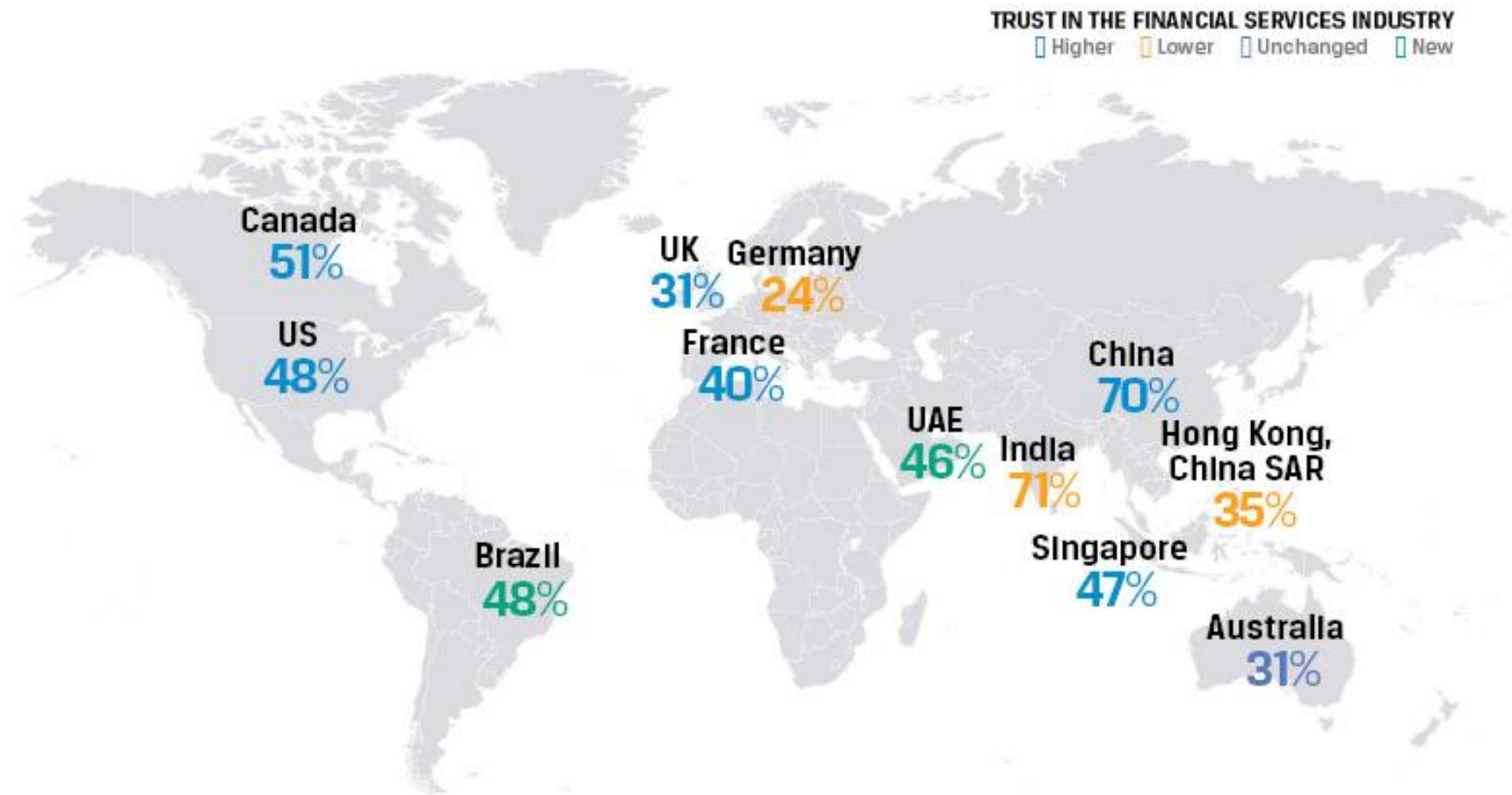
*(however it is beginning to
stall...)*

Trust in the Financial Industry

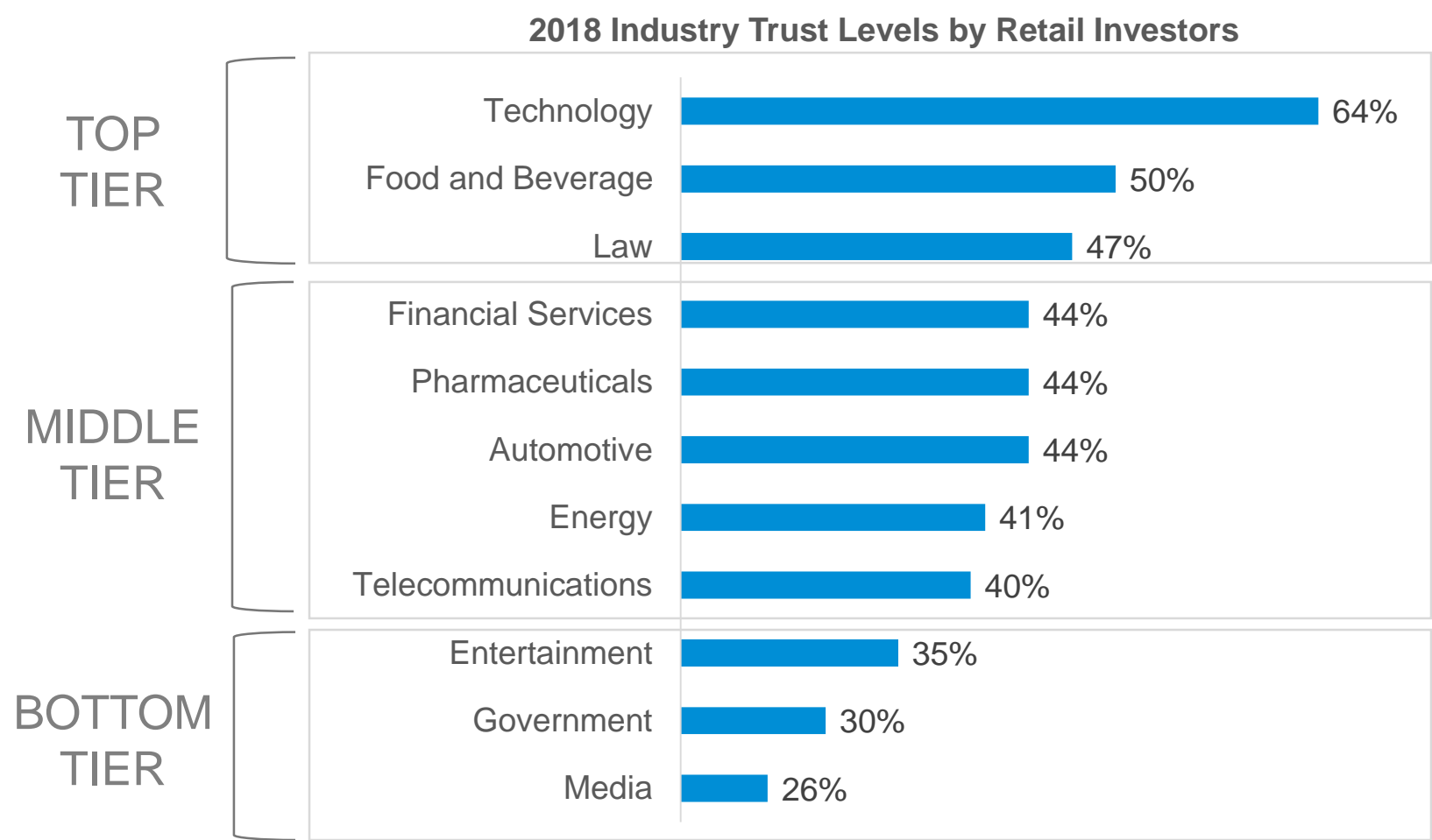
Source: 2018 Edelman Trust Barometer



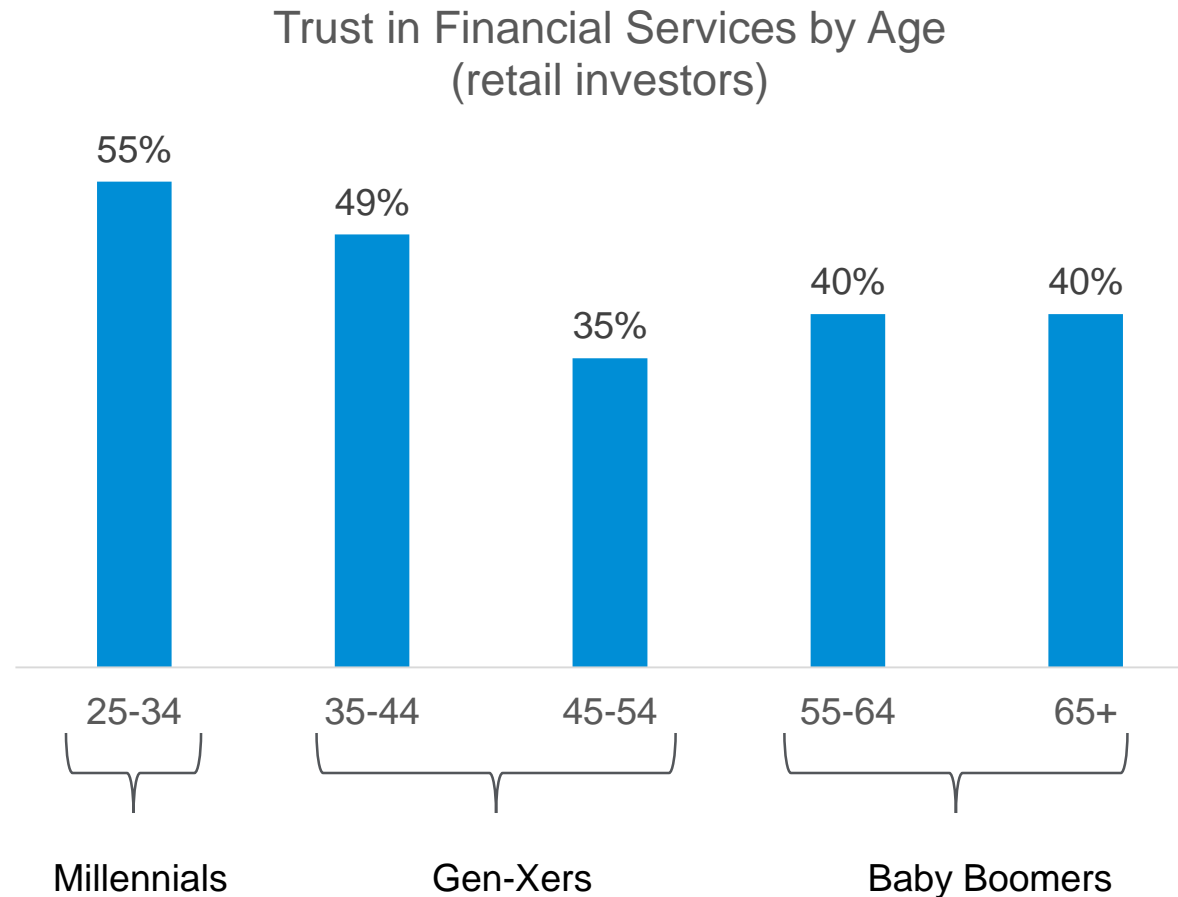
OUR STUDY FOUND TRUST LEVELS HAVE GONE UP IN MOST COUNTRIES



FINANCIAL SERVICES INDUSTRY NOW RANKS IN THE MIDDLE TIER FOR TRUST



MILLENNIALS AND YOUNGER GEN-XERS MORE TRUSTING OF FINANCIAL SERVICES



Note: These generational definitions are similar to those defined by the Pew Research Center, in which Millennials are currently age 20–37, Gen-Xers are 38–53, and Baby Boomers are 54–72.

RETAIL INVESTORS: EXPECTATIONS INCREASE SLIGHTLY, SATISFACTION LEVELS STABLE

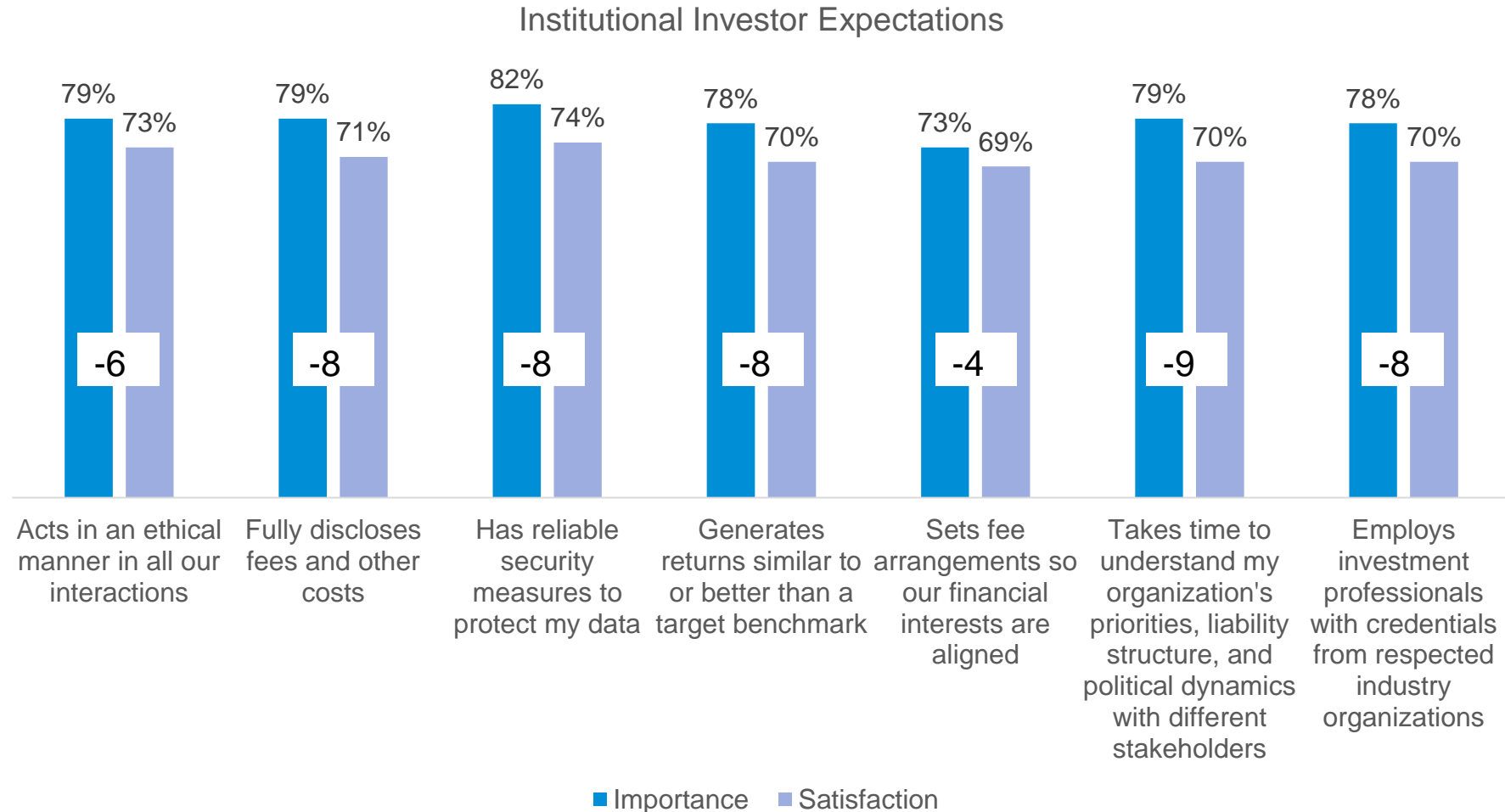
Biggest gap is disclosure of conflicts of interest

How important are each of the following factors in creating a trusted relationship with an investment adviser?
How well do you think investment advisers, in general, are delivering on each of the statements today?



INSTITUTIONAL INVESTORS: EXPECTATIONS SIMILAR BUT SATISFACTION LEVELS HIGHER

Data security the most important factor



THEME 2

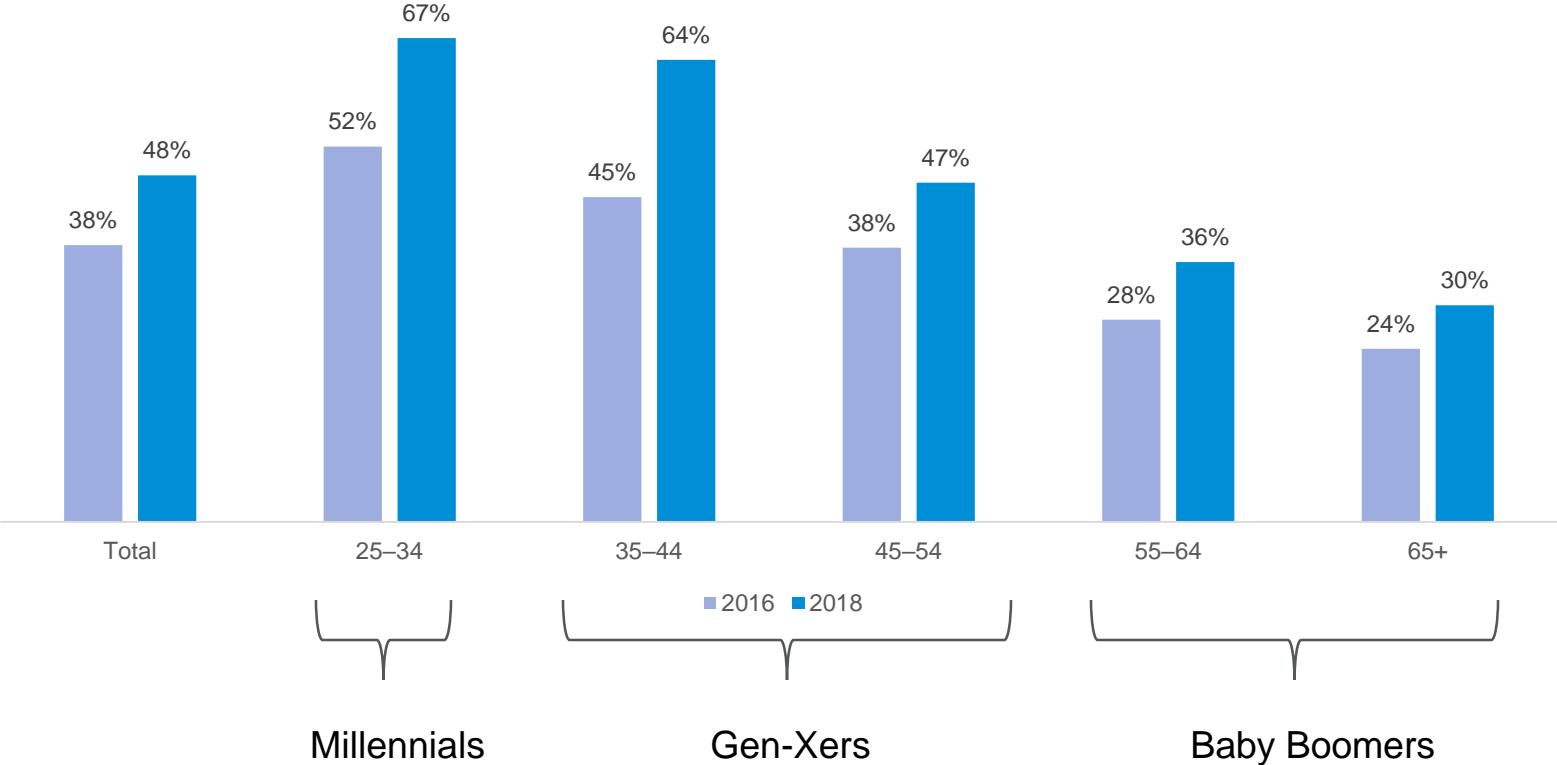


TECHNOLOGY ENHANCES TRUST BUT DOES NOT REPLACE THE NEED FOR HUMANS

Investors of all ages and from all regions want more technology applied to investing, and trust in technology is generally high. The effective use of technology increases trust in a financial adviser or firm, and new blockchain technology holds the promise of creating more trust in the system. For advice, however, clients still place greater trust in human advisers while robo-advisers are the least trusted segment of the industry.

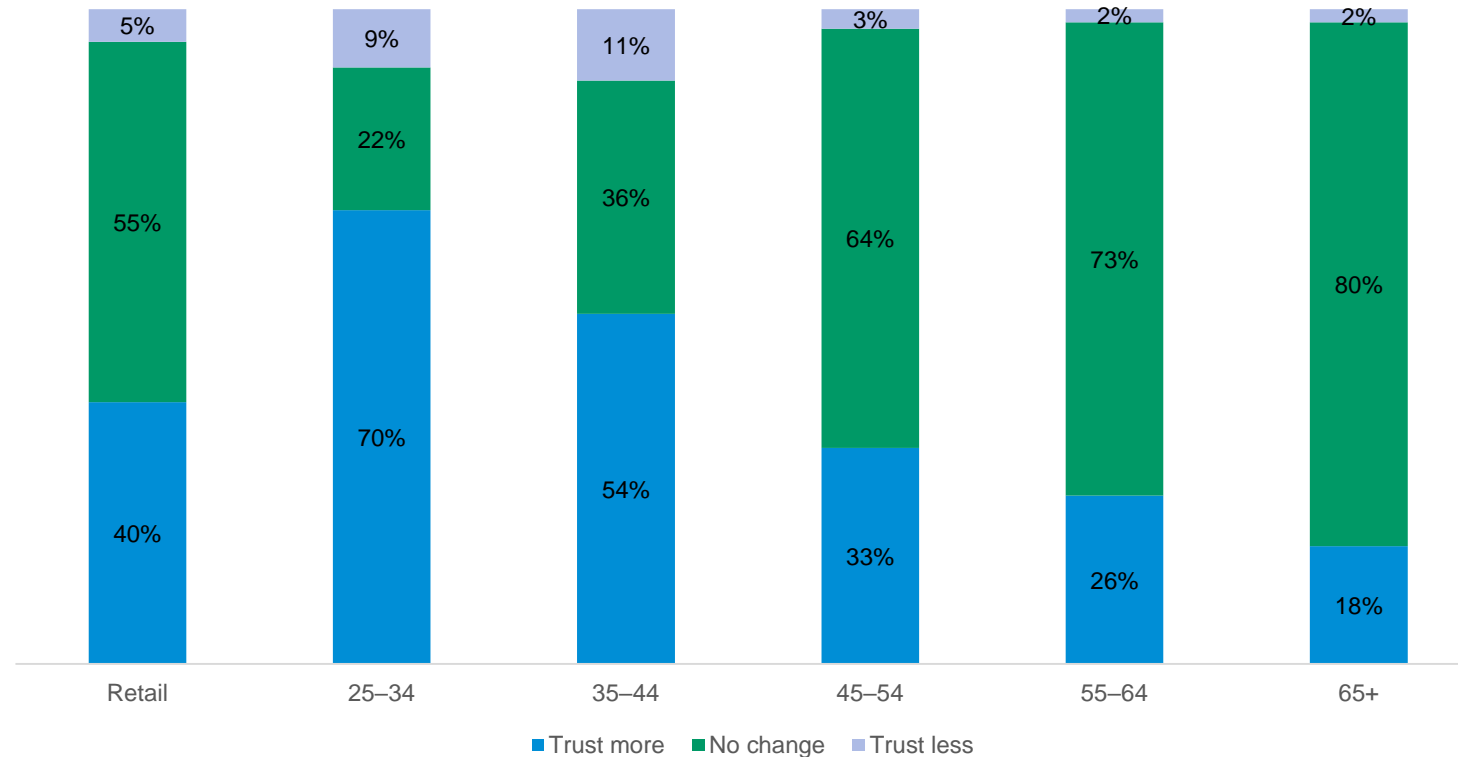
INVESTORS OF EVERY AGE ARE USING TECHNOLOGY MORE OVER TIME

Retail Investors by Age Favoring Tech vs. People in Next 3 Years

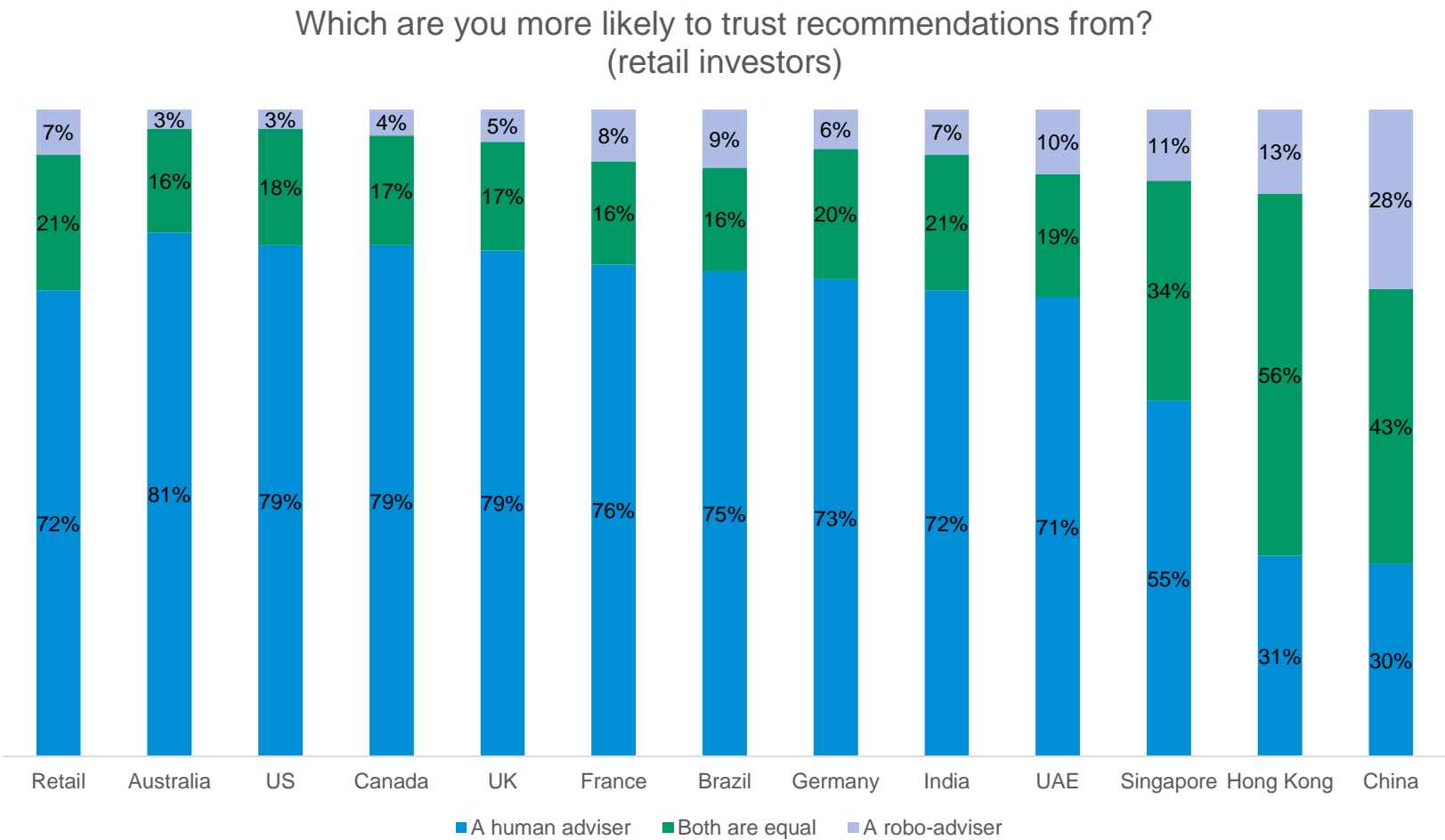


USE OF TECHNOLOGY BY FINANCIAL ADVISERS INCREASES TRUST, ESPECIALLY AMONG YOUNGER INVESTORS

How has the increased use of technology in financial services changed
your relationship with your adviser?



BUT HUMANS STILL GIVE MORE TRUSTED RECOMMENDATIONS



THEME 3 - TRUST IN FINANCIAL SERVICES INDUSTRY



THE TRUST EQUATION: CREDIBILITY AND PROFESSIONALISM

Credibility is composed of easily observed and highly valued factors such as track record, brand, credentials, and adherence to a code of conduct. Professionalism is more difficult to assess but is essential to trust. Professional competency, knowledge, and values are the key factors informing the perception of professionalism.

TRUST EQUATION



In *Future State of the Investment Profession*, CFA Institute introduced a trust equation to outline some of the components of trust. In the equation, trust and value are a function of both credibility and professionalism.

CREDIBILITY



Credentials

Retail *Institutional*
73% Global 78%

believe it is important for investment professionals to have credentials from respected industry organizations

Track record

Retail *Institutional*
78% Global 78%

believe it is important that investment professionals generate returns similar to or better than a target benchmark

CREDIBILITY



Code of conduct

Retail *Institutional*
64% Global **70%**

would trust an adviser more if his or her
firm adhered to a voluntary code of
conduct

PROFESSIONALISM



Competency

Retail
79% Global **Institutional**
86%

would be more trusting of investment firms that promote continuing professional development

Values

Retail
35% Global **Institutional**
25%

believe that their adviser/asset managers always puts clients' interests first

EIGHT STEPS TO INCREASE TRUST

CREDIBILITY

- 1 Maintain strong brand identity and follow-through on brand promises
- 2 Employ professionals with credentials from respected industry organizations
- 3 Stay focused on building a long-term track record to demonstrate competence
- 4 Adopt a code of conduct to reinforce your firm's commitment to ethics

PROFESSIONALISM

- 5 Improve transparency and clarity regarding fees, security, and conflicts of interest
- 6 Use clear language to demonstrate that client interests come first
- 7 Showcase your ongoing professional development to improve investment knowledge
- 8 Demonstrate your dedication to the values clients hold dear



THANK YOU!



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