



# THE NEXT GENERATION OF TRUST

People are Trusted More Than Technology in Australia



Trust is essential in the world of finance, where well-functioning markets are necessary to create value, and in investment services, where experts work to safeguard and grow the financial wealth of their clients. In this, the third CFA Institute investor trust study, we look at the trends in investor trust and provide recommendations for investment practitioners on how to improve trust with clients. We find that the nature of trust is changing because of a new generation of investors and a new generation of investing tools. This report outlines how individual investors in Australia compare to those globally.



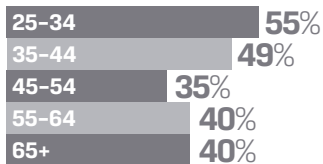
## Australian Investors Are Less Trusting of Financial Services



*Investors that "completely trust or trust" the financial services sector*

On average, Australian investors are older than respondents in other markets. This may partially explain lower trust levels, as younger investors globally are more trusting of financial services.

### TRUST IN FINANCIAL SERVICES BY AGE



Although Australians do not have a significant amount of trust in the system, a majority do believe that they have a fair opportunity to profit in the capital markets.



*Investors that believe they have a fair opportunity to profit in the capital markets*



## A Do-It-Yourself Culture in Australia

Although Australian investors feel the markets are fair, retail investors are much less likely to work with financial advisers than investors in other countries.



Compared to 33% of investors globally, only 26% of Australia's investors are "extremely confident" in their ability to make investment decisions, yet few find need for professional advice.



## Trust and the Client Life Cycle

### PRIMARY SOURCE OF INVESTMENT ADVICE FOR AUSTRALIAN INVESTORS

#### My primary financial adviser



#### Online research



#### I don't get any investment advice



When working with advisers, **20%** of Australian investors surveyed assume their advisers are trustworthy unless they prove otherwise. This is compared to **33%** that feel trust must be proven at least once to give them the benefit of the doubt and **46%** that expect advisers to earn and maintain trust continually.

Despite this need for trust maintenance, Australian investors with an adviser are more likely than global investors to think their interests are aligned.

### Investment goals and concerns are chiefly related to retirement

Retirement is the number one investment goal for **74%** of Australian investors. It is also Australians' biggest investment concern.

### BIGGEST INVESTMENT CONCERN

#### A market crash impacting my retirement savings



#### Running out of money in retirement



### Trust and ethics are important for getting new clients, and returns matter most for keeping clients

Trust continues to be a very important factor throughout the client life cycle. In the five years we have been conducting this study, trust has consistently been the greatest determinant in selecting a financial adviser by an almost 2:1 margin globally over investment performance.

Ability to achieve high returns are far from the most important attribute for Australian investors when hiring a financial adviser.

### MOST IMPORTANT ATTRIBUTE FOR AUSTRALIANS WHEN HIRING AN INVESTMENT FIRM

#### Trusted to act in my best interest



#### Recommended by someone I trust



#### Commitment to ethical conduct



#### Ability to achieve high returns



However, for Australian investors, like global investors, underperformance is the number one reason they would leave an investment firm.

### REASONS AUSTRALIAN INVESTORS WOULD LEAVE THEIR INVESTMENT FIRM

#### Underperformance



#### Lack of communication/responsiveness



#### Data/Confidentiality breach



#### Departure of financial adviser from firm



## Navigating Uncertainty

### Australian investors are less fearful of a financial crisis

Trust is tested in times of crisis, and advisers should be aware of whether their clients fear a crisis and market volatility. Australia's retail investors fear an impending crisis less than investors globally.

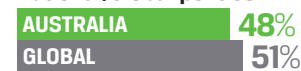
### INVESTORS WHO EXPECT A FINANCIAL CRISIS IN THE NEXT THREE YEARS



But Australian investors have some different reasons for why a crisis could occur, with concerns about politics and housing prices in particular.

### POSSIBLE SOURCES OF NEXT FINANCIAL CRISIS

#### National/Global politics



#### Housing bubble / mortgage crisis



#### Governments defaulting on debt



#### Unscrupulous banking practices



#### Terrorist attack



About half believe that their investment firm is well prepared to handle market turbulence:

**49%**

*of Australian investors believe their investment firm is "well or very well prepared" to handle the next financial crisis*



## Technology Increases Trust

Technology is a game changer for financial services firms, and the best firms differentiate themselves through effective use of technology

In Australia, human advisers are still more important than technology.



Investors that say in three years it will be more important to have a person to help execute their investment strategy than the technology tools to execute their own strategy



However, globally, investors of every age are using technology more.

This is especially true among younger investors.

Although this may seem to devalue the need for humans, the use of technology by investment firms can increase trust. Investors globally place a very high value on a firm's technology solutions and its positive impact on trust. For global investors with a financial adviser, 40% say increased use of technology has made them trust their adviser more, compared with 22% of Australian investors.

Australian investors distrust robo-advisers even more than investors globally do. 50% of investors in Australia "distrust or completely distrust" the robo-adviser industry versus 40% globally.

# 81%

of Australian investors are more likely to trust recommendations from a human than a robo-adviser versus 72% globally

# THE BUILDING BLOCKS OF TRUST

The CFA Institute Trust Equation outlines the building blocks of trust. Trust is tied to value and together they are a function of credibility and professionalism.



**Credibility**, which provides confidence that the investment professional or organization is qualified to provide the required service, encompasses experience, reputation, and credentials, and is closely linked to brand. Trust in the industry requires that regulators and the public view it as bringing value to society.

### CREDENTIALS



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

### TRACK RECORD



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



Investors that believe it is important that fees reflect the value they get from the relationship

### BRAND



Investors that prefer a "Brand I can trust" over "People I can count on"

### VOLUNTARY CODE OF CONDUCT



Investors that would trust an adviser more if he or she adhered to a voluntary code of conduct

**Professionalism** is harder to quantify. However, it fosters greater trust among investors by demonstrating competency and values such as empathy, transparency, honesty, and alignment of interests.

### COMPETENCY



Investors that would be more trusting of investment firms that promote ongoing professional development

### VALUES



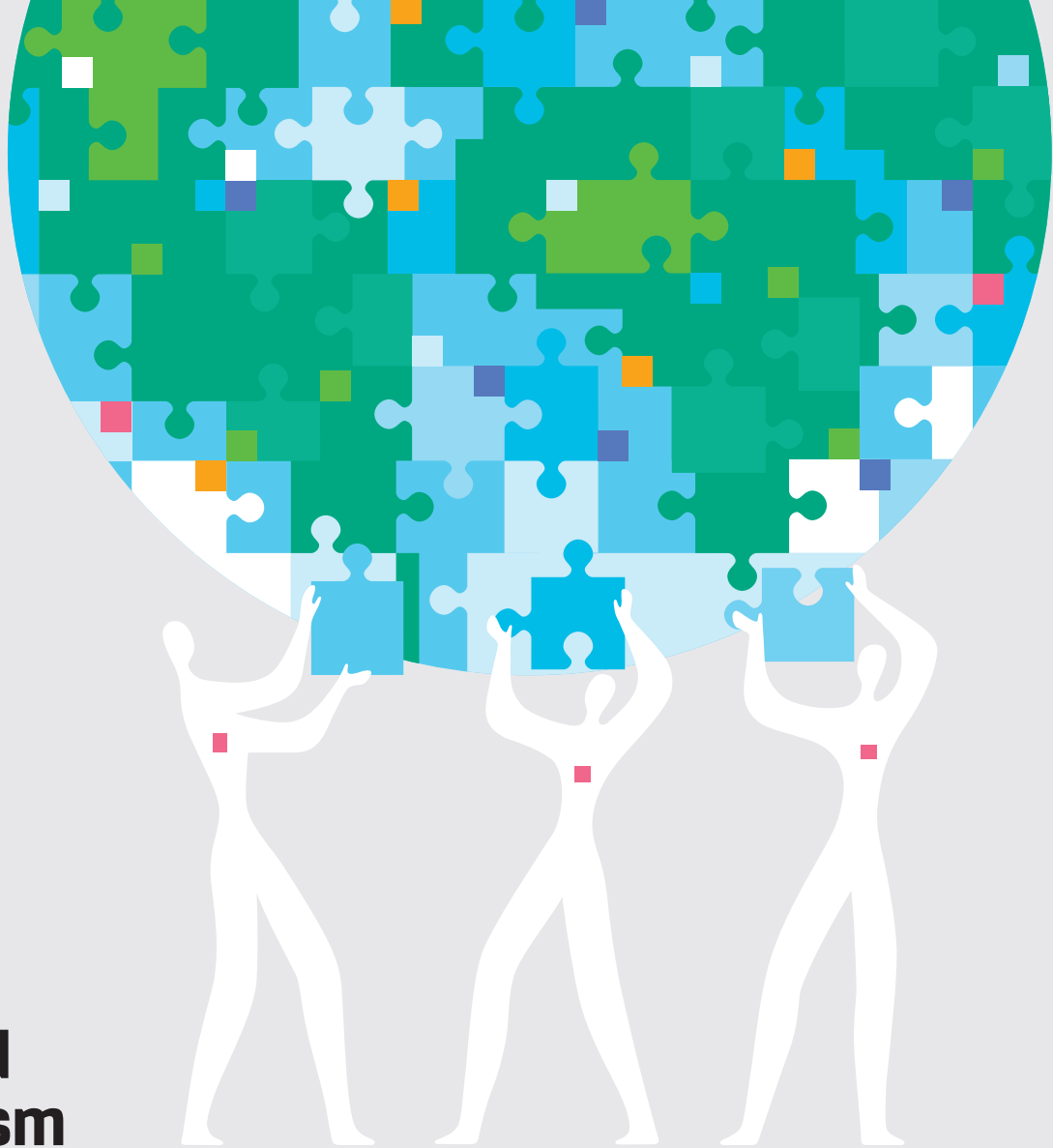
Investors that believe their adviser always puts client interests first

# 38%

of investors say the top attribute in selecting an adviser is someone trusted to act in their best interest

# 12%

of investors believe ethical conduct is the most important factor in choosing an adviser



## 8 Steps to Increasing Credibility and Professionalism

### 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 and deliver value for money
- 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 that clients hold dear

To learn more, visit [nextgenrust.cfainstitute.org](https://nextgenrust.cfainstitute.org)

**METHODOLOGY** In 2017, CFA Institute and Greenwich Associates conducted a global survey of 3,127 retail investors and 829 institutional investors, including 250 retail investors and 61 institutional investors in Australia. The study focused on retail investors who were 25 years or older with investible assets of at least US\$100,000 and institutional investors with at least \$50 million in assets under management, from public and private pension funds, endowments and foundations, insurance companies, and sovereign wealth funds.



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