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# Should a financial service provider care about trust? An empirical study of retail saving and investment allocations

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**Abstract** Motivated by evidence of low trust for financial service providers, this study turns to scholarship on trust, which suggests that trust influences individuals' risk-taking. The study asks whether a financial service provider that is highly trusted, and with saving propositions across the risk continuum, has more success with risk-based savings than risk-free savings compared to an industry average, or overall situation? A number of theoretical expectations are empirically confirmed. Findings indicate that a provider not perceived as highly trusted may have difficulty selling risk-based products. Secondly, trust appears to be a form of competitive advantage in that it encourages more assets in risk-based products on which higher fees are earned. This highlights the importance of qualitative factors both in profitability and as unique selling points, and suggests possible strategic pathways for managers when allocating scarce resources to build firm strengths.

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## INTRODUCTION

In recent years trust has become the subject of much public debate. Citations in *The Guardian*, a UK broadsheet newspaper, grew from fewer than 500 per annum in 1998 to almost 6,000 in 2002.<sup>1</sup> And the aspect of trust tied to financial services has come under particular scrutiny. The Sykes<sup>2</sup> report on Restoring Trust, the Sandler<sup>3</sup> review of Medium and Long-Term Retail Savings, and the Financial Services Consumer Panel,<sup>4</sup> each reach negative conclusions concerning trust attached to financial service providers. Studies

have paid attention to trust at the industry and firm level. At the industry level one survey asking respondents to score financial service providers between 1 for 'complete trust' and 7 for 'no trust' found an average mark of 4.48.<sup>5</sup> At the firm level three times as many consumers trust financial service provider Marks & Spencer, also a diversified retailer, as Barclays Bank, the UK's largest bank.<sup>6</sup>

Conventional marketing and sales models put forth that 'soft' attributes such as trust have less impact on consumer behaviour than 'hard' attributes, such as performance and price.<sup>7</sup> Regarding retail savings the Sandler Review turns this stylised relationship on its head. Sandler highlights the variety of senses in which retail savings propositions are unique, and 'inherently more complex than

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other types of consumer goods' (Sandler,<sup>3</sup> p. 45), including the way they deliver their benefits, their long-term nature, infrequent purchase, the impenetrability of the price/quality trade-off, and having performance that is often not known until the end of the product's life (Sandler,<sup>3</sup> p. 47). Furthermore, there can be overwhelming choice, with more than 1,600 different unit trusts and open ended investment company products to select from in the UK, so that 'the significant majority of consumers find savings products confusing and have little confidence in their ability to discriminate between products and providers' (Sandler,<sup>3</sup> p. 50). Regarding the topic of performance and choice, ample supporting evidence can be found in finance scholarship that performance does not function to differentiate retail savings propositions. First, the long-run performance of financial service providers over similar products is virtually indistinguishable.<sup>8</sup> Secondly, financial products most often underperform their relevant market index, for example the S&P 500 or FTSE AllShare, particularly once costs are included.<sup>9,10</sup> Thirdly, there is limited evidence of stability of performance — winners do not persist — so that there is little to infer from performance of any one financial service provider in any period.<sup>10–13</sup> This places 'consumers .... in a weak position' (Sandler,<sup>3</sup> p. 48), for 'some products are fundamentally the same' (Sandler,<sup>3</sup> p. 48), and emphasises the potential role of 'soft' attributes, such as trust, in distinguishing between products and providers in the market for retail saving. Thus the concept of retail savings behaviour in relation to trust has come about, and this brings forth the issue of trust in financial service providers affecting consumer saving decisions.

Relatively few studies have considered the relationship between trust and consumer savings decisions, and all are based on US data. In retail financial services Crosby *et al.*<sup>14</sup> find that trust attached to a life insurance agent and their personality, educational

qualifications, and physical demeanour are each significantly and positively related to the life insurance purchase decision. In wholesale financial services, Singh and Strieter<sup>8</sup> examine decision variables used by pension plans and endowments when hiring an investment manager to manage equities, fixed income, real estate, and derivatives. They find that 'trust in the provider is one of the most important determinants in the purchase decision' (p. 41) and that for equity and fixed income assets 'Trust [in the provider] is rated higher than performance and price-related variables' (p. 42). In a retail share trading situation, Ryan and Buchholtz<sup>15</sup> present a conceptual model in which trust moulds shareholders perception of risk, their required return, and the level of intervention in the firm's governance structure subsequently undertaken.

While the above studies provide a useful framing of trust within some financial contexts, the emphasis in the UK is on how the retail investment landscape has changed dramatically of late directly due to the topic of trust for financial service providers.

This study explores the subject of trust and retail savings behaviour. Existing scholarship outside of finance is drawn on to highlight relationships concerning trust and risk-taking. The study then uses theory development to propose that when allocating risk-based savings, an individual will screen out financial service providers that are not trusted, selecting only those that are trusted, whereas when allocating risk-free savings there is no reason to screen out financial service providers based on trust for the individual is not in a vulnerable situation — the investment return is guaranteed, backed by capital and ultimately insurance, with the financial service provider bound to honour the promise. This study therefore asks the research question: does a financial service provider that is highly trusted, and with saving propositions across the risk continuum, have more success with

risk-based savings than risk-free savings compared to an industry average, or overall situation?

To explore this question, two UK data sets of saving allocations are employed. Both data sets feature the individual saver as the unit of analysis, amounts saved in UK Sterling, a full risk continuum of savings products, and a wide social and physical geography of savers throughout the UK. The key distinguishing feature is that one data set draws on a non-targeted representative cross-section of savers that represents the industry average — and therefore a situation of trust as it stands in the overall sense, while the other data set draws on a financial service provider that is highly trusted. The identification of trust comes from a triangulation of eight surveys and awards concerning either trust or brand over the time period 2002–2005, plus three accolades for corporate social responsibility (CSR) and two for ethical business, each of which is tied to the overall construct of trust. Indeed, no other financial service provider at the time could have been selected that was more trusted, and this makes the company an exemplar for study purposes. Furthermore, the two data sets are matched by sorting individual savers into labour income, gender, housing tenure, and age cohorts so that the basis of investing differences is narrowed as far as is possible to the identification of trust. Individuals' risk-free savings are consolidated, and individuals' risk-based savings are consolidated. The data sets are compared, and the risk-free and risk-based savings allocations recorded by the financial service provider that is highly trusted evaluated relative to the industry average.

The paper is structured as follows. The following section discusses the conceptual background to the study and outlines the hypotheses. The third section introduces the data and methods. The fourth section reports the findings, and the policy implications and limitations are outlined in the concluding section.

## CONCEPTUAL BACKGROUND AND HYPOTHESES

### Risk in retail savings

Modern portfolio theory<sup>16–18</sup> proposes that individuals combine risk-free and risk-based financial products, and diversify across securities whose returns are uncorrelated or negatively correlated, so as to maximise return for a given level of risk.<sup>19</sup> The financial return earned by an individual is therefore largely a function of his or her risk tolerance, and this is exogenous to the theory, being cultivated externally by outside factors. Evidence on individuals risk tolerances from national cross-sections in the US and UK reveal that approximately one-half of savings is in risk-based form and one-half in risk-free form, so that on average an individual has 50 per cent allocated to risk-based savings and 50 per cent allocated to risk-free savings.<sup>20,21</sup> Most often an individual will apportion these savings to more than one provider.<sup>22</sup> Yet the basis on which individuals apportion their risk-based and risk-free savings allocations among providers is not addressed by modern portfolio theory, and scholarship in finance is silent on this subject.

### Trust and risk

The topic of trust and risk has received attention from several disciplinary perspectives, including marketing, sociology, psychology, and organisational theory. Across these various disciplines there is broad consensus that trust is important where risk is involved for 'situations involving trust constitute a subclass of those involving risk'.<sup>23</sup> Many definitions put forth that trust entails risk in the sense that one party chooses to be vulnerable to another,<sup>24</sup> for example Mayer *et al.*<sup>25</sup> define trust as 'the willingness of a party to be vulnerable to the actions of another party', Brockner *et al.*<sup>24</sup> as 'a willingness of the trustor to

be vulnerable', and Sabel<sup>26</sup> as 'a mutual confidence that parties to an exchange will not exploit each other's vulnerabilities'. A second cornerstone of trust is 'confident, positive expectations' about another party's motivation,<sup>27</sup> so that 'when we speak of trust, we are making a statement about the likelihood of positive — not negative — outcomes',<sup>28</sup> with the terms 'confident', and 'positive expectations' being 'variations on the same theme'.<sup>29</sup> Thus the presence of trust, by bringing about good faith in the intent, reliability, and fairness of third-party behaviour, reduces the likelihood of a negative interpretation and allows for the benefit of the doubt even in situations that could be interpreted as equivocal. A third cornerstone of trust is that the interests of one party cannot be achieved without relying upon the performance of another.<sup>28,30</sup> These components — vulnerability, positive expectations, and reliance — come together so that 'a widely held definition of trust ... is a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of another'.<sup>29</sup> Just as scholarship hypothesises a link between trust and risk-taking, so it hypothesises a link between no trust and no risk-taking. Thus Lewis and Weigert<sup>31</sup> argue that trust is not necessary if actions can be undertaken with complete certainty and no risk, and Bhattacharya *et al.*<sup>28</sup> present a theoretical model in which 'trust cannot exist in an environment of certainty; if it did, it would do so only trivially'.<sup>28</sup> This suggests that 'a customer would not be engaged in trusting behaviour insofar as the customer faced no risk and/or did not have to rely on the marketing entity'.<sup>30</sup> In summary, trust is relevant to risk-taking and in which substantial and open commitments are made but is, not relevant to situations that are certain and in which there is no risk. In the latter the trustor does not need to exhibit any goodwill concerning the other party as there are no unforeseen contingencies.

## Trust, risk, and retail savings

As trust is important where risk is involved, individuals decisions concerning their allocation of risk-based savings among financial product providers should also depend, at least in part, on the trust attached to financial service providers. Harrison<sup>32</sup> proposes that 'the customer is essentially buying a set of promises ... a generalised expectancy of how the financial institution will behave in the future' (p. 207), such as trust that the financial service provider will carry out its fiduciary duty, that its product and service proposition can be relied on, that it will be there, and that it will respond consistently and as expected to foreseen and new and unforeseen contingencies. Therefore, the extant trust — risk-taking hypothesis in a retail savings context suggests that individuals will screen out financial service providers that are not trusted when apportioning their risk-based savings, and select only those providers that there is a willingness to be vulnerable to. The reciprocal, the extant no trust — no risk-taking hypothesis, suggests that individuals have no reason to screen out financial service providers based on trust when apportioning their risk-free savings for they are not in a vulnerable situation — the investment return is guaranteed, backed by capital and ultimately insurance, with the financial service provider bound to honour the promise. Given that the attribute of trust is a valuable and scarce resource available to only few providers,<sup>33</sup> empirically one should find that a financial service provider that is highly trusted, and with saving propositions across the risk continuum, will have savings allocations skewed toward risk-based products relative to an industry average, or benchmark situation. This may firstly be evidenced in terms of the number of individuals with risk-based savings:

**H<sub>1</sub>:** *The number of individuals with risk-based savings to the number of individuals with risk-free saving is greater for a financial service provider that is highly trusted than for an industry average.*

Secondly, since trust is a valuable and scarce resource and only few providers can be relatively highly trusted, there will be a concentration of risk-based savings among them:

**H<sub>2</sub>:** *The consolidated value of risk-based savings to the consolidated value of risk-free savings will be greater for a financial service provider that is highly trusted than for an industry average.*

Last, the association between trust and risk is positive,<sup>15,28</sup> so that a financial service provider that is highly trusted will attract greater risk-based savings on a per saver basis:

**H<sub>3</sub>:** *Individuals' average UK£ risk-based savings will be greater for a financial service provider that is highly trusted than for an industry average.*

## METHODS

### Data

This study requires that the savings allocations of a financial service provider that is highly trusted be matched to the savings allocations of an industry average, or benchmark situation. Two UK data sets of portfolio allocations are employed. For the industry average, or benchmark situation, the data set selected is the 2002–2003 Family Resources Survey, a large-scale, non-targeted, nationally representative cross-sectional survey undertaken by the Office for National Statistics on behalf of the UK government. A total of 50,534 individuals were selected from every part of the United Kingdom. A specific motivation of the survey is to gather detailed information about retail savings allocations, and as a result the data convey the complete savings allocations of each individual across the full risk continuum of financial products. Stratified sampling techniques ensure results are representative of the industry, and nation, so can be generalised

to make population inferences concerning retail saving.

The second data set is raw customer data, drawn in 2003, from a financial service provider that offers savings products across the full risk continuum to a wide social and physical geography of savers throughout high street and mall locations. The company is selected because it has industry-like characteristics in a number of aspects other than trust, and these give confidence that the specific sample of savers, even though self-selected, are no different from savers that comprise the financial services industry overall. One confidence comes from the fact that the financial service provider has a national network of 300 stores in town centres and malls throughout the UK and thus has excellent general population coverage. A second confidence comes from the fact that savers have a wide social geography. This is measurable — because socio-economic records are kept on customers regarding age, income, gender, housing tenure, occupation, and marital status — and it is comparable — because the Family Resources Survey data set also records detailed socio-economic information, so that individuals across the two data sets can be matched by labour income, gender, housing tenure, and age cohorts so as to narrow the basis of investing differences, as far as is possible, to the identification of trust. A third confidence comes from the fact that the relationship between financial service provider and investor is direct, in the sense that there are no 'referrals' as a result of investment advice or a brokerage service, and no employer contributed retirement accounts or other matched saving schemes that could bias results.

Concerning trust, the selected financial service provider is highly trusted. The identification of trust comes from a triangulation of eight surveys and awards pertaining to the firm, plus three accolades for CSR and two for ethical business, each of which is tied to the overall construct of trust. This detail is drawn for the period 2002–

2005, that is before and after the sample date, because customer opinion shaping and forming is a slow moving constitution so that awards and surveys before and after 2003 are indicative of the situation of trust as it stood in 2003. Moreover, in 2003 no other financial service provider could have been selected that was more trusted, so that the company chosen is an exemplar of a trusted institution. In terms of the identification of trust, a Future Foundation<sup>6</sup> consumer survey of trust for financial service providers found that consumers trust the selected financial service provider one and a half as much as the retail financial service divisions of leading UK supermarkets (eg, Tesco, Sainsburys), two times as much as commercial bank Royal Bank of Scotland/NatWest and three times as much as commercial bank Barclays Bank. In terms of administration and relationships, the financial service provider was awarded What Investment's Reader's Survey 'Unit Trust Provider of the Year' 2003 and 'Best Customer Service Provider' 2004. Stepping outside of financial services, to the broader context of the overall company, for it is also a diversified retailer, the firm is renowned for a high and stable level of trust. It was the second most trusted corporate brand (first was Tesco Plc) in a MORI poll of UK adults in 2002,<sup>34</sup> and second most trusted corporate brand (first was The Co-operative Group) in a Globescan survey of UK adults in 2005.<sup>35</sup> Concerning CSR, which the company explicitly manages to achieve a high level of trust and strong brand, it was sector leader in the Dow Jones Sustainability Index 2002, and Business in the Community's most socially responsible business of the year during the years 2003 and 2005 (receiving awards 2004 and 2006). This has helped to provide the firm a consistent rating of top UK retail brand.<sup>36-38</sup> Concerning its perception among retail customers the firm is likened to 'a member of the family',<sup>38</sup> and has 'a special place in the hearts of the British public'.<sup>37</sup> Concerning suppliers, Lewis<sup>39</sup> quotes one

internal manager of the firm as saying that they 'are more willing to take risks for [the firm] because there is more trust in the relationships'.<sup>39</sup>

## Sample

To ensure that the two data sets are comparable a number of deletions were made to each data set. Individuals with zero savings were first of all deleted. Next, and following earlier work on household portfolios,<sup>40</sup> current account information was deleted since there is concern that balances reflect a mismatch in the timing of income and expenditure more than they do medium to long-term savings allocations. Finally, individuals for which there was missing socio-economic information were deleted so that all individuals have complete socio-economic information regarding income, gender, housing tenure, and age.<sup>41</sup> This reduced the size of the industry data to 9,898 individuals and the financial service provider data to 14,759 individuals.

## Variables

Three variables were created from the savings data. First, amounts in risk-free, that is guaranteed return, savings products were consolidated per individual and a 'Risk-Free' variable created, defined as the sum of the amount in interest bearing deposit accounts (including cash-based tax-free vehicles such as ISAs), short-term money market instruments, and government fixed-income (ie, gilt-edged securities). Secondly, amounts in risk-based, that is variable return, savings products were consolidated per individual and a 'Risk-Based' variable created, defined as the sum of the amount in corporate bond (investment grade and high yield), convertible securities, equities, and balanced funds (including security-based tax-free vehicles such as ISAs and PEPs). Thirdly, 'Risk-Free' savings and 'Risk-Based' savings were consolidated per individual to provide a 'Total Savings' variable. This procedure yields

information on the value of risk-free, risk-based, and total saving for each individual in each dataset.

## ANALYSIS AND RESULTS

Table 1 documents descriptive statistics at the individual level for the two data sets. Table 2 investigates hypotheses 1 and 2, Table 3 investigates hypothesis 3, and Table 4 summarises the hypothesised relationships and findings.

Moving from the left to the right of Table 1, column three reports the distribution of individuals by socio-economic category. According to this classification, the single financial service provider data set compares favourably to the industry data set, and lends support to the study's expectation that good overall population coverage and a predominantly high street location impart the financial service provider with broad industry characteristics. In terms of variation, the financial service provider has more savers with higher labour income, who are female, home owners, and of older age.<sup>42</sup> The last four columns report the distribution of Total Savings, from low to high, broken down into quartiles, with the median of each quartile reported.<sup>43</sup> Higher quartiles are associated with higher Total Savings. Looking down the columns for the financial service provider there are six instances, all in quartile 2, in which the median of individuals Total Savings is greater than the industry average. This result suggests that some individuals have greater savings than average, even after controlling for different socio-economic characteristics. This is notable because the financial service provider can only report what individuals' have delegated to it, which is presumably on average only one part of each person's total savings, whereas the industry data report each individual's gross total savings — in that it is the consolidated amount and therefore not conditioned by what individuals delegate among financial service providers. Turning to the actual

amount saved, a modal value of £3,000 highlights some degree of tax incentive, since in the UK in 2003 the annual limit on some types of tax-free saving accounts was £3,000. Yet the incentive effect is not great, for if it was £3,000 would have been saved in each of the three years that the scheme was in place before the data for this study were drawn, so that median Total Savings would be £9,000.

Table 2 reports the total number of individuals with risk-based savings to the total number of individuals with risk-free savings (hypothesis 1), and the gross value of risk-based savings to the gross value of risk-free savings (hypothesis 2) for the two data sets.

Moving from the left to the right of Table 2, column four examines individuals with both types of savings, risk-based and risk-free. Data for the industry reveal that one quarter of individuals have both risk-based and risk-free savings, a figure that is consistent with previous findings.<sup>21</sup> In contrast, data for the financial service provider reveal that only 3 per cent of individuals have both risk-based and risk-free savings. This provides some evidence that individuals apportion only one type of savings to one financial service provider.

Column five of Table 2 is designed to investigate hypothesis 1, that compared to the industry the financial service provider will have a relatively larger number of individuals with risk-based savings. For each data set the number of individuals with risk-based savings is divided by the number of individuals with risk-free savings. This ratio is useful because it allows the two data sets to be compared like-for-like. Moving down column five, data for the financial service provider report that twice as many individuals have risk-based savings as would be predicted from the industry data alone. An independent samples, unequal variance *t*-test is used to compare the means for the financial service provider and industry. The *t*-test assumes the observations are independent, random samples

**Table 1** Median of individuals total savings expressed as quartiles and evidenced by the financial service provider and industry average

<i>Socio-economic cohort</i>	<i>Number of savers</i>	<i>Per cent of savers</i>	<i>Total savings quartile 1 (£)</i>	<i>Total savings quartile 2 (£)</i>	<i>Total savings quartile 3 (£)</i>	<i>Total savings quartile 4 (£)</i>
<i>Income</i>						
<i>Industry average</i>						
Less than £10,001	3,472	35	919	2,400	4,390	9,000
£10,001–£20,000	3,085	31	500	2,000	4,000	8,841
£20,001–£30,000	1,913	19	500	2,000	4,000	9,760
More than £30,000	1,428	14	500	2,348	5,000	10,000
<i>Financial service provider</i>						
Less than £10,001	3,471	24	325	2,160	3,000	7,000
£10,001–£20,000	3,327	23	165	2,000	3,000	6,488
£20,001–£30,000	4,948	34	500	2,914	3,000	7,000
More than £30,000	3,013	20	500	3,000	3,000	7,000
<i>Gender</i>						
<i>Industry average</i>						
Male	4,649	47	600	2,000	4,046	9,171
Female	5,249	53	700	2,153	4,200	9,500
<i>Financial service provider</i>						
Male	4,228	29	522	3,000	3,000	7,513
Female	10,531	71	310	2,181	3,000	7,000
<i>Housing tenure</i>						
<i>Industry average</i>						
Owner	8,417	85	600	2,050	4,274	9,500
Renter	1,481	15	800	2,100	3,652	8,000
<i>Financial service provider</i>						
Owner	13,701	93	427	2,500	3,000	7,000
Renter	1,058	7	100	1,122	3,000	4,140
<i>Age</i>						
<i>Industry average</i>						
Less than 40	3,532	36	350	1,567	3,150	7,743
40–59	3,581	36	600	2,200	4,500	9,292
60 and older	2,785	28	1,250	2,000	5,198	11,100
<i>Financial service provider</i>						
Less than 40	1,293	9	50	1,000	3,000	4,025
40–59	7,105	48	250	2,104	3,000	6,301
60 and older	6,361	43	636	3,000	3,000	7,626

Total savings quartile 1 is individuals' median savings in the lowest saving quartile. Total savings quartile 2 is individuals' median savings in the second from lowest saving quartile. Total savings quartile 3 is individuals' median savings in the second from highest saving quartile. Total savings quartile 4 is individuals' median savings in the highest saving quartile.

Subtotals for the industry average sum to 9,898. Subtotals for the financial service provider sum to 14,759.

from normal distributions but not necessarily with the same population variance. A test for the difference in the means is statistically significant at the 1 per cent level, so that within the limitations of this study support is provided for hypothesis 1. Common to both data sets is a preference for risk-free savings, since the number of individuals with risk-based savings divided by the number with risk-free savings is always less than one.

The last column of Table 2 is designed to investigate hypothesis 2, that compared to the industry the financial service provider will have relatively more risk-based savings. For each data set the gross value of risk-based savings is divided by the gross value of risk-free savings. This ratio is compared across the two data sets. Once again the ratio allows the two data sets to be compared like-for-like. Data for the financial service provider reveal

**Table 2** Individuals risk-based & risk-free savings allocations as evidenced by the financial service provider and industry average

<i>Socio-economic cohort</i>	<i>Number of savers</i>	<i>Per cent of savers</i>	<i>Proportion of individuals with both risk-based and risk-free savings</i>	<i>Number of risk-based savers to risk-free savers (Hypothesis 1)</i>	<i>£ Value of risk-based savings to risk-free savings (Hypothesis 2)</i>
<i>Income</i>					
<i>Industry average</i>					
Less than £10,001	3,472	35	0.20	0.3	1.0
£10,001–£20,000	3,085	31	0.23	0.3	1.2
£20,001–£30,000	1,913	19	0.31	0.4	0.9
More than £30,000	1,428	14	0.33	0.5	1.1
<i>Financial service provider</i>					
Less than £10,001	3,471	24	0.03	0.6	3.2
£10,001–£20,000	3,327	23	0.03	0.5	3.8
£20,001–£30,000	4,948	34	0.04	0.8	3.1
More than £30,000	3,013	20	0.03	0.7	3.6
<i>Gender</i>					
<i>Industry average</i>					
Male	4,649	47	0.27	0.4	1.2
Female	5,249	53	0.23	0.3	1.0
<i>Financial service provider</i>					
Male	4,228	29	0.04	0.8	2.9
Female	10,531	71	0.03	0.6	3.5
<i>Housing tenure</i>					
<i>Industry average</i>					
Owner	8,417	85	0.27	0.4	1.0
Renter	1,481	15	0.16	0.2	1.0
<i>Financial service provider</i>					
Owner	13,701	93	0.03	0.7	3.4
Renter	1,058	7	0.03	0.5	3.4
<i>Age</i>					
<i>Industry average</i>					
Less than 40	3,532	36	0.25	0.3	1.1
40–59	3,581	36	0.29	0.4	1.1
60 and older	2,785	28	0.48	0.5	0.9
<i>Financial service provider</i>					
Less than 40	1,293	9	0.03	0.4	7.5
40–59	7,105	48	0.03	0.6	4.1
60 and older	6,361	43	0.03	0.8	2.1

Proportion of individuals with both risk-based and risk-free savings is the number of individuals with both risk-based and risk-free savings divided by the number of individuals within each socio-economic cohort.

Number of risk-based savers to risk-free savers is the number of individuals with risk-based savings divided by the number of individuals with risk-free savings within each socio-economic cohort.

Value of risk-based savings to risk-free savings is the consolidated value in risk-based savings divided by the consolidated value in risk-free savings within each socio-economic cohort.

Subtotals for the industry average sum to 9,898. Subtotals for the financial service provider sum to 14,759.

a ratio of approximately 3.5, while data for the industry reveal a ratio of approximately 1.0, so that the financial service provider has three and a half times more in risk-based savings than would be predicted from the industry data alone. A test for the difference in the means using an independent samples, unequal variance *t*-test is statistically

significant at the 1 per cent level, so that within the limitations of this study support is provided for hypothesis 2. Concerning the industry data alone, as much is allocated to risk-based savings as risk-free savings, so that on average an individual has 50 per cent allocated to risk-based savings and 50 per cent allocated to risk-free savings. This

**Table 3** Excess risk-based savings and excess risk-free savings as evidenced by individuals' average savings with the financial service provider benchmarked against individuals average savings according to the industry average

<i>Socio economic cohort</i>	<i>Number of savers</i>	<i>Per cent of savers</i>	<i>Degree of risk-based savings with financial service provider (per cent)</i>	<i>Degree of excess risk-free savings with financial service provider (per cent)</i>
<i>Income</i>				
Less than £10,001	3,471	24	+188	-10
£10,001-£20,000	3,327	23	+284	-22
£20,001-30,000	4,948	34	+256	+8
More than £30,000	3,013	20	+192	-9
<i>Financial service provider relative to industry average</i>			<i>+236</i>	<i>+4</i>
<i>Gender</i>				
Male	4,228	29	+185	+17
Female	10,531	71	+252	+1
<i>Financial service provider relative to industry average</i>			<i>+233</i>	<i>+1</i>
<i>Housing tenure</i>				
Owner	13,701	93	+270	-2
Renter	1,058	7	+180	+5
<i>Financial service provider relative to Industry average</i>			<i>+264</i>	<i>-2</i>
<i>Age</i>				
Less than 40	1,293	9	+827	+40
40-59	7,105	48	+276	+2
60 and older	6,361	43	+64	-29
<i>Financial service provider relative to industry average</i>			<i>+234</i>	<i>-8</i>
<i>Overall financial service provider relative to industry average</i>			<i>+242</i>	<i>-1</i>

Excess risk-based savings for the financial service provider is the mean value of risk-based savings for the financial service provider divided by the mean value of risk-based savings for the industry average.

Excess risk-free saving for the financial service provider is the mean value of risk-free savings for the financial service provider divided by the mean value of risk-free savings for the industry average.

*Financial service provider relative to industry average* is a subtotal of the sum of either excess risk-based savings or risk-free savings for each socio-economic cohort weighted by the per cent of savers.

*Overall financial service provider relative to industry average* is an equal weighted average of the four *financial service provider relative to industry average* subtotals.

confirms previous findings using large-scale cross-sectional savings data.<sup>21</sup>

Table 3 investigates hypothesis 3, that individuals' average UK£ risk-based savings will be greater for a financial service provider that is highly trusted than for an industry average.

Moving from the left to the right of Table 3, column four benchmarks risk-based savings for the financial service provider against the industry. The mean value of risk-based savings for the financial service provider is divided by the mean value of risk-based savings for the industry average so as to arrive at a measure of excess risk-based savings at the individual level (rather than the gross level of Table 2 and hypothesis 2). Moving down column four from top to bottom the italicised subtotal for Income,

Gender, Housing Tenure, and Age weights excess risk-based savings by the Percent of Savers and sums them. For example, the 'Income' category subtotal is  $0.24 \times 188\% + 0.23 \times 284\% + 0.34 \times 256\% + 0.20 \times 192\% = 236\%$ , or 2.36 times the industry average. The very last row reports an equal weighted average of the Income, Gender, Housing Tenure, and Age subtotals and can be likened to a measure of overall excess risk-based savings. Based on these subtotals, and the overall value, excess risk-based savings exist for the financial service provider in every socio-economic category and by 242 per cent overall, providing good support for hypothesis 3. Can this finding be due to the financial service provider attracting predominantly wealthier individuals who have more of both

**Table 4** Summary of hypotheses and findings

<i>Hypothesis</i>	<i>Operationalisation of hypothesis</i>	<i>Hypothesised relationship</i>	<i>Finding (t-test for significant difference)</i>
For financial service provider relative to industry average			
<b>H<sub>1</sub></b> : Number of individuals with risk-based savings to the number of individuals with risk-free saving will be greater	For each data set, the number of individuals with risk-based savings is the numerator and the number of individuals with risk-free saving is the denominator	+	Significant at 1 per cent level
<b>H<sub>2</sub></b> : The consolidated value of risk-based savings to the consolidated value of risk-free savings will be greater	For each data set, the consolidated UK£ value of risk-based savings is the numerator and the consolidated UK£ value of risk-free saving is the denominator	+	Significant at 1 per cent level
<b>H<sub>3</sub></b> : Individuals' average UK£ risk-based savings will be greater	Individuals average UK£ risk-based savings for financial service provider is the numerator and individuals' average UK£ risk-based savings for the industry average is the denominator	+	Significant at 1 per cent level

risk-based and risk-free savings to invest? This topic can be partially explored within this study, since if wealthier individuals are predominantly attracted to the financial service provider presumably they can also be expected to have more risk-free savings. The last column of Table 3 investigates excess risk-free savings according to the mean value of risk-free savings for the financial service provider divided by the mean value of risk-free savings for the industry average. At the individual level, risk-free savings for the financial service provider are in-line with the industry average in every socio-economic category, and by minus 1 per cent overall, which does not strongly indicate the presence of a wealthier sample of individual savers.

Furthermore, in multivariate regressions analysis not reported, trust remains a key independent variable alongside company size, visibility, and CSR variables.

## CONCLUSIONS

This study examines whether a financial service provider that is highly trusted, and with savings propositions across the risk continuum, has more success with risk-based

savings than risk-free savings compared to an industry average, or overall situation.

Conceptual work from several disciplinary perspectives on trust and risk taking is used to form three hypotheses concerning the relationship between trust attached to a financial service provider and individuals' purchase of risky financial products. Two data sets are employed, one representing a single financial service provider and one representing the industry. The financial service provider is selected because it resembles the industry in aspects other than trust, yet specifically and materially differs regarding trust. The identification of trust comes from a triangulation of eight surveys and awards concerning either trust or brand over the time period 2002–2005, plus three accolades for CSR and two for ethical business, each of which is tied to the overall construct of trust. Moreover, no other financial service provider at the time was more trusted, and therefore the company is an exemplar both within the industry and for study purposes.

A number of theoretical expectations are empirically confirmed. The study firstly finds that the financial service provider that is highly trusted has twice

as many individuals with risk-based savings as would be predicted from inspection of the industry data alone. It secondly finds that the provider has three and a half times more in risk-based savings than in risk-free savings. For comparison purposes, data for the industry reveal that as much is allocated to risk-based savings as risk-free savings, a finding that is similar to other studies that employ large-scale cross-sectional savings data.<sup>21</sup> Last, the study finds that the value of risk-based savings with the financial service provider exceeds that of the industry at the individual level in every socio-economic cohort and by 242 per cent overall. These results are found while employing univariate controls for individuals' income, age, gender, and housing tenure. For each hypothesis, a *t*-test is statistically significant at the 1 per cent level, so that within the limitations of this study good support is provided for the hypotheses.

Why should this matter to financial services marketing? First, the study can help to explain why a financial service provider not perceived as highly trusted may have difficulty selling risk-based products. Secondly, trust appears to be a form of competitive advantage for it precipitates more assets in risk-based products on which higher fees are earned. Thirdly, the importance of qualitative factors both in profitability and as unique selling points is highlighted, and suggests possible strategic pathways for managers when allocating scarce resources to build firm strengths.

This work is subject to several limitations. First, a study of savers from any one financial service provider is open to arguments of self-selection. For example, there is some evidence that the sample contains some individuals with greater savings, particularly in Savings Quartile 2. This effect however, as best one can tell in the absence of data on wealth,<sup>44</sup> is not pronounced. Secondly, there is some evidence that the sample of savers may be less risk averse. One cannot know whether this is due to self-selection or

because individuals' risk aversion has been moulded by the level of perceived trust of the organisation. By engaging with a financial service provider that is highly trusted it could be that individuals become less risk averse as evidenced in greater risk-based savings, that is not self-selection. Thirdly, even after careful sample selection, socio-economic control, and comparisons against an industry average, ultimately we cannot directly observe trust, so while we can be confident, we cannot be certain, that a particular savings allocation is due to trust.

The results of this study are suggestive of several promising extensions. Future work could consider the topic of trust as a valuable and scarce resource, for customers may be less inclined to switch providers following short-term developments because the pool of providers that are highly trusted is limited. Future work may also consider the relationship, and mutual dependence, between trust and risk aversion.

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- 41 Cohorts are based on government survey classifications. Further information is available upon request.
- 42 For reasons of space, occupational and marital status cohorts are not reported.
- 43 This follows earlier presentations of household savings by Banks and Smith.<sup>21</sup>
- 44 It is unfortunate that a reputable measure of wealth is absent from all government cross-sectional studies and therefore not known at the level of the individual or household.