

Banking Matters

Hot topic

It's different this time... trust is an issue which will not go away

The trustworthiness of banks is a hot topic everywhere. In Australia the media, political and regulatory scrutiny of banks is intense with virtually daily coverage drawing attention to these issues.

Recent research highlights the challenge. According to Roy Morgan, only 30% of Australians surveyed in 2016 said they regard Bank Managers as having ethics or honesty. This is down 4% from 2015, and down 13% since 2014.

Further, new digital entrants are trading on the heightened expectations for trust and transparency, fuelled by the likes of Airbnb, Uber and Amazon. Increasingly credible alternatives in banking and financial

services are emerging apace. Ongoing questions over the trustworthiness of banks is not just bad for reputation, it is bad for business.

While there is plenty of historical precedent for the current scrutiny, it has tended to wax and wane, intensifying at times of market stress and controversy (when the 'ugly side of risk' is inevitably exposed) and dissipating with the return of better times when there are payoffs to customers for risks taken.

We see something different however in the way trust and transparency is emerging as a permanent concern and believe it is unlikely to abate without a fundamentally different approach from the industry as a whole, and from the banks themselves, to cultivating, sustaining and defending stakeholder trust levels on an ongoing basis.

The Australian banking system has had a very good record, of keeping depositors' money safe, and in this context most would agree that trust in the banking industry is high. By contrast, there have been a number of different events in recent years concerning the delivery of financial services which have raised legitimate questions about whether the Australian banks are always living up to community expectations of fairness. This core issue has generated very significant attention in the public debate, both in the media and among politicians.

The industry is responding positively but a perception gap remains for the banks themselves to address

Like never before, the banking industry is turning its mind to how it can strengthen trust and transparency.

The Australian Banking Association's six point action plan¹, including to address consumer concerns about remuneration, the protection of whistleblowers, the handling of complaints and dealing with poor conduct represents a clear and considered response to some critical issues facing the industry and its customers. The evolution of the Banking Oath² and the level of industry dialogue and debate further highlight the desire to find sustainable solutions to this critical issue.

At each of the banks, we see increasing understanding and a lot of activity and focus on ways to understand and protect customer interests,

as well as a more sophisticated discussion about how to balance wider stakeholder interests.

In our 2016 survey of Banking and Capital Markets CEOs:

- 66% said they were concerned with a lack of trust in business at the same time citing over-regulation (87%) as a major impediment to business
- 27% believe their customers are seeking relationships with organisations that address wider stakeholder needs, surging to 44% when CEOs consider what their customers will prioritise in 5 years' time
- 59% believe that top talent wants to work with organisations that share their social values and 67% feel it will be more important in 5 years' time
- 52% said that creating value for a wider set of stakeholders helps profitability. It was also interesting to see that CEOs believe the most successful organisations

in 5 years' time will have shifted their priorities to recognise changing stakeholder expectations and the value in addressing them (embedding corporate responsibility into their business, reporting on non-financial matters and taking the long-term view)

These statistics point in the right direction. Further, all Australian banks are focused on being 'customer-centric', pursuing the near ubiquitous mantra of putting to the customer at the heart of everything they do, acknowledging that business success depends on designing products and experiences to meet the increasing expectations of customers. And the numbers show they are largely getting this right with all of the banks sporting customer satisfaction ratings over 80%.

And yet the lack of trust and transparency in banking remains front and centre in the public mind. ▶

¹ <http://www.safca.org.au/australian-bankers-association-media-release/>
² <http://www.thebfo.org/home>

How can customers who are increasingly satisfied with the services they receive, become increasingly distrustful of the banks which provide them? What is it about the success of the banks that is incompatible with increasing stakeholder trust?

Why have the banks so often struggled to satisfy the regulators, the media and aggrieved customers when things inevitably go wrong? Why are these significant efforts, the result of expansive thinking on not just the importance of the issue, but on the detail of how to address concerns, failing to move the dial on the public discourse on bank trust?

We believe the answer to these stark challenges is three-fold:

- Firstly, the industry must accept there is no 'quick fix' to remediating stakeholder

trust levels, with long term commitment to understanding and addressing the drivers of trust required

- Secondly, we believe the good associated with how the banks have developed and executed their customer centric strategies is often undermined by the outlier events, the negative incidents which inevitably arise and which are important in themselves but need nonetheless to be seen in the context of the many positives
- Finally, there has been a general lack of leadership, a failure to articulate the long-term case for trust to balance short term imperatives for profit, and a failure to embed fully a trust lens in the way the banks' societal purpose is brought to life. The short-term financial imperatives of the

banks to deliver results for shareholders must be balanced more effectively with delivering social good, not just in pursuit of commercial benefit for the bank, but in service of the banks social licence to operate their important and profitable businesses.

The banks no doubt believe a strong case can be mounted in response to each of these concerns and we believe good progress is being made. But all banks have a way to go to close the gap between the perceptions of stakeholders and the significant efforts to address the causes of mistrust.

Understanding the drivers of trust

Trust can be a confounding notion in the context of business. It spans industries, firms and individuals, blurring the boundaries we rely on and challenging us all in what we can do to be trusted. Trust is pivotal because it is the basis of every human relationship, every transaction, and every market. It is particularly important in financial markets where people pay banks not only to facilitate their daily transactions but advise on and trade in the risk which is necessary to secure their financial aspirations.

Building and sustaining trust means accelerating actions to bring the strategy to life through customer experience

In our May 2016 Major Banks report, we spoke of the future of banking in Australia, concluding that to continue creating economic profit for shareholders, banks need to become simpler and smaller, and more deeply connected to customers than they have been in the past. Redressing the trust deficit is no doubt crucial to achieving this.

Australian banks have not typically monitored trust with the same consistency as other common signals of their impact in the market (e.g. customer satisfaction and advocacy, employee engagement, brand value and financial indicators such as new business flows, customer retention and profitability). And yet we know that trust is more than an intangible and can be measured, which presents the opportunity to solve for how businesses need to understand what drives their trustworthiness; to identify a means of predicting how different stakeholder groups will behave; and to understand how this impacts trust perceptions.

Customer satisfaction and like measures may provide a ready basis for tactical responses to trust issues in the short term but if not linked within a wider set of measures to understand drivers of trust, they risk 'telling us what we want to hear rather than what we need to hear'.

The gap between awareness and action is understandable given the size and complexity of the business of banks in Australia. Taking the time to understand what trust is, how it can be measured and enlisted to underpin key business decisions is similarly challenging.

PwC's approach recognises this complexity. Our belief is that trust is a multi-dimensional issue, deriving from a stakeholder's understanding of a bank's values, competence and their experience, not merely from their 'satisfaction' with the services provided nor in an assessment of their advocacy for their bank's services (see Figure 1).

We believe that efforts to strengthen trust are best considered in three dimensions:

Values: How are we demonstrating to our stakeholders our commitment to integrity and benevolence in our values?

Competence: How are we demonstrating technical expertise in doing what we do?

Experience: How are we lifting the overall consistency of how stakeholders experience our services, our key messages and our responses to important events?

As such, our approach to building, sustaining and protecting trust is also multi-dimensional, aligning the bank's capabilities, behaviours, and go-to-market approach, and bringing to life the bank's "trust asset" across these three dimensions.

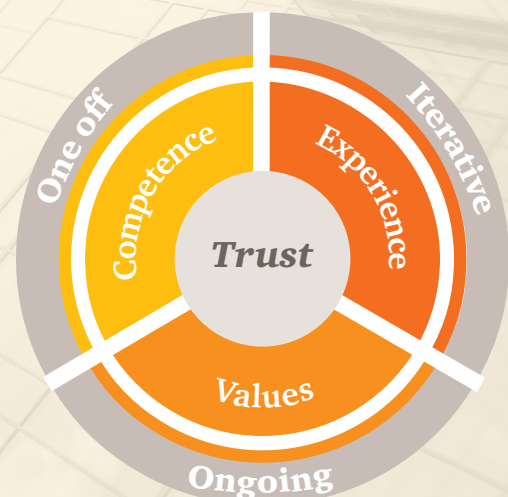


Figure 1: Our model of what drives organisational trustworthiness

We advocate 5 steps to accelerate outcomes

To get the ball rolling, we advocate 5 initial steps to accelerate action:

Values...

1 **Actively engage the Board and Senior Management on the bank's purpose, the consistency of its culture with engendering trust in the bank and 'what' needs to be done.**

Trust must permeate the bank's purpose, values and behaviours and be readily understood by all as part of each bank's social contract with its customers and society. The emphasis therefore needs to be on values rather than value.

The route to trust lies in seeing value creation not as an activity in itself, but as an outcome of behaviours that authentically reflect the bank's core values. Our collective endeavour should continue to be an unwavering commitment to embedding purpose within the organisation, including explicitly aligning the interests and priorities of management, boards, and shareholders with that identity. This allows them to develop and align capabilities visibly and consistently with their purpose at every level of the organisation.

Experience...

4 **Evolve mobilisation on customer-centricity to embed trust.**

As noted, virtually every bank is pursuing a 'customer-centric strategy', with sophisticated programs to measure customer engagement and advocacy, improve 'share of wallet' and 'stickiness' and increase the 'lifetime value of the customer' to the bank – outcomes essentially designed in service of the banks' business performance objectives (profit, sustainability, resilience to market disruption, etc).

By truly understanding the drivers of trust for the bank, an evolved approach to what it is to be both customer-centric and trustworthy can be embedded in key strategies and programs, providing genuine differentiation for the bank. Here it may be that taking on board customer feedback about transparency of pricing may be particularly helpful.

Competence...

2 **Be deliberate on 'how' the Board and Senior Management will demonstrate compelling leadership on the trust agenda.**

Leadership to drive this into the organisation is required at all levels. It's not an optional extra nor is it 'for someone above my paygrade' to address. Driving more communication about leadership expectations on creating and protecting trust at an individual, team and whole of bank level is required. One way to achieve this is to tap into the power of the authentic informal leaders found in every organisation, identify who they are and their networks to break through existing management hierarchies and allow them to go 'off message' to tell the story of trust in their own words.

5 **Embed understanding of trust in what you implement, govern, measure and reward.**

Evolving customer centric strategy through the lens of what drives trust for the bank will provide greater clarity on the way in which implementation efforts should be organised, how governance should be designed, how performance is measured and how difficult situations are dealt with to build and sustain stakeholder trust.

The new reality is not just about those moments of delighting the customer; the reality needs to extend to reducing the outliers to tarnish the value of the bigger efforts to engender trust. Here the use of insights from customer feedback loops in predictive analytics and behavioural economics to identify potential outliers before they become outliers may be particularly helpful.

Be clear on the critical few programs, governing mechanisms and ways of working that underpin the way the bank

3 **Take a holistic, multi-dimensional approach to understanding what causal relationships drive trust.**

It is critical to understand deeply how interactions with regulators, customers, business partners, employees, shareholders and other stakeholders in different situations impact their experience of the bank's competence, experience and values. What does the bank do for its stakeholders in all interactions to improve their experience and help them appreciate the banks competence and values. Here we believe the industry could benefit from applying its expertise in root-cause analysis of business processes to an analysis of break-points in trust by stakeholder groups.

These findings become the bank's 'trust truths', informing the most important customer-facing processes and activities, clarifying what activities are most critical to commence or continue and which can be abandoned or reversed.

wants its stakeholders to experience them, paring back those efforts that are not in service of those experiences. Restoring trust is a long game, requiring a prioritised plan and recognition of the need for patience; trust can only be built up step-by-step; symbolic actions can only be helpful to change perceptions if the substance of the business can withstand the scrutiny.

Specific trust drivers, such as reporting practices, sustainability efforts, and governance structures, can be identified and analysed according to the effects they have on the trust profile. The company can use this information to shape its behaviours and culture to achieve its purpose. Here a leadership and management focus on getting behaviours right across the organisation can be particularly effective so long as it is done patiently and consistently, and in way which is authentic and resonates with staff.

The benefits for the banks of taking action are increasingly clear

- The chances of success in implementing customer centric strategy in service of shareholder, customer, regulatory and societal objectives will increase
- The banks will be on the front foot when a crisis inevitably arises and will enable them to arrive quickly at a high integrity response
- The banks will have a much more meaningful platform to overcome stakeholder scepticism
- Banks will have greater freedom to be true to their values and the breathing space to get on with their purpose

Preparedness for success in the future industry landscape, increased organisational resilience and improved performance will flow from engaged employees, loyal customers, and better relationships with business partners and regulators.

Finally, understanding and addressing the causes of stakeholder scepticism will not only improve investor sentiment, but also create fresh opportunities for the industry to lead on the trust debate beyond banking and beyond Australia.

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