Santa Claus, financial advisers, and trust

David Greenslade | Strategi | 10 December 2013

Santa Claus was a magical yet real person when I was young. I wrote him notes, put out milk and carrots for his reindeer. On Christmas Day, the milk was gone, the carrots had been nibbled and all the toys I had listed in my letter to Santa at the North Pole were at the bottom of the Christmas tree! I believed in Santa until I got to primary school and some of the older boys told me he was not real. Despite my parents repeated assertions that Santa truly did exist, I eventually came to realise that he was in fact just a myth and part of a widespread, innocent fantasy.

Today, if you Google "trust in Santa Claus" you will be bombarded with articles and research informing you that perpetuating the Santa myth is a breach of trust, a harmful lie and the beginning of the end when it comes to kids trusting their parents. These articles point out that while claiming Santa is real is harmful to kids, talking about Santa as a fantasy person like Peter Pan, The Tooth Fairy and Easter Bunny is fine - provided it is kept within check and, if a child specifically asks if Santa is real, you tell them the truth FIRST TIME.

You may be asking: "What has believing in Santa got to do with financial advisers and trust?"

According to the Wharton School of Business, there are three levels of trust in the adviser-client relationship.

The first is trust in the technical competence and know-how of the financial adviser. Investors are looking for someone whose level of competence inspires trust. In other words, an investor generally seeks an adviser who is experienced and knowledgeable, one who can help the investor make, or who will make on the investor's behalf, difficult financial and personal decisions. This trust is encapsulated in the question "Do I trust that you know what you are doing?"

To help build trust in this area, you can show you have all the requisite qualifications, and include client testimonials and case studies in your promotional material which show your expertise. Rachel Croson, professor of operations and information management at Wharton, suggests advisers may be hurting their credibility by NOT emphasising their expertise enough.

Harking back to Santa, when we are young, he seems incredibly trustworthy and competent:
- He seems to always know what we want;
- He always delivers on time;
- Our friends tell us he makes their wishes come true too; and,
- We are surrounded by images showing Santa performing his job.

The second level is trust in ethical conduct and character. While many advisers tend to think of trustworthiness as simply a function of personal and/or industry ethics, Croson believes consumers distil this level of trust into one basic yet critical question: "Do I trust you not to steal money from me?"

This is precisely where an adviser's reputation comes in. Research by marketing professor Eric Bradlow of Wharton indicates consumers look more favourably on advisers associated with well-known companies, especially companies with high brand awareness which have invested into building a trusted brand persona.

Back to Santa - the myth has perpetuated trust in Santa's conduct:
- he keeps secrets
- he's a nice, friendly old man who loves everyone; and,
- there is no fear that Santa is going to "steal my new toys before they get to me".

The third trust is trust in empathic skills and maturity. James Grubman, a US specialist in wealth counselling, calls this relationship competence. He points out this may be the most critical level of trust as without it, the relationship will be very fragile. Investors need to be able to trust their adviser to handle personal issues and sensitive information with empathy and tact.

Santa certainly does this well:
- He doesn't gasp and say it is unreasonable and unrealistic to ask for that toy;
- He quietly sits there, listens, nods and smiles; and,
- We know he is absorbing every word that child on his knee is uttering (yeah, right!).

The Wharton study asked clients for the most important characteristics of a financial adviser. The results:
- Trustworthiness 69%;
- Understanding family needs and goals 20%;
- Communication practices 16%;
- Low cost services 12%; and,
- Investment performance 10%.

What we need to do as part of our new-year resolutions and business planning is spend more time figuring out how to build greater trust with clients and prospects. So enter this as a key requirement on your new 2014 professional development plan - and then seek training to meet the aims and objectives of your plan!

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