Why do you Trust me?

A Structural Equation Model of Trustworthiness in Financial Advisory

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Abstract

The paper provides a comprehensive model of trust formation in financial advisory using a dataset of 1,184 Italian advisors that differ across some specific characteristics (bank advisors or tied agents, market maturity of the bank/institution they work for, that is new player or incumbent). The goal is twofold: on one side, we aim at demonstrating the validity of a trust-formation model that explicitly accounts for both a professional and a relational component; on the other, we wish to investigate whether different types of financial advisory induce different trust formation processes. The latter goal is of particular relevance with respect to the introduction of the MiFiD II Directive, as different trust formation processes may rely on features that are differentially affected by the regulatory changes. Through the estimation of a structural equation model, we are able to prove both its validity and the differential impact of the two dimensions in the trust-formation process. In particular, we find that the novelties introduced by the legislator, favouring the anticipated reciprocation dimension, could help increasing competition in the advisory industry. In fact, this dimension is the one that plays a fundamental role for the advisors of new entrant institutions and that could help support their accreditation in the market.

1. Introduction

The Italian market for financial advisory services is characterized by different professional figures that are entitled to provide advice. Broadly speaking, they can be divided into bank financial advisors, who are bank employees, financial advisors that work as "tied agents" and private bankers, who in general accrue to

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a more affluent clientele: private bankers can be either bank employees or tied agents. According to the 2017 Global Investor Pulse Survey by Black Rock[2], Italian investors are the ones that rely most on financial advisory services: 29 percent of investors recur to the services of a financial advisor, compared to a European average of 20 percent and the 15 percent recorded in the United Kingdom. About 59 percent of those who use financial advisory services in Italy rely on a *bank financial advisor*, while 24 percent prefer advisors that are tied to banks or investment firms (tied-agents) and 11 percent choose instead to work with private bankers. Satisfaction in the services provided is higher for private bankers (45 percent) and lowest for bank advisors (38 percent), with tied agents scoring a 44 percent satisfaction rate.

It is interesting to also look at which are the features that drive Italians towards professional financial advice. Half of the individuals polled report quality of the services provided as the most appreciated feature of the financial advisors, but the ability to understand the short-term goals of the client and provide advice in line with their risk profile are tied at second place in the ranking, mentioned by 41 percent of the clients. Third in the line of appreciation motives is the frequency of meetings, alongside the ability to understand long-term financial goals. This suggests that advisors provide a very complex and diversified service that is evaluated not just in terms of results, but also in more personal and relational terms.

These considerations are echoed in the 2017 Report on Financial Investments of Italian Households (CONSOB 2016), which shows that inspiring confidence and receiving positive recommendations are by far the two most selected features behind the choice of a given financial advisor, with competences lagging at the third place by a large margin. In fact, the first two motives are chosen by almost 40 percent of investors who hold at least one risky asset, with competences chosen by less than 20 percent of them.

The scientific literature has not been silent on the plurality of services that financial advisors provide and has looked into purely professional and thoroughly personal and emotional motives (see (Cruciani 2017) for a review). Behavioural finance explores the plethora of cognitive and emotional biases that any individual faces when dealing with financial markets, and shows univocally their pervasiveness. Overall, the picture painted by scientific studies shows that a prominent role of financial advisors is played by emotional support. Just like patients need to also rely emotionally on their doctors to face a treatment that they sometimes do not fully understand, so investors need to have someone who can help them deal with the ups and downs of financial performance at emotional level. In this sense, financial advisors can be seen as "money doctors" (Gennaioli, Shleifer, and Vishny 2015a).

While it is undeniable that the professional component – namely providing quality financial services - plays an important role in the profession, the evidence presented so far seems to suggest that the personal/emotional component is not less relevant for financial advisory services. The ultimate question is

[2] https://www.blackrock.com/it/investitori-privati/approfondimenti/investor-pulse/la-consulenza-finanziaria accessed on January 12, 2018

what ultimately drives trust in financial advisors and how the professional and the personal components fare with one another.

The recent introduction of the MiFID II Directive (European Parliament and Council of the European Union 2014) importantly affects the landscape in which financial advisors operate in the European Union, by introducing more stringent requirements in terms of transparency of product features and of the costs of financial advice. Understanding what drives trust in financial advisory is of paramount importance in a time of change like the one we are living in, especially as several of the new requirements directly affect more the professional than the personal component of trust.

In this paper we try to provide a comprehensive model of trust formation in financial advisory using a subset of Italian advisors that differ across some specific characteristics. The goal of the paper is twofold: on one side, we aim at demonstrating the validity of a trust-formation model that explicitly accounts for both a professional and a relational component; on the other, we wish to investigate whether different types of financial advisory induce different trust formation processes. The latter goal is of particular relevance with respect to the introduction of the new normative requirements as different trust formation processes may rely on features that are differentially affected by the regulatory changes.

The next section formalizes our research agenda in the scientific literature, while section 3 follows on with the role of trust in financial advisory. Section 4 provides more details on the Italian financial advisory services, section 5 formalizes the research questions, section 6 introduces the survey used to collect the data and describes the sample, section 7 presents the structural equation model used to model the trust formation process and section 8 presents the results, which are commented in section 9 that includes conclusions and policy implications.

2. Literature review

Trust permeates our lives: family, work, relations, decisions, politics, etc. In the economic field, “virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time” (Arrow, 1972). Trust is particularly important also in financial markets, where people depart with their money in exchange for promises. (Guiso, Sapienza, and Zingales 2008a)

If we look for a general definition of trust, it represents our expectation that another person (or institution) will perform actions that are beneficial or at least not detrimental to us, regardless of our capacity of monitoring those actions (Gambetta, 2000). Trusting someone implies that we think that she will engage in beneficial and non-detrimental action so that we will consider cooperating with her.

The relevance of trust has been recognized in different research fields: sociology (Luhmann 1979), marketing (Morgan and Hunt 1994), organizational behaviour (Kramer and Tyler 1996) and online commerce (Gefen, Karahanna, and Straub 2003). Other studies have focused on its implications in economic and political fields (Knack & Keefer, 1997; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997; Putnam, 1993). In finance, major contributes have been developed by Guiso, Sapienza and Zingales (Guiso, Sapienza, & Zingales, 2004, 2008) and Georgarakos & Pasini (2011), who have studied the role played by trust in stock market participation, showing that people who trust less other individuals are also less willing to buy stocks.

As far as financial advisory is concerned, trust plays a fundamental role also in the relations between investors and their advisors. The need for advisory originates because financial information – necessary to make good investment decisions – is often imperfect, incomplete, complex and expensive to get. Several empirical researches prove that individuals make large use of advisory, even if its economic advantage is sometimes ambiguous (Bergstresser et al., 2009; Del Guercio et al., 2010); Chalmers and Reuter 2012); Hackethal, Haliassos, and Jappelli 2012). The literature has extensively investigated the reasons for this and there is consensus in claiming that the expected performance of investments is only a part of the story. In fact, many financial brokers and advisors do not advertise their services based on past performances but rather on trust, experience and trustworthiness (Mullainathan, Schwartzstein, and Shleifer 2008). Gennaioli et al. (2015) propose a model in which the advisor has a double role: on one side, he must diversify away risk and get positive returns for the investor; on the other side, he guarantees a sort of "internal peace of mind" to the investor, who would be too nervous and anxious investing autonomously his money. In such a framework, trust towards the advisor is developed through personal relationships, familiarity, an effective advertisement of the service, connections with colleagues and friends, communication and socialization. Such a notion of trust moves along two dimensions: it is a guarantee against expropriation and theft (Georgarakos and Inderst 2011; Guiso, Sapienza, and Zingales 2004, 2008) but it is also a way to reduce the anxiety about getting risk. Gennaioli et al. (2015) use the expression "money doctor" to suggest that advisors are similar to doctors: they help their "patients" in the investment process and get trust back from them. In this view, clients are not able to judge completely the advice (and even they want to do it) but they prefer to trust the advisor and benefit from the peace of mind that derives from this choice.

Moreover, the ability to get and maintain clients' trust can help advisors to keep under control their cognitive biases, for example loss aversion (Kahneman and Tversky 1979; Tversky and Kahneman 1992). In fact, although the empirical research is unable to univocally demonstrate that having an advisor guarantees better financial performances (Hackethal, Haliassos, and Jappelli 2012b), some studies show that portfolios managed by a financial advisor are less frequently subject to specific cognitive biases (e.g. the disposition effect (Shapira and Venezia 2001)) with respect to those which are autonomously invested in the market.

However, other authors claim that, in all processes mediated by trust, advisors are not able to fully play this role; they are, on the contrary, tempted to follow investors' beliefs, above all if this implies investing more and in more risky asset classes: in fact, such choices can guarantee to advisors higher commissions. In particular (Mullainathan, Noeth, and Schoar 2012) finds that advisors tend to "cater to" investor biases, especially if so doing guarantees higher commissions.

Moving from this evidence, this paper investigates for the first time in a detailed way the elements that characterize the birth and strengthening of trust in the relationship between client and financial advisor. In particular, we aim at verifying if trust is based only on mere economic advantage (anticipated reciprocation in what follows) or if, instead, it is a social norm (which supports the vision of the advisor as a money doctor). In fact, in the economic literature, the trust process between client and advisor is usually described as a circuit, where the client makes his first move showing himself trustful by giving his money to the advisor and, after that, the advisor shows himself trustworthy suggesting investment alternatives that meet the client's expectations. This circuit is known as the Trust Game in the literature (Berg, Dickhaut, and McCabe 1995a), and represents a valid tool to proxy and measure trust and trustworthiness. The Trust game represents the workhorse upon which the model presented in this paper is based upon and is described in more detail in the following section.

3. Modelling trustworthiness

3.1. *The circuit of trust and trustworthiness*

As the previous section highlighted, trust and its corresponding counterpart – trustworthiness – have been variously defined in the economic literature. Despite numerous attempts to provide a unified definition, trust has been characterized in many ways, which all share two crucial common elements. Trust facilitates all sorts of human interactions, from closing more casual agreements to drafting parsimonious contracts, and is characterized by an inevitable degree of risk.

One of the most widely used models of trust is the Trust Game (Berg, Dickhaut, and McCabe 1995b), which has been used to study which are the drivers of trust and trustworthiness in a streamlined economic interaction. The game involves two players: one player is endowed with a sum of money, which he has to decide to invest in full, in part or at all with the second player. In the original version of the game, the investment has a sure return, known in advance, thus, the only element of risk lies with the second player. In fact, it is the second player who independently decides whether to return some, all or none of it to the first player. The beauty of the Trust game is that it has a simple rational equilibrium that serves as a benchmark to study behaviour. Rational forward-looking, utility-maximizing individuals anticipate that parting with any sum of money implies diminishing one's economic performance. In fact, no rational

second player would ever return anything, thus, no rational first player would ever transfer anything, anticipating the behaviour of the second player.

Despite this stark prediction, participants in the game tend to exhibit a very different behaviour: there is a significant number of cases where individuals do transfer money (on average 50 percent)– showing trust in their counterpart – and individuals receiving money do return some (on average about 95 percent of what was initially transferred). (Camerer 2003) shows that these early results have been replicated in a number of other experimental studies, with slightly different experimental conditions. See (Johnson and Mislin 2011) for a meta-study of 119 experimental papers that use variations of the trust game.

The experimental research on the trust game aimed at identifying the main motives for deviating from the purely rational prediction of no investment. The two main lines of reasoning that research identifies are anticipated reciprocation and the role of social norms. Anticipated reciprocation suggests that individuals may consider that a trusting act is likely to be reciprocated. Making the investment is socially welfare-improving because the investment always yields a positive return: the second player starts out with nothing (in general) and may manage to finish the game with a positive amount of money only thanks to the trusting act of the first player. The more the game is repeated, the stronger the reciprocation motive becomes, as the chances to prove trusting and trustworthy multiply.

While anticipated reciprocation focuses on the idea that trust can foster higher outcomes for both players, the tendency to trust and be trustworthy may be induced by immaterial considerations, such as the idea that trusting is the correct pattern of behaviour – a norm. Such social norms regulate behaviour in the sense that they make the act of trusting and being trustworthy socially sensible. Social norms are not necessarily grounded in material considerations, although trusting and being trustworthy do end up in superior material outcomes (at least at aggregate level).

The Trust Game paradigm may be applied to any economically relevant interaction in which money is at stake, but it bears a special resemblance to an instance in which one individual chooses to entitle another to manage his money. This client-advisor relationship can then be seen as a “circuit of trust and trustworthiness” where different motives define the nature and quality of the client-advisor relationship and may apply. The “anticipated reciprocation” motive suggests a relationship based on short-term considerations, where trust (in the form of providing money to invest) is “rewarded” by financial results that are timely and objectively measurable, that end up describing the advisor’s trustworthiness. The idea of trusting the advisor because he is perceived as a trustworthy professional is more akin to the concept of social norm. It allows for a wider time perspective, as financial results and the ability to document them are not at the basis of the perceived trustworthiness of the advisor.

3.2. The relevance of trust for financial advisory

Understanding what lies at the basis of a successful client-advisor relationship is of paramount importance to contribute to the effectiveness of the financial markets. Financial advisors perform a variety of functions (see (Cruciani 2017) for a review). Despite the fact that experimental evidence shows that their services tend to cater more frequently to literate individuals (Collins 2012; Debbich 2015; Hackethal, Haliassos, and Jappelli 2012c), the fact that they develop a trusting relationship with their clients can be seen as a way to transfer information more effectively and even perform some financial education (Cruciani and Rigoni 2017).

The regulation of financial intermediaries is a core element in ensuring that individuals are enticed to participate in and profit from financial markets. After the very recent introduction of the MiFID II Directive in Europe, increased attention has been brought to issues of transparency and consumer protection across all financial intermediaries, including financial advisors (European Parliament and Council of the European Union 2014). Financial advisors are facing new requirements in terms of education and training and in terms of cost disclosure. The services they provide will have to be clearly defined (including underlining which are the benefits they bring about) and transparently priced. This new sets of requirements is aimed at improving the quantity and quality of the information that clients receive and use to make investment decisions, but is not entirely devoid of risks. Behavioural sciences have shown that individuals face cognitive overload when faced with too much information, which should raise some concerns as for the efficacy of this information transmission. Nevertheless, increased transparency and information are key to the objective of increasing the perceived professionalism of financial advisors, very much in line with the paradigm of anticipated reciprocation introduced in the previous section. Having more and better information on what an advisor does and how he does it may help building clients' confidence and eventually trust.

Moreover, financial advisors are also able to provide support in dimensions that have little to do with the objectively observable features of the advisor-client relationship, such as dealing with emotional and cognitive biases, with the former being particularly relevant in the previously mentioned "money doctor" literature. Unlike cognitive biases, which are easier to describe and to mitigate through the advisor's guidance, emotional biases are very often difficult to accept and address even when made conscious. (Pompian 2006) for instance suggests that the latter type of biases should be "adapted to" when devising a behavioural portfolio, while cognitive biases should be "mitigated". In the "money doctor" literature, trusting the advisor is the way through which individuals manage to face participation in the financial markets in some cases. In this context, trust is more similar to the paradigm of social norm introduced in the previous section: clients trust advisors because it is the right thing to do for them, for dealing with their insecurities and anxieties, even when they are not aware of them. Putting a price tag on the time an

advisor spends with a client may not be the best way to capture the emotional support that an advisor provides, especially if this support is subtle or the client is not even consciously aware of needing such a support. Moreover, receiving more information may even worsen some emotional reactions to market fluctuations. Thus, it seems that MiFID II is going in a direction that favours the anticipated-reciprocation paradigm more than it does the social-norm one when dealing with trust.

Previous research by the same authors (Cruciani et al, forthcoming) has shown that both paradigms are present in the determination and evolution of an advisor-client relationship looking at a sample of financial advisors from the largest association of Italian professional financial advisors. Given the potential impact of the new requirements introduced by the new European regulation it becomes even more important to understand what drives the process of trust formation in the professional relationship with an advisor, to better gauge the impact of the regulatory changes.

Moreover, this article wishes to explore further the role of the dimensions of anticipated reciprocation and of social norm in the construction and evolution of trust in the advisor-client relationship using a broader sample of Italian professionals, which includes different organizations that have different business practices. This may also help shedding light on the possible differential impact of the new Directive on businesses that differ on specific accounts, to assess whether specific traits are more likely to put one of them at a disadvantage.

In order to look in a more comprehensive way at the trust-formation process, a structural equation model has been defined and tested using the dataset of Italian financial advisors. The structural equation model allows to simultaneously look at both the paradigms of anticipated reciprocation and social norms and at how the two relate to trust itself. This work takes on the perspective of the financial advisors, thus focusing on the characteristics that, according to advisors are key in building a trusting relationship with their clients. The next section will provide more details on the questionnaire design and data collection process, to then move on to the theoretical underpinnings of the structural equation model and describe the variables used to estimate it, enunciating as well the research hypothesis of this research paper.

4. The Italian financial advisory industry

4.1. Overview of the industry

The Italian financial advisory industry is a very diversified industry that basically comprises two main types of advisors: bank financial advisors and tied agents. While the former are usually bank employees and perform most, if not all of their functions, inside the bank offices, the tied agents are professionals that work for a bank or an investment firm but have their own office or visit clients at their homes. All tied agents and some bank advisors need to pass an exam to join the National Financial Advisory Register. The

bank advisors who pass the exam are entitled to offer their services even outside the bank, although they remain bank employees.

For the purposes of this paper, the phrase “tied agents” will refer to professionals who work for a bank but are entitled to offer their services anywhere (and are not formally employees of the bank or investment firm they work for), while the phrase “bank financial advisors” will refer to individuals who are bank employees who offer financial advice services at the bank offices.

4.2. The organisms involved in the study

We managed to involve in the study three different groups of financial advisors, which differ in terms of professional qualification of financial advisors (either tied agent or bank advisor) and of market maturity (new player or incumbent). These three groups will be referred to as A, B and C.

Group A represents a large association of financial advisors active throughout Italy that encompasses tied agents working for different banks or financial networks. In terms of maturity, the banks and investment firms these advisors work for can be considered incumbent.

Group B represents a relatively new player in the financial advisory industry. Traditionally it used to offer different services, some financial – mostly related to savings – and some non financial, and has recently started to offer financial advisory services. This player is active throughout Italy, but the sample involved comes from the Veneto region only. In terms of professional qualification, all individuals from group B included in the study are bank advisors.

Group C represents bank financial advisors from a cooperative bank based in the Veneto region. The bank has a long tradition in the territory and can be considered an incumbent player in the industry.

5. Research hypotheses

Given the above considerations regarding the circuit of trust and its possible applications to the Italian financial advisory industry, namely to the organisms that participated in the study, we posit the following research hypotheses.

1. It is possible to estimate the latent processes underlying the anticipated reciprocation and the social norm paradigms using the questionnaire developed for this study.
2. The differences in the business model across the organisms studied suggest that the two latent processes underlying trust play different roles across them.

    2.1. Incumbent organisms are less subject to the paradigm of anticipated reciprocation compared to new entrants in the financial advisory market.

6. Survey data & collection

6.1. The Questionnaire

In order to analyse the two dimensions of the investor/advisor trust relation – i.e. the anticipated reciprocation *versus* the social norm (where the advisor is perceived as a money doctor) – we designed a survey made of 27 questions, organised into different sections. Each section investigates different aspects of the advisory profession and of the trust relation identified so far by the relevant literature. The questionnaire takes on the perspective of the financial advisors, ultimately investigating what advisors believe is more conducive of trust in the way they perform their services and functions. We finalised the questionnaire after meetings with financial advisors and during focus groups. The general goal of the paper is to evaluate how and to what extent the dimensions identified by the theoretical and empirical literature affect trust, namely, the anticipated reciprocation and the social norm paradigms. The literature and the focus groups allowed us to identify a broad list of items that characterize these two dimensions, which we used to design questions in order to measure their importance and indirectly their weight in building and maintaining trust. Overall, we collected 113 different variables that cover several of the aspects of the two dimensions (anticipated reciprocation/social norm). The sections of the questionnaire allow, for example, distinguishing between the technical content of the advice and the relational features that permeate the interaction between client and advisor. Clearly, the technical content of the advice refers to the economic advantage dimension (anticipated reciprocation) and can be used to monitor the importance over time of characteristics and performances of the products offered by the advisor. It is important to understand whether trust depends only on the advisor's ability to manage effectively her clients' money (and to communicate it) and whether the importance of these aspects strengthens trust over time.

On the other hand, the relational dimension (measured e.g. through the number of meetings with the client and through the topics discussed during the meetings) refers to the social norm area. In the questions targeting this paradigm of trust and trustworthiness, we try to investigate whether trust depends also on aspects other than performances and returns and, if yes, which is their role and weight with respect to the pure economic advantage dimension. Our hypothesis is that trust is a multi-dimensional concept, characterized by a mix of items that refer to both the above-mentioned paradigms.

The questionnaire contains also a broad section regarding advisors' individual characteristics, including standard socio-demographic questions (as age and gender), some standard measures of trust (as the Generalized Trust Index formalized in the World Social Survey and the Inter-organizational Trust (Zaheer, McEvily, and Perrone 1998)), risk aversion, professional experience (like, e.g., years of experience and dimension of their assets under management).

The questionnaire includes also a reduced version of the *Big 5 Personality Scale* developed by Gosling, Rentfrow, & Swann (2003). This set of questions allows computing a score for each advisor with respect to its extroversion, openness, conscientiousness, emotional stability and agreeableness. The personality traits are considered not modifiable[3] and univocally characterize each individual. Some of these traits not only describe the characteristics of the personality but also are considered motivational (McCrae and Costa 1992), i.e. they suggest that a person having a particular trait will behave accordingly. For example, being talkative induces to talk more with respect to being shy or, in the case of advisory, being a conscientious and emotionally stable person could facilitate the advisor in playing the role of emotional filter in respect of the above mentioned investors' anxiety when investing in the market.

The questionnaire includes questions that do not simply differ on focus (anticipated reciprocation or social norm) but also on format used. Combining questions that have such different formats and having used different rating scales is considered a way to reduce the method bias (Podsakoff et al. 2003).

6.2. Description of recipients & submission periods

As previously described, we involved in the study three different groups of financial advisors that differ along two dimensions: professional qualification (either tied agent or bank advisor) and market maturity (new player or incumbent).

Group A involves tied agents working for different banks or financial networks that are incumbents in the market of financial advisory. We distributed our survey to this group of advisors in June and July 2016 through emails and their Newsletter. We collected 1.209 responses, 777 of which were complete in all parts. Our respondents come from all Italian regions, except for Valle D'Aosta (North West of Italy). The most represented regions are Lombardy, Veneto, Lazio, Emilia-Romagna, Piedmont and Tuscany. Coherently with the reference population, where men are slightly less than 84% of all members, our sample counts 88% of men, with an average age of 53 years old (minimum 28, maximum 78). Women are between 27 and 70 years old (average 50). 34% of all participants declare to have a college degree, 8% to have higher university education, whereas the remaining sample has a diploma. On a professional basis, the sample is homogeneous: in fact, 100% is made of tied agents, 10% of which are also managers or executives. As far as the professional life is concerned, the sample offers higher volatility: if we consider all the professional experiences had by each respondent in all banks/networks, the years worked go from 1 to 48 years, with an average of 22 years. However, only 25% of respondents has more than 29 years of experience. As far as the number of clients is concerned, more than 38% declares to have between 100 and 200 clients, around 30% declares to have more than 200, 12% has up to 50 and the remaining 20% has

[1] The literature agrees on the fact that the personality traits are stable over time. See, e.g., Borghans, Duckworth, Heckman, & ter Weel, (2008), McCrae & Costa, (1992, 2004), Soldz & Vaillant, (1999).

between 50 and 100. In conclusion, the assets managed go from a minimum of 470,000€ up to a maximum of 75 million.

Group B represents a relatively new player in the financial advisory industry. Traditionally it used to offer different services, some financial – mostly related to savings – and some non-financial, and has recently started to offer financial advisory services. This player is active throughout Italy, but the sample involved comes from the North East only. In terms of professional qualification, all individuals from group B included in the study are bank advisors. We submitted our questionnaire in December 2016 and we got 262 complete responses. Around 66% of our respondents are women of age between 23 and 63 years old and a professional experience in the advisory field of 10 years. Men are 34% and are on average 42 years old (minimum age 23; maximum age 62), with an average professional life in advisory of 8 years. It is interesting to notice that the percentage of women is higher with respect to that of men. This evidence reflects the characteristics of this group, where the personnel is predominantly made up of women (but is in contrast with the population of all financial advisors registered in Italy, where women are only 17%). The professional life of both men and women is low (9 years). This depends on two factors: this group became a financial intermediary only recently and used a policy aimed at training the internal personnel rather than hiring professionals from other banks or financial organizations; secondly, they entrusted the advisory service to College graduates. In this regards, 26% of our respondents is between 25 and 35 years old and 67% of them has a College degree. Considering the whole sample, 24% has a degree, 2% has a master or a higher degree and the remaining 74% has a diploma.

Group C represents bank financial advisors from a cooperative bank based in the Veneto region. The bank has a long tradition in the territory and can be considered an incumbent player in the industry. This bank has very peculiar characteristics[4], for example the mutualistic nature, which has been investigated also in the literature. (Monti et al. 2014), for example, study a group of Italian cooperative banks and find that this characteristic affects positively the level of trust. They claim that it contributes to create an institutional structure that aligns the advisor's interests with the investor's ones and so the latter trust more the former. Another important element of this bank is the localism. The literature about this issue has produced interesting results. In particular, (De Bruyn and Ferri 2005; Goddard, Molyneux, and Wilson 2001) have shown that local banks have higher performances thanks to their informational advantages given by proximity. These advantages characterize what is called relational lending that is the possibility to directly know the clientele, its characteristics, its soft information and thus efficiently evaluate their credit merit

[4] The cooperative feature, for example, requires having at least 500 business associates, or else the bank must be liquidated. Every associate has a single voting right, in order to guarantee a sort of "economic democracy". The maximum nominal value of the shares that an associate can held is 100,000. They are mutual banks and, in particular, their mutualistic nature consists of not distributing any dividend to their associates but guaranteeing them more advantageous banking conditions, as for example an easier access to credit.

and meet its needs (Berger and Udell 2006). Relational lending is strongly linked to trust logics, being the relation between bank and client personal and based on direct contacts among the parts. Recent studies have shown (Arnone 2015) that this kind of relation between banks and clients allowed Italian small-medium enterprises to get financing in the period of the financial crisis between 2007 and 2011. (Pauls, Stolper, and Walter 2016) demonstrate that information provided to the financial advisors of big banks are less reliable with respect to small local banks' advisors one. They claim that the interpersonal trust is more developed in the local banks because it has a "broad-scope" characterization, strongly dependent from the social and economic fabric of the territory, which increases the level of trust between clients and advisors.

We submitted our questionnaire to 145 bank advisors in the period July-December 2016. 82% of the sample are men. The average age is 42 years old and the majority of them is between 30 and 45 years old. In terms of education, 60% has a diploma and only 35% has a degree. 4% has a master degree, whereas only 1% has a secondary school certification. As far as the professional experience is concerned, the average is 16 years (median equal to 15).

For all three groups, the survey was distributed online and each respondent participated voluntarily and anonymously.

7. A structural equation model of trustworthiness

7.1. Structural equation modelling

Structural equation modelling (SEM) basically combines factor analysis and path analysis in a single model (Weston and Gore 2006). A crucial feature of SEM is that it allows studying unobserved variables, called latent variables – phenomena we would like to be able to measure, but we cannot do so directly. Latent variables could be studied simply using factor analysis. The improvement provided by SEM is that it allows also studying the relationship between different latent variables, not unlike path analysis or liner regression. SEM is composed of two sub-models: the measurement model and the structural model. The former focuses on latent variables and uses a series of observed variables to infer the latent process. Such observed variables are used in linear regressions, where the latent variable and the error term are the independent variables and each observed variable is the dependent variable in a different regression. The estimation process allows determining whether each of the observed variables significantly describes that latent process. The structural model allows describing which relationships exist between the latent variables. Such relationships can be one-sided, whereby one determined the other, or double-sided, implying that there exists a covariance between the two latent variables.

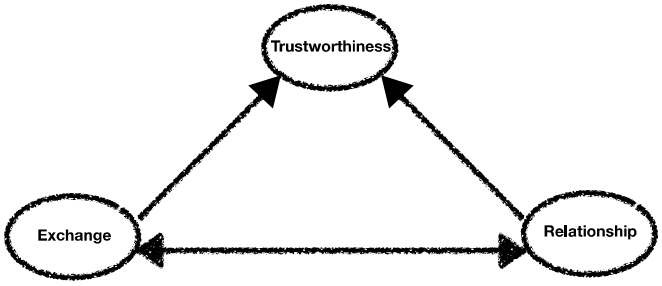
7.2. A structural equation model of trust

Building from the circle of trust and trustworthiness expressed in the Trust game and on previous findings related to the Group A sub-sample, the following structural equation model has been formalized and estimated.

The model includes three latent variables: Exchange, Relationship and Trustworthiness. Exchange refers to the paradigm we labelled anticipated reciprocation, whereas Relationship refers to the social-norm paradigm, and Trustworthiness refers to how trustworthy advisors consider themselves.

The hypothesized relationship between them is represented in the **structural model** and implies that both Exchange and Relationship contribute to determine Trustworthiness[5], while Exchange and Norm simply co-vary and do not reciprocally determine each other, but are subject to a similar variation (Figure 1).

Figure 1: The structural model of trustworthiness



For what concerns the **measurement model**, the observed exogenous variables used to construct the model have been drawn from the questionnaire, which included specific questions to address the role of each of the latent processes described above. The following table summarizes which variables have been used for each latent variable with a short description of each one.

Table 1: Exogenous variables for the measurement model

Variable code name	Variable content	Related latent process
pg9	Importance of recommendations and word of mouth among clients for clientele acquisition	Exchange

[5] In what follows we used the term Trustworthiness instead of trust, to remind the reader that we are taking solely the perspective of the advisors. This implies that advisors are discussing what they believe is likely to induce more trust from the their clients, thus making them more trustworthy

pkn1	Importance of being able to show to newly acquired clients that the investment solutions offered in the past did not incur in significant losses	Exchange
Pkn2	Importance of being able to show to newly acquired clients that the investment solutions offered in the past produced significant gains	Exchange
Pkn3	Importance of being able to show to newly acquired clients that the investment solutions offered in the past managed performances in line or above market performances, even if this implied negative returns	Exchange
Pkn4	Importance of being able to offer to newly acquired clients investment solutions that guarantee the capital invested	Exchange
Pkn5	Importance of being able to offer to newly acquired clients investment solutions that improve returns, even if this implied risking losses	Exchange
Pkn6	Importance of being able to offer to newly acquired clients low-cost investment solutions	Exchange
Pkn7	Importance of being able to offer to newly acquired clients a large/diversified portfolio of investment opportunities	Exchange
Pkn8	Importance of being able to offer to newly acquired clients a flexible portfolio of investment opportunities	Exchange
pko1	Importance of being able to show to permanent clients that the investment solutions offered in the past did not incur in significant losses	Exchange
Pko2	Importance of being able to show to permanent clients that the investment solutions offered in the past produced significant gains	Exchange
Pko3	Importance of being able to show to permanent clients that the investment solutions offered in the past managed performances in line or above market performances, even if this implied negative returns	Exchange
Pko4	Importance of being able to offer to permanent clients investment solutions that guarantee the capital invested	Exchange
Pko5	Importance of being able to offer to permanent clients investment solutions that improve returns, even if this implied risking losses	Exchange
Pko6	Importance of being able to offer to permanent clients low-cost investment solutions	Exchange
Pko7	Importance of being able to offer to permanent clients a large/diversified portfolio of investment opportunities	Exchange
Pko8	Importance of being able to offer to permanent clients a flexible portfolio of investment opportunities	Exchange
Zprof_t	Number of times a topic related to the professional experience[6] of the advisor is discussed from acquisition to consolidation of the clientele	Exchange
Zist_t	Number of times a topic regarding financial markets or market performance is discussed from acquisition to consolidation of the clientele	Exchange
Zbank_t	Number of times the bank/network the professional is associated to is discussed from acquisition to consolidation of the clientele	Exchange
zext	Extraversion score	Exchange
zopen	Openness score	Exchange
zmeet	Number of average meetings with clients	Relationship
cn	Client number	Relationship
r1[7]	Importance of quickness over detail in the answers provided to clients in establishing a	Relationship

[6] Three landmark moments in the relationship with an advisor have been identified: before the acquisition, after the acquisition and a year after the acquisition. Advisors could choose up to three conversation topics per each moment in the relationship from a list of ten different topics: the ones related to the professional experience of the financial advisor include one's experience in the current and previous financial institution, the registration into the National Register of Financial Advisors and training and education

	positive relationship with clients	
r2	Importance of informality over formality in establishing a positive relationship with clients	Relationship
r3	Importance of using own material over documents provided by the investment firm/bank in establishing a positive relationship with clients	Relationship
r4	Importance of suggesting investment solutions over following clients' ideas in establishing a positive relationship with clients	Relationship
r5	Importance of meeting a client often over having a long-lasting relationship in establishing a positive relationship with clients	Relationship
r6	Importance of being able to discuss topics unrelated to investment opportunities over discussing solely of investments in establishing a positive relationship with clients	Relationship
r7	Importance of meeting clients with flexibility over scheduling appointments regularly in establishing a positive relationship with clients	Relationship
Zrel_t	Number of times a non-professional topic[8] is discussed from acquisition to consolidation of the clientele	Relationship
zcon	Conscientiousness score	Relationship
zemo	Emotional-stability score	Relationship
zagr	Agreeableness score	Relationship
zsoc	Sociability score	Relationship
gt	Generalized trust score	Relationship
t2	Perceived loyalty of clients[9]	Relationship
t1n	Average share of financial capital invested that a client invests with the advisor at the beginning of their professional relationship	Trustworthiness
t1o	Average share of financial capital invested that a client invests with the advisor after a year since the beginning of their professional relationship	Trustworthiness
t3	Perceived trust in the advisor	Trustworthiness

The above exogenous variables have been normalized (mean=0 and standard deviation=1) in order to accommodate for the fact that they are expressed along different scales. The SEM model is estimated with the software Stata using maximum likelihood (with missing values).

8. Results

In this section, we present the results of the SEM model for the three organizations. In section 8.1 we show graphical depictions of the results, which we comment in detail in the following sub-sections.

[7] Each one of the variables labelled r1 through r7 refers to the score attributed by the advisor on a 1-7 scale to the importance of specific features of the relationship they have with their clients. Each variable features different endpoints – different possible alternative features. Thus, the score represents the relative importance of each item in the pair.

[8] The topics labelled non-professional are: family, friends and free time, other financial topics (not related to the professional relationship, such as advice on mortgages or investments with other firms/advisors), culture and sports

[9] Advisors have been asked to state the percentage of clients that they expect would follow them in case they went to work for a different investment firm or bank. As divestment may entail significant costs, perceived loyalty is a proxy of how close the relationship with the clientele is perceived to be.

8.1. Model results

We estimated the structural equation model using maximum likelihood with missing values for each of the organisations included in the dataset. We present each estimation separately below. The structural model is in bold black lines; the parameter estimated for the relationships implied in the model are reported in grey squares, alongside significance stars as explained in the legend. The measurement model is reported in thin black lines; parameter estimates and significance levels are reported next to each arrow connecting the latent processes and the exogenous observed variables used in the estimation.

Figure 2: SEM results for Group A

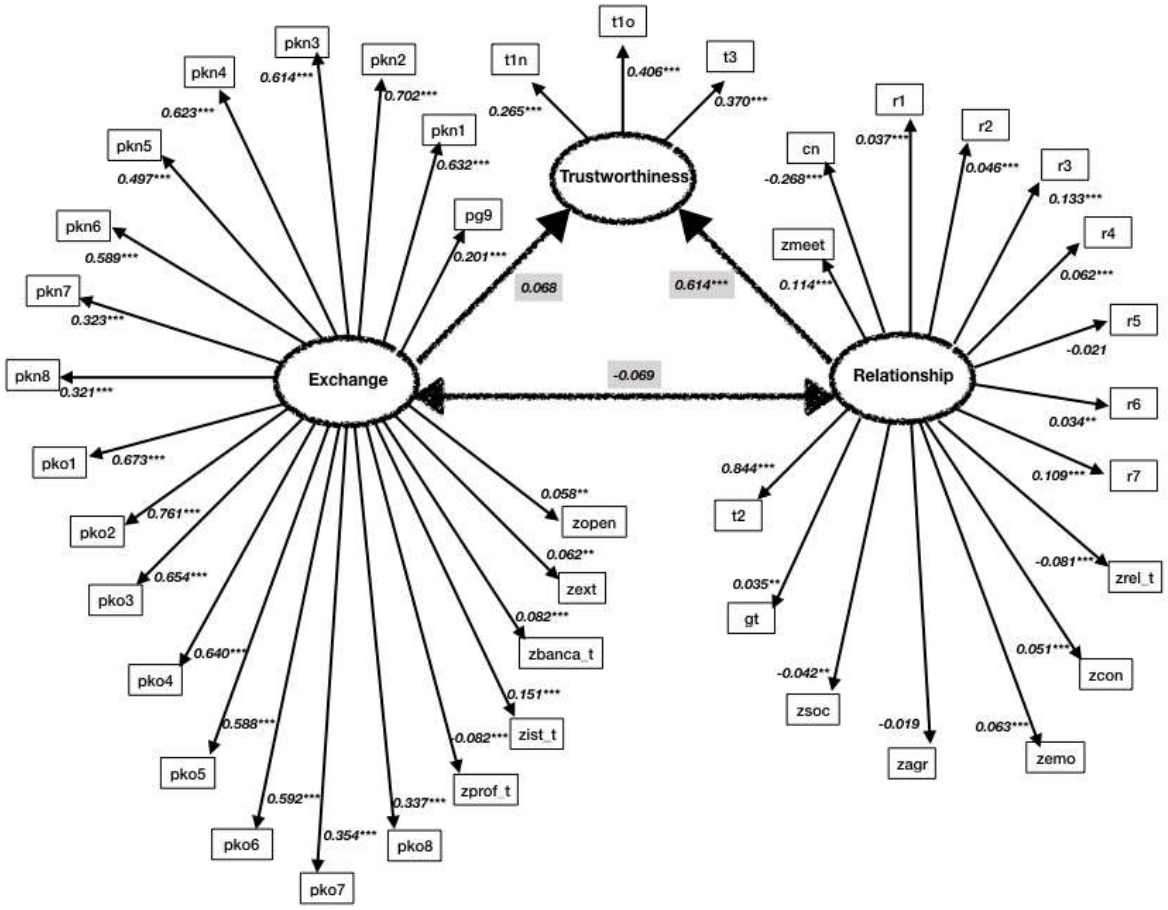


Figure 3: SEM results for the Group B

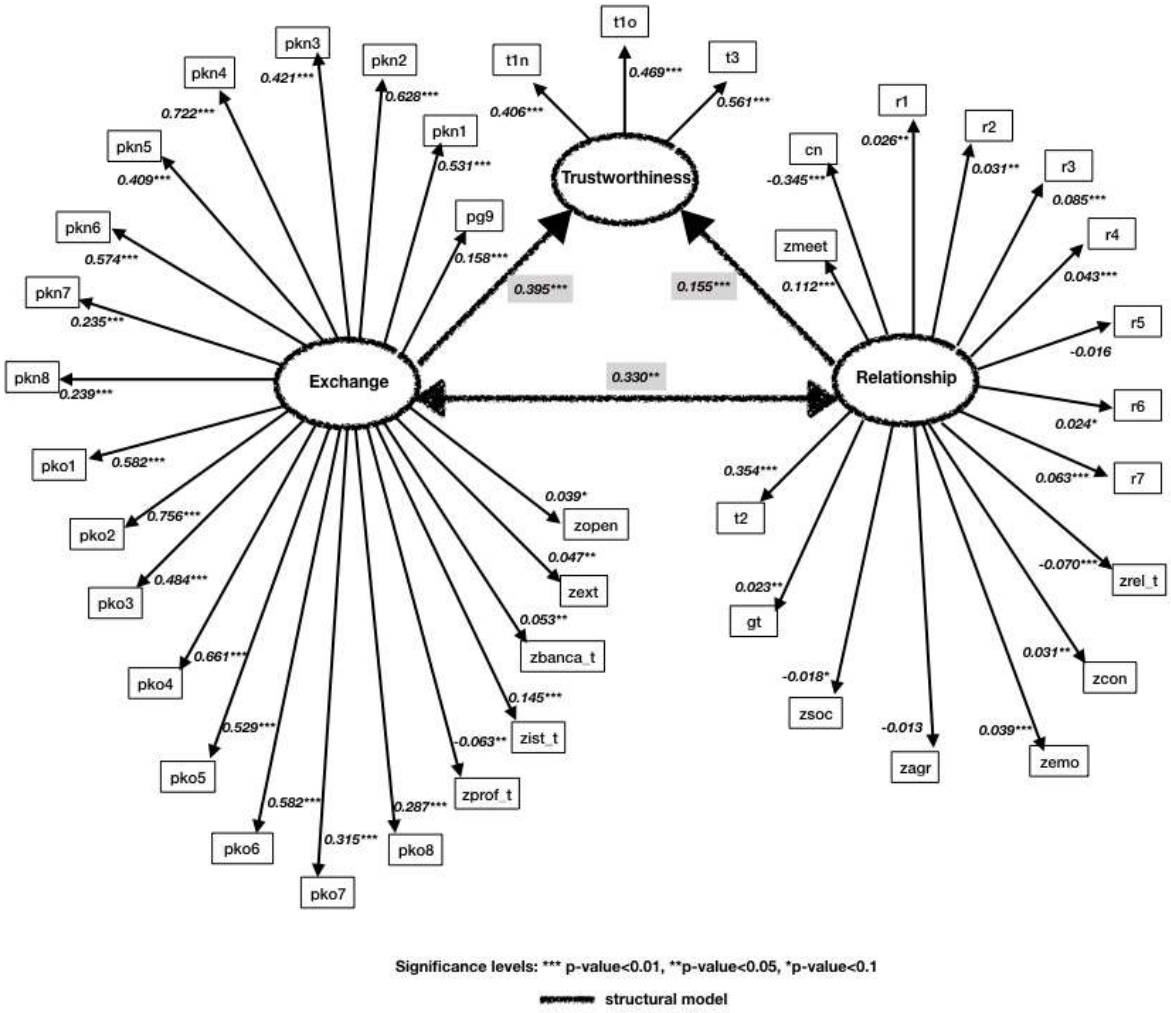
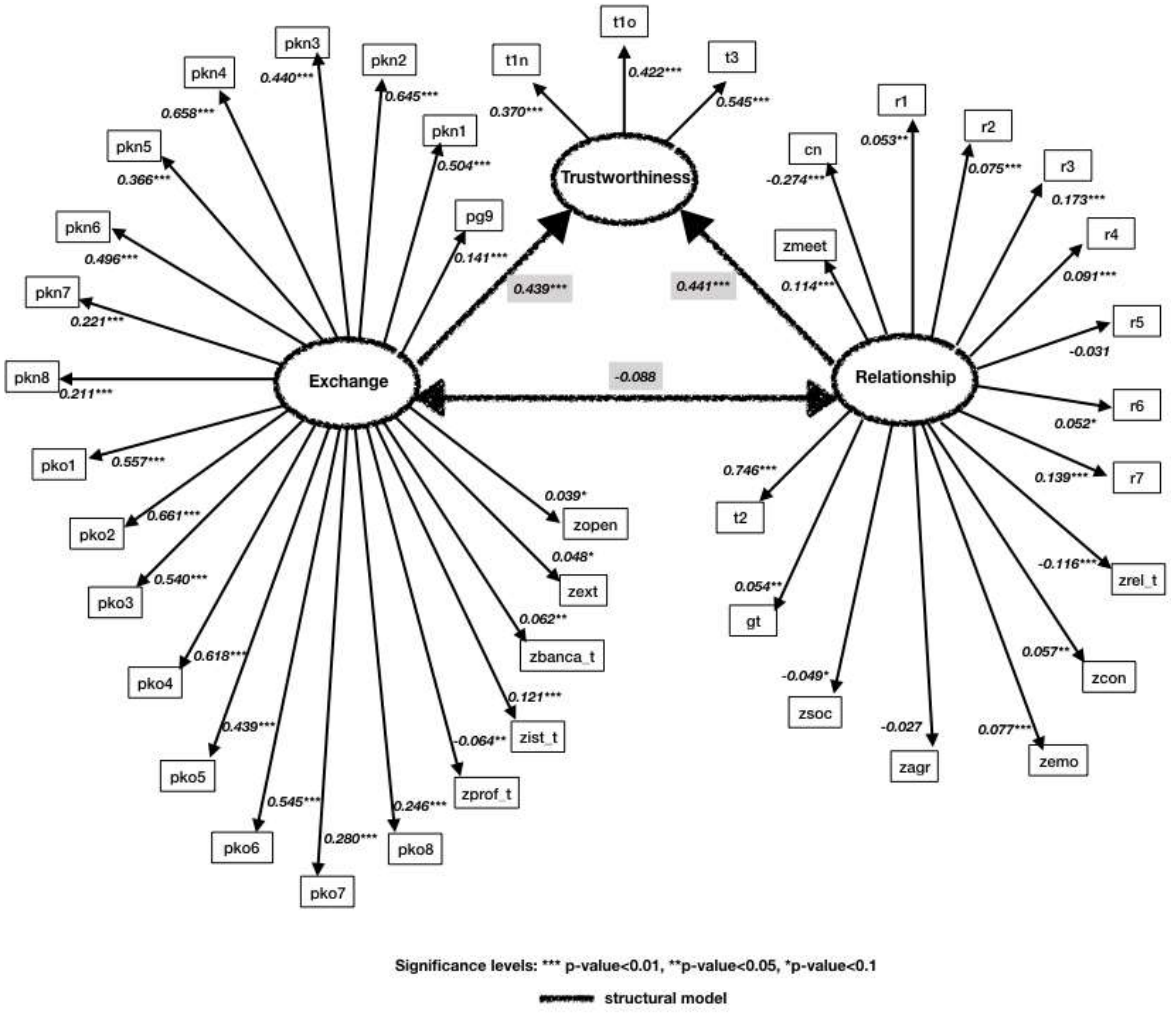


Figure 3: SEM results for Group C



8.2. Estimation outcomes

In this section we compare the results for the structural and measurement model across the three organizations in order to assess the validity of our research hypotheses.

Recall that the first hypothesis regards the existence and definition of the two latent processes that we called anticipated reciprocation and social norm. The existence of these processes has been proven in various experiments with individuals and we have hypothesized that they also feature in the professional relationship with a financial advisor. We label them "Exchange" and "Relationship" respectively.

The first element of our theory that we need to put to the test is whether the current questionnaire is able to correctly capture these latent processes. This task can be performed focussing on the outcome of the **measurement model**, which can be seen in Figures 2-4 looking at the italicised numbers next to the arrows that link each latent process with the exogenous variables used. The numbers are standardized estimates[10] and significance stars show the significance level of each parameter estimate.

Comparing Figures 2-4 we can immediately see that both the latent processes described above and the latent process labelled Trustworthiness appear to be significantly determined by the exogenous variables used to estimate them. It is interesting to see that the contribution of the different variables to the three latent processes described in the model is the same in terms of significance: only two variables appear not to be significant (r5 and zagr) across the three banks. All the other variables are significant, although there are minor differences in significance levels across the three financial organisms.

Looking at standardized estimates for each variable across them, we can gauge the relative importance of each towards the construction of the latent process. Focussing on the **Exchange** latent variable, the importance of recommendations and word-of-mouth (pg9) is relatively more important for Group A (0.20) than for Group B (0.16) or Group C (0.14), although this element is much less important than other more technical features of the exchange paradigm. For example, the importance of avoiding losses and gains increases slightly over time (from pkn1 to pko1 for instance) across all organisms, but the numbers are not strikingly different across them. Among the other technical elements of product performance, the importance of having a large and diversified portfolio (pkn7 and pko7) and flexible portfolio (pkn8 and pko8) are the ones with the smallest contribution to the Exchange paradigm and do not significantly differ across organisms. Looking at the parameter estimates, it is also interesting to mention that Group A advisors attach the greater importance to all but one element - the importance of keeping costs low - where Group B shows the highest estimate.

[10] Quoting the STATA SEM Manual "A standardized value is in standard deviation units. It is the change in one variable given a change in another, both measured in standard deviation units." (StataCorp. 2013)

Looking at the **Relationship** latent variable, we find a substantial agreement across the organisms: the element that contributes most to the social norm paradigm seems to be captured by the share of clients that would divest and follow the advisor in a new bank/organism, which is by far the most important element in terms of parameter estimates, although slightly more so for Group A (0.84, compared to 0.74 for Group C and a mere 0.35 for Group B). The other significant variables have much smaller parameter estimates, which different very slightly across organisms.

Concluding the overview of the measurement model and looking at the **Trustworthiness** latent variable, we find that all the different instances of trust are significantly contributing to it. Initial objective trust in the advisor (t1n) is relatively more important for Group B advisors than for the other organisms, especially Group A, while the importance of continued objective trust (t1o) is not very different across organisms, and the same can be said for subjective trust (t3). All parameter estimates are very significant.

Given the above considerations, we can conclude that the first hypothesis presented is indeed supported by the data analysis: the current model is able to capture the latent processes underlying trust formation.

Looking at the **structural model** it is possible to assess the validity of the other hypothesis regarding the different ways in which the latent processes underlying trust formation ultimately contribute to determining Trustworthiness. The structural model estimation shows that trust formation differs significantly across organisms. In fact, the structural model allows to highlight significant difference across the organism included in the sample.

The **Group A** sub-sample displays a trust formation process that is entirely dependent on the quality of the relationship; in fact, neither the Exchange latent process nor the covariance between Exchange and Relationship are significantly affecting Trustworthiness. This implies that financial advisors associated with this organism perceive that the key to a trusting relationship with their clients depends much more on how they structure their relationship than how the material results they are able to produce. Recall that the Relationship latent variable is expressing the social-norm paradigm, by which trust is more long-term oriented and determined by considerations of status and respect rather than from the rational expectation that trusting will lead to increased material benefits. The idea that Group A financial advisors may be more inclined to steer away from a strict focus on product performance as a way to establish trust is echoed in several of the interviews we had with Group A financial advisors at the time the questionnaire was developed. They suggested that the mark of a successful relationship was to talk about investments rarely and meet clients frequently and to show support in all sorts of domain, not just in the financial one. Let us recall that the measurement model showed that the importance of specific instances of the relationship, such as being informal or produce own material, were similarly important as being conscious and able to provide emotional support (emotional stability), which suggests that the Relationship latent variable

embodies both a professional component (how the advisor performs his job) and a personal one (the emotional support he is able to provide). We consider this latter element as an indication that the advisors perform the role of "emotional filter", akin to the idea of "money doctor" introduced earlier.

Looking at the **Group B** sub-sample, we uncover a very different picture. All the latent variables that characterize the model are significantly linked: both Relationship and Exchange significantly determine the trust formation process and are significantly subject to a covariance process. The parameter estimates show that Exchange is more than twice as relevant in determining trust (0.395 compared to 0.155), although they both positively do so. Exchange and Relationship co-vary to a significant degree, which suggests that one process reinforces the other, even if ultimately Exchange is more strongly affecting trust. Differently from the Group A sub-sample, the prevalent latent process underlying Trustworthiness is linked to the paradigm of anticipated reciprocation. This suggests that being able to produce good results in terms of product performance is essential in proving that the advisor is worthy of being entrusted with money (as he is likely to make more money out of it). Being able to develop a close relationship is important, although, given its significance covariance with Exchange, it may be seen as a further way to strengthen the anticipated-reciprocation paradigm. This interpretation is consistent with the characteristics of Group B network and with the hypothesis 2.1: Group B is a relatively new player in the field of financial advisory that is still undergoing a process of accreditation. Group B is transitioning from being mainly oriented to saving products to offering a portfolio of different investment opportunities, but faces a clientele that was traditionally attracted to it thanks to its perceived solidity and stability. Group B is certainly trying to attract a new clientele, more drawn to riskier assets, but also to engage its current one into new products. Recall that Group B advisors were the ones that valued most being able to keep costs low in the measurement model for the Exchange latent variable. This suggests that one way to entice new clients into new (possibly riskier) products may be to keep their costs as low as possible, in order to reassure clients.

Lastly, the Group C sub-sample offers another different perspective on the role of Exchange and Relationship in fostering trust. In this case both latent processes contribute positively and significantly to determining the Trustworthiness of the financial advisor. Looking at the parameter estimates, we notice that the relative importance of each of them is basically the same (0.439 for Exchange and 0.441 for Relationship). Moreover, the hypothesis of a covariance between the two processes is not supported, as the estimate is not significant. This suggests that both the anticipated-reciprocation and the social-norm paradigms are important for the advisor to build his trustworthiness, but that the two processes can be pursued independently and have no significant spillovers one over the other. Group C is a traditional cooperative bank with a strong tie with its clientele, which is composed by associates. Being part of a cooperative implies sharing a common view of the world and of the purpose of financial institutions: for instance, cooperative banks do not normally distribute dividends, but provide extra benefits in terms of

banking conditions. The mutualistic nature of cooperative bank and the fact that it is openly shared with the clientele, which is actually part of the bank itself, helps creating a trusting environment, as also mentioned by (Monti et al. 2014). This suggests that the Relationship process is bound to play an important part in fostering continued trust, as it is a reminder that shared views and goals continue to exist. On the other hand, Group C is a traditional bank and such banks are traditionally very much involved with saving products. This suggests that it is reasonable that for Group C advisors it also matters being able to show significant results in terms of performance that foster the paradigm of anticipated reciprocation. For Group C, not unlike it was for Group B, the clientele still needs to be reassured that investment is profitable.

Given these considerations, we can conclude that also the second hypothesis posited is indeed supported by the data.

9. Conclusions

The purpose of this research was to test some crucial hypothesis regarding the way in which the trust formation process between financial advisors and clients takes place, in light of the novelties introduced by the MiFiD II Directive. The purpose of the directive is to tackle the issues of transparency and consumer protection across all financial intermediaries, including financial advisors (European Parliament and Council of the European Union 2014), in order to improve the quantity and quality of the information that clients receive and use to make investment decisions. These novelties should positively affect the general level of trust of individuals towards the financial markets and, thus, induce them to invest more and in a more informed way. Increased transparency and information are also key to the objective of increasing the perceived professionalism of financial advisors. Having more and better information on what an advisor does and how he does it may help building clients' confidence and eventually trust.

The economic literature suggests that trust can depend on two main paradigms: anticipated reciprocation and social norm. In the financial advisory case, the former is more short-term oriented and refers to the characteristics of the products offered, their performances and everything that regards the content of the advice; instead, the latter is more long-term oriented and is based on the relational dimension between the parts. To our knowledge, no research so far tried to test a model of trust formation where both dimensions are explicitly considered. In this paper, we tried to fill this gap and, using the responses given to our online survey by more than one thousand Italian financial advisors belonging to different types of advisory, we tested a structural equation model. The different types of advisory we considered are three and differ in terms of professional qualification (bank advisors versus tied agents) and market maturity of the institution they work for in the advisory industry (incumbent or new player).

Interestingly, our model supports the hypothesis that both the anticipated reciprocation (referring to exchange elements) and the social norm (referring to relational elements) dimensions are fundamental in the trust formation process between client and advisor. More interestingly, the way in which the two dimensions play a role in this process is different among the three types of advisory considered. In the case of tied agents belonging to an incumbent bank (i.e. a bank offering advisory since a long time), the unique dimension that counts is the relational one; for bank advisors working for an entrant financial institution both dimensions are important but the exchange components play a more significant role, and the two processes support one another. Lastly, for bank advisors working for an incumbent bank, both dimensions count in the same way in the trust formation process and are independent between themselves.

In terms of policy implications of our results, recall that the novelties introduced by the MiFiD II Directive focus predominantly on features of the professional relationship (better and more frequent information on products and the costs of advisory) that characterize the exchange elements affecting trust (the anticipated reciprocation dimension). On one side, it is reasonable that the Directive cannot say much about the development of social norms, which, by their very nature emerge spontaneously and not need any enforcement process. On the other side, even if they focus only on the Exchange paradigm, the normative changes introduced by the Directive are likely to perturb the system in ways that may eventually spill over to the Relationship one, and will certainly affect the overall trust building process. This could have important consequences in the financial advisory industry, which is still facing the reputational aftermath of the financial crisis and is slowly rebuilding trust in the system. More importantly, given its differential impact on the two driving processes of trust (Exchange and Relationship) the new normative developments are likely to affect differentially players that rely on these processes in different ways. The structural equation model presented in this paper allows to suggest that, for example, new players (see our Group 2 sub-sample) and bank advisors of incumbent banks (Group C), who already tend to rely upon the Exchange process, may be favoured by a Directive that puts increased weight on the elements belonging to this element of the trust-formation process. Especially for the new entrant case, this may help favour competition, easing the entrance of these players into the industry. In fact, new players face competition with incumbent players that do not need to focus on the Exchange component, probably because they had sufficient time to establish their business model and reputation: the model shows that tied agents belonging to incumbent players (Group A) are sufficiently mature players that they may rely exclusively on the Relation pillar. This creates a very unbalanced competition, as new players cannot rely on reputation, of course. The introduction of the Directive may help increase competitiveness because it puts competition on a ground where (technically) all players, both new and incumbent) may have a similar say. Nevertheless, recall that emotional support and the social norm to trust cannot be regulated formally, because trust needs an element of risk and clients may not even aware of needing emotional support in the first place.

Putting the focus solely on the Exchange component may have unintended effect of the overall trust formation process and on how Relationship plays its role as a trust-building process.

We believe that trust is a crucial element in the financial advisory industry and that focussing on its formation process may shed light on dynamics that are vital for the construction of an economically healthy and stable industry and that are not necessarily inferable for the regulatory perspective.

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