

INGA-LILL SÖDERBERG

# **Financial Advisory Services**

Exploring Relationships between  
Consumers and Financial Advisors

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**KTH Architecture and  
the Built Environment**

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**Exploring Relationships between  
Consumers and Financial Advisors**

Doctoral thesis in Business Studies  
The Built Environment and Society: Management, Economics and Law  
Centre for Banking and Finance  
School of Architecture and the Built Environment  
Royal Institute of Technology  
Stockholm  
Sweden



## Abstract

The need for more knowledge about different aspects of financial advisory services has been highlighted by scholars of many disciplines, and calls for more in-depth studies of this practice have been put forward. The purpose of this thesis is to answer this call and, thereby, enhance knowledge about financial advisory services and the provision and receipt of advice occurring in a face-to-face encounter between a professional advisor and a consumer. The thesis consists of five papers in which different methodological and theoretical lenses are applied to the study of the practice. A mixed methods approach is applied to the object of study—financial advisory services. This approach entails using qualitative methods to analyze video-recorded interviews and quantitative methods to analyze survey data. The qualitative methods are used primarily to generate new constructs and ideas, whereas quantitative methods are used more to confirm and deepen the knowledge of constructs and relationships.

The findings show that there are important aspects of financial advisory services that have been previously neglected. The characteristics of both consumers and advisors, as tested from the aspect of gender, are shown to have importance for both consumer and advisor perceptions of different aspects of core elements of financial advisory services. Focusing on the micro-foundations of the relationship between customer and advisor in financial advisory services reveals the importance of mirroring for customers in perceiving a relationship. Two types of interactions that customers do not consider to be relationships are identified. Scholars have referred to occasions in which customers are too trusting as “the dark side of trust”, meaning that the customer becomes less actively involved in the relationship with increasing advisor trust. Applying a concept borrowed from psychotherapy—working alliance—has opened up possibilities for further exploration of the inner workings of the financial advisory session. This thesis proposes and tests the concept of a working alliance as a way of enhancing theory and, thereby, the understanding of relationships between consumers and service providers.

The results of this thesis have implications for theory by contributing to the understanding of relationships. The implications for policymakers, the industry, and advisors and customers are many. Exploring the practice of financial advisory services lays the groundwork for discussions on, and elaborations of, regulations, educational programs, and hiring practices within the industry, as well as on financial literacy programs directed toward consumers.

**Keywords:** financial advice, consumer finance, financial services, financial decision making, risk perception, relationship, working alliance



## Acknowledgments

It is never too late to do something new, and my entering a doctoral program was definitely a way in which to open my mind to new ideas and become inspired to think innovatively instead of simply adhering to established thought processes. Although I was not in need of forging a new career for myself—and sometimes felt like an antique compared with my younger fellow students—I welcomed the opportunity to learn about different aspects of conducting research. I also set out to learn more about the most puzzling world of financial advisory services, a regulated practice that really intrigued me. The results of my efforts are found in this thesis, which is both multi-theoretical and multi-methodological in its approach. Although this thesis may be perceived as an easy target—like an elephant on a spider’s web—for criticism, it is still the story of my work and knowledge process. I hope you enjoy it!

My research interest lies in the activity that takes place under the name of financial advisory services—that is, what transpires in a formal and regulated meeting between two individuals, a professional and a layperson. I would like to take this opportunity to acknowledge how Graham Barnes, many years before I began my dissertation work, inspired me to try to listen in a new way. In developing this new way of listening, I became a much better interviewer in my previous profession, I entered and finished an education program to become a therapist, and I was inspired to enter a PhD program in an effort to delve deeper into the sometimes puzzling activities involving the provision and receipt of advice that occur in a meeting between two parties in a financial service setting.

This thesis has been produced in the multidisciplinary setting of the Centre for Banking and Finance at the Royal Institute of Technology, where most of my colleagues are engaged in a variety of applied research projects. I am grateful for how this stimulating learning environment has inspired me to explore new ways of thinking related to my main research interest. This academic environment has opened my eyes to more perspectives of the complex world of finance, of which I am most interested in the nano-aspects—namely, the individual relationships.

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Filip Wijkström has done quite the opposite and pushed me beyond my perceived limits in a way I did not fully appreciate at the time but later realized was exactly what was needed. Eva Pettersson has helped me tremendously during my years of study at the Royal Institute of Technology, and Maria Hullgren has been a good friend. I would also like to mention the positive encouragement I have received from all my colleagues at the Centre for Banking and Finance; from my coauthors of educational materials for upper secondary school courses in civics, Mattias Björklund, Pauline Göthberg, Gunnar Hultman, and Ylva Yngveson; and from my two new friends in academia, Sophie Fredén and Lisbeth Rydén. I am indebted to my family, Fanny and Lasse Söderberg, for their patience. I know a thesis will never make up for the time spent away from the members of my family—to them, I offer my sincere apologies.

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Stockholm, December 2012



## List of papers

### Paper I

Eriksson, K. & Söderberg, I-L. (2010). Customers' Ways of Making Sense of a Financial Service Relationship Through Intersubjective Mirroring of Others, *Journal of Financial Services Marketing*, 15, 99-111. Reproduced with permission from Palgrave Macmillan.

### Paper II

Söderberg, I-L., Sallis, J. & Eriksson, E. (XXXX). The Dark Side of Trust and the Light Side of Working Alliances in Financial Services. (Submitted to *Journal of Consumer Research* in August 2012.)

### Paper III

Söderberg, I-L. (2013). Relationships Between Advisor Characteristics and Consumer Perceptions. (Accepted for publication in *International Journal of Bank Marketing*.)

### Paper IV

Söderberg, I-L. (2012). Gender Stereotyping in Financial Advisors' Assessment of Customers. *Journal of Financial Services Marketing*, 17, 256-272. Reproduced with permission from Palgrave Macmillan.

### Paper V

Söderberg, I-L. and Wester M. (2012). Lay Actions in the Face of Crisis—Swedish Citizens' Actions in Response to the Global Financial Crisis of 2008. *Journal of Socio-Economics*, 41, 796-805. Reproduced with permission from Elsevier.



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# **1. Introduction**

## **1.1. General background**

As a result of the recent international financial crisis that erupted in 2008, interest in retail financial services and consumer protection is growing. The increased emphasis on the importance of self-responsibility in building up retirement wealth in Europe and the United States is another reason behind the increased research interest. Areas of increased research interest include the following: regulation of markets for consumer financial services (Campbell, Jackson, Madrian, & Tufano, 2011; Inderst, 2011; Levine, 2012; Stango & Zinman, 2011), literature about financial literacy (Agarwal, Driscoll, Gabaix & Laibson, 2009; Almenberg & Gerdes, 2012; Lusardi & Mitchell, 2011; van van Rooij, Lusardi & Alessie, 2011; Willis, 2011), household finance (Campbell, 2006), personal finance (Schuchardt et al., 2007), and consumer finance (Tufano, 2009). This increased research interest also involves areas such as mortgage choice (Almenberg, 2011; Bergstresser & Beshears, 2010) and marketing (Baumann, Elliott & Hamin, 2011; Nath & Mukherjee, 2012; Schwartz, Luce & Ariely, 2011).

Tufano (2009) used a historical perspective to point out the origins of the multidisciplinary field of consumer finance and the reasons behind the hitherto limited interest in consumer matters. He then suggested a definition for the field and listed some issues for scholars to deal with in the future. Financial decision making is one such issue and has also been called for by other scholars (Lynch, 2011; Raghubir & Das, 2010). One area pinpointed of special interest to research is the providing and receiving of financial advice (Inderst, 2011; Mullainathan, Noeth & Schoar, 2012; West, 2012), and Inderst (2011) expressly pointed out that the role of professional financial advice in retail financial services has not yet been correspondingly explored in the academic literature. Inderst and Ottaviani (2012) addressed this issue by modeling various policy

interventions to illustrate the pros and cons of different possible policy actions as attempts to minimize the potentially negative effects of financial advice owing to conflicts of interest between customers and advisors.

Laypeople assume risks that are as controlled as possible so as to avoid threats to their private economy but at the same time have an opportunity to increase the return on their investments. Not all decisions are well-grounded and wise (Ameriks & Fore, 2002) and human frailty has been mentioned as one of the reasons behind the financial crisis of 2008 (Jickling, 2009). Since the eruption of the global financial crisis in 2008, public debate has been intense all over the world and involved researchers and other experts. In their article, Thaler and Sunstein (2008) argued that regulators need to help individuals manage complexity and resist temptation. Others have pointed out the policy implications of consumer contact with the financial industry (Akinbami, 2011; Campbell et al., 2011) and the need for better legislative consumer protection (Levine, 2012).

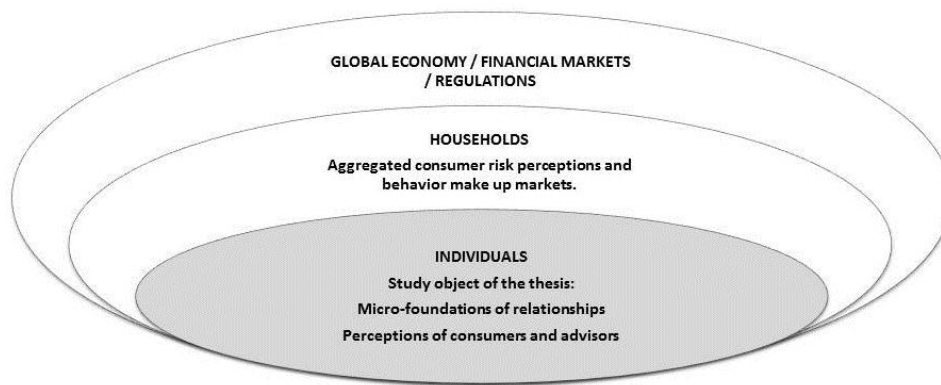
Researchers and governments have shown a growing interest in the financial literacy and numeracy of individuals (e.g., Banks & Oldfield, 2007; Bernheim, Garret, & Maki 2001; Gerardi, Goette, & Meier 2010; Lusardi & Mitchell, 2009; Lusardi & Tufano, 2009). Governments in the United States, Australia, Japan, and many European countries—Sweden being one of them—are actively engaged in supporting greater financial education of their citizens, and the Organisation for Economic Co-operation and Development (OECD) (2009) has released recommendations on good practices for financial education and awareness relating to credit. The effects of such programs have been discussed (Bernheim et al., 2001; Greenspan, 2005; Lusardi, 2008; Willis, 2011). There also seems to be great interest from governments and financial and consumer actors to invest in literacy programs for citizens (Bernanke, 2010; European Insurance and Occupational Pensions Authority's [EIOPA] Committee on Consumer Protection and Financial Innovation [CCPFI], 2011). Recent studies on the level of financial literacy of Swedish households have showed that literacy and numeracy are unevenly distributed among citizens and that the level of knowledge affects financial choices (Almenberg, 2011). More knowledge about how consumers interact with financial advisors is needed to construct and direct such programs for the improvement of consumer protection and the well-functioning of markets. This interaction is one important aspect that affects consumer financial decision making.



Research has revealed that individual consumer characteristics affect consumer risk assessment (Harris, Jenkins, & Glaser, 2006; Weber, Blais, & Betz, 2002), investment behavior (Hira & Loibl, 2008; Sundén & Surette, 1998), and decisions to engage advisors (West, 2012). Furthermore, studies have showed that the portfolio performance of consumers is affected by the advice of professionals (Gerhardt & Hackethal, 2009; Hackethal, Haliassos & Jappelli, 2009; Kramer, 2012; Kramer & Lensink, 2012) and that consumers who actively seek advice improve performance (Hung & Yoong, 2010) because advice has the potential to act as a substitute for financial knowledge (Collins, 2012). However, there are also possible dangers inherent in financial advisory services. Biases tend to be exaggerated instead of mitigated by the advice market (Mullainathan et al., 2012) because advisors are affected by known biases in the same way as their customers (Roszkowski & Snelbecker, 1990; Sah & Loewenstein, 2012) and misestimate the risk tolerance of their customers (Roszkowski & Grable, 2005). Substantial differences exist not only between the risk perceptions of expert and lay investors (Diacon, 2004) but also between lay and expert views of the economy (Bastounis, Leiser & Roland-Levy, 2004; Blendon et al., 1997).

Research has suggested that customers might not understand the salesperson role of advisors; that is, advisors are tasked with making recommendations that may not always be in line with customer risk preferences (Jansen, Fischer, & Hackethal, 2008; Schwartz et al., 2011). Even more questions arise from recent studies on price factors. Hoffmann, Franken & Broekhuizen (2012) explored consumer willingness to adapt to a fee-based system as opposed to a commission-based remuneration system but did not find any evidence that relational factors directly impact adaptation intentions. Bhattacharya, Hackethal, Kaesler, Loos & Meyer (2012) investigated retail customers' reception of unbiased advice and found that only 5% accepted the offer of unbiased advice, and of those who accepted the offer, most failed to follow the advice given.

This short review of the general aspects of financial advisory services illustrates the need to learn more about the practice of providing and receiving financial advice and of the relationship between the advisor and the client. Figure 1:1 illustrates the logic of defining the relevance of the specific object of study.



*Figure 1:1.* Defining the object of study.

## 1.2. Object of study and research purpose

The object of study of this thesis is the nature of financial advisory services—specifically, the providing and receiving of advice occurring in a face-to-face encounter between a professional advisor and a consumer. The general relevance of the research area has already been accounted for, but a few aspects of the features of this practice need to be briefly described. (Chapter 2 gives a more comprehensive illustration of the practice and of the Swedish case.)

### 1.2.1. General features of the studied practice

Financial services are intangible, involve a high degree of expert knowledge, and generate outcomes that are uncertain because they are the coproductions of the individuals involved and are, therefore, difficult to evaluate (Mukherjee & Nath, 2005). Financial services can be evaluated by return on investment over time; however, when the advice is given, it is not possible to evaluate the full effects of the financial proposal (Johnson, Nader & Fornell, 1996). Therefore, from a buyer perspective, the purchase of a financial product differs substantially from that of a commodity like a pair of shoes or an expensive new watch. Intuitively, there are two important differences: The product cannot be evaluated at the time of the purchase, and it is not possible to make a complaint and get back the money spent if one is not satisfied with the product. (The applicable Swedish regulations are briefly described in section 2.2.)

Financial markets and financial services are also difficult for laypeople to understand (Hilgert, Hogarth, & Beverly, 2003; Moore, 2003). The information is often complex and inaccessible to consumers (Chang & Hanna, 1992). The development of a relationship between a buyer and a service provider serves to mitigate this buyer uncertainty (Das & Nanda, 1999; Derbaix, 1983; Punj & Staelin, 1983). By developing a relationship, the customer benefits from simplified information processing and buying task and reduced perceived risk as well as the maintenance of psychological comfort (Sheth & Parvatiyar, 1995). Because there is limited market participation by consumers in financial markets, financial advisors (as part of their job) function as intermediaries and endeavor to make sense of financial markets for their clients and help customers understand and manage financial risk (Allen & Santomero, 1997).

Both consumers and advisors possess specific information of importance for the financial advisory services outcome—information that is not available to the other party unless they both willingly exchange information. Advisors are assumed to be more knowledgeable about financial instruments and alternative investments and financial markets, whereas consumers probably know more about private characteristics and aspirations for the future. Customers might also know more about their risk tolerance and risk perceptions, but this cannot be assumed. Instead, the practice of providing financial advisory services can involve the advisor engaging the customer in a conversation in which both parties explore customer risk tolerance and risk perceptions as a necessary starting point for coming up with well-composed financial advice. This aspect of a joint exploration of customer risk tolerance and risk perceptions is also strongly expressed in relevant regulations. It is a special focus of recent European Union (EU) guidelines for the industry (European Securities and Markets Authority [ESMA], 2012), which highlight the need for suppliers of financial services to secure investor knowledge in financial matters and to check that the information gathered from a customer is correct (relevant regulations are further discussed in section 2.2). Exploring customer personal finances, risk tolerance, and risk perceptions is the job of the advisor, and when this is carried out together with a customer in a face-to-face encounter, it also implies that the customer can learn more about not only financial products but also private financial possibilities and restrictions, risk tolerance, and personal risk perceptions. One could argue that

financial advisory services in a face-to-face setting at its best serves as an opportunity for the customer to make tacit knowledge explicit.

Some other important aspects of the practice of financial advisory services, brought forward by other scholars, are that a customer might be more concerned about preserving the relationship than about finding the best deal (Schwartz et al., 2011) and that an advisor often gives financial advice in the form of a suggestion, which is then rejected or accepted by the client, instead of discussing and altering the advice to suit the individual (Jungermann, 1999).

### **1.2.2. Research purpose**

The perspectives given in section 1.1 serve to illustrate the relevance of furthering knowledge about the practice of financial advisory services. There may, of course, be many other aspects than those highlighted in this thesis that are relevant to how individuals obtain advice about how to place their assets, such as product risk characteristics and the branding of individual financial actors. The five papers presented in this thesis serve to complement studies conducted by other scholars by increasing the understanding of the advisory situation and of perceptions and characteristics of consumers and advisors that might influence financial advisory services.

The perceived lack of sufficient explanatory theory to understand fully a rich phenomenon of practice underlies the purpose of this thesis—that is, to enhance knowledge about financial advisory services and the providing and receiving of advice occurring in a face-to-face encounter between a professional advisor and a consumer. This purpose justifies a turn to practice—that is, to the micro-foundations of this relationship—and an exploration of both qualitative and quantitative aspects of the regulated<sup>1</sup> professional relationship of financial advisory services.

### **1.2.3. Research questions**

Throughout a stepwise explorative process (described in section 1.5), a number of research questions were posed as the material grew. The analysis made these questions

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<sup>1</sup> In Sweden: the Financial Advisory Services to Consumers Act (Swedish Code of Statutes [SFS] 2003:862) and the Securities Markets Act (SFS, 2007:528), which follows the Markets in Financial Instruments Directive [MiFID]

come into focus in terms of the aforementioned purpose. In this compilation section of the thesis, they are presented in advance. The following main research questions were addressed:

- How does the customer perceive the relationship with the financial advisor?
- Does the customer-advisor relationship have importance for the understanding of customer risk perceptions and preferences?
- Do customer and/or advisor characteristics affect financial advisory services?
- What do customers do in response to financial risk in a crisis situation?

### 1.3. Definitions and delimitations

This thesis focuses on the practice of financial advisory services. It draws partly from the concept of counseling because this concept was mentioned in some interviews with customers as a good way in which to describe financial advisory services. Because this is a practice of doctors, social workers, and therapists, as well as other professionals involved in face-to-face interaction with one client at a time, it might be a good metaphor to consider. However, financial advisory services do not involve the same idea of benevolence as the aforementioned practices, and this distinction is important. It implies that counseling might not be the best way in which to describe what happens in a financial services setting. Advisors who were interviewed used words and phrases like *selling financial products*, *helping customers to choose among the supply of financial products*, and *sales* when asked to describe their trade, which also makes the metaphor of a counseling session a bit farfetched (Figure 1:2).



Figure 1:2. Financial advisory services—as defined by the actors, customers, and advisors—is a practice in a continuum between counseling and sales.

What happens when these two perceptions of advisory services meet is of interest here—that is, what happens when “financial advice,” a practice regulated by law but not properly defined by the same, is made up of both “counseling” and “sales.” Despite the implementation of extensive Swedish and international legislation (see also 2.2) in an attempt to strengthen investor protection, no universal definition of this regulated practice has been established (Korling, 2010). One further argument for the relevance of the purpose of this thesis is this obvious lack of common understanding of the phenomenon in practice described in chapter 2 (see also Andersson & Korling, 2012).

The relationship between a consumer and an advisor is surrounded by different contexts that may affect this relationship in a number of ways, many of them meritoriously studied by other scholars. These contexts include the regulatory and institutional context of the financial industry, financial markets, and economic growth; branding and other marketing efforts put forward by the industry; advisors’ working conditions and incentives; the psychological and educational context of consumers; and the actual products and services upon which advice is given. However, this thesis aims to explore the face-to-face financial advisory relationship. This relationship is illustrated in Figure 1:3.

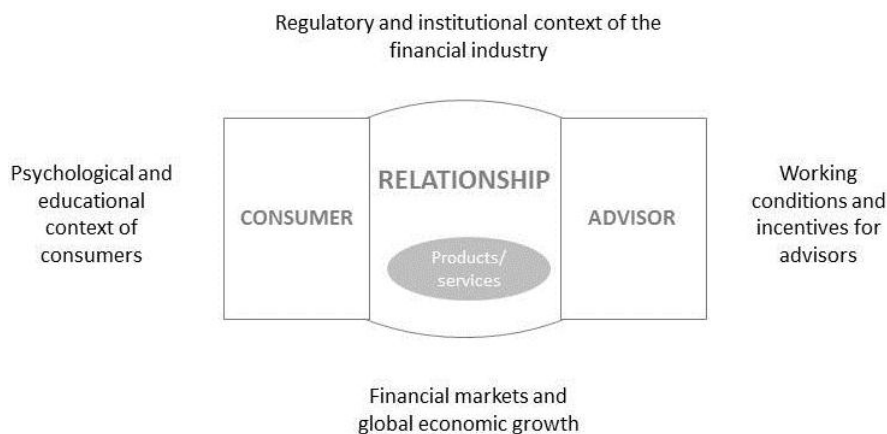


Figure 1:3. Financial advisory services—the object of study and its context.

Because this thesis has a relational focus, the phrases *providing and receiving financial advice* and *providing and receiving advice in a financial services context* are often used to indicate the interactional dimension. For the purpose of simplifying the wording of the

text, shorter terms, such as *financial advisory services*, are used. The relational aspect is involved in all terms used, which also overlap.

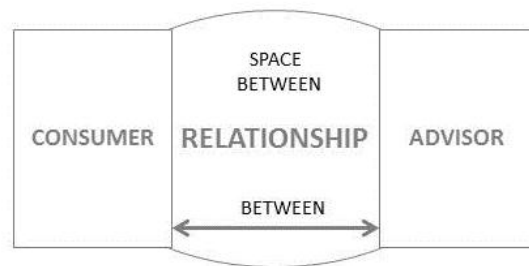
Financial advisory services, as explored in this thesis, involve a relationship between a professional and a layperson, a high level of specific knowledge in a specialized field (financial services and economics), and a time and place for a prebooked physical meeting at the advisor's office. The frames in time and space and the fact that the meeting is prebooked give the consumer reasons to believe that the advisor is an expert and that the advice obtained contains well-founded suggestions for the customer's investment portfolio. These frames give the consumer reason to believe that "advice" is being received. Investigating the actual products and services and their different price models or marketed risk level or long-term financial outcome of the advice itself is beyond the scope of this thesis. Although they may be important in the context of financial advisory services, portfolio performance and company reputation are among aspects that are not taken into consideration in this thesis. Instead, the focus is on the individuals involved—that is, the relationship between consumers and advisors; the perceptions of consumers and advisors; the characteristics of consumers and advisors; and, to some extent, the actions of consumers.

There are a number of economic choices for Swedish citizens to make on an individual level that, until recently, used to be made collectively, such as decisions regarding pension savings and various kinds of agreements (e.g., the delivery of electricity, heating, telephone). Thus, the complexity of the household economy in Sweden has increased in such a way that might make the Swedish situation unique. The elderly and middle-aged segments of the Swedish population might have a slightly reduced ability to evaluate different kinds of price constructions and offers and, thus, might be a bit less prepared to "see through" (i.e., understand the true meaning behind something) selling initiatives from their financial advisors. This is, however, beyond the scope of this thesis and is not further explored here.

I am aware of the often made distinction between the terms *risk* (used to describe market risks) and *uncertain outcomes* (used in the literature about financial decision making). Here the term *risk* is used consistently because it is the concept used by the actors—both consumers and advisors—in practice. I am also aware that there exist a number of potentially fruitful ways of further exploring financial advisory services, which involve touching on very different fields of knowledge, such as

discussions on asymmetric information, game theory experiments, brand management, and linguistic analysis of professional practice. Hopefully, these interesting roads to knowledge will be traveled by others. My main focus in this thesis is on the perceived relationship.

By limiting the object of study to the relationship between two individuals in a face-to-face setting of financial advisory services, it is important to elucidate to the reader the two perspectives used in the study of this practice. Figure 1:4 depicts these perspectives: (a) a study of the relationship between the consumer and the advisor and (b) a study of the space between the two actors. The first perspective implies that factors affecting the relationship are the main object of study, whereas the second perspective (the relational focus) indicates a qualitatively different mode of inquiry, where intersubjectivity is entailed in the definition. The concept of “space between” is borrowed from Buber (1970, 1984), a philosopher who used it as a reference to the intersubjective nature of relationships; that is, self and other are not separable.



*Figure 1:4.* Two perspectives of studying the practice of giving and taking of financial advice in a face-to-face encounter.

#### **1.4. Methodological considerations**

This thesis uses a methodological pluralism described in the literature of the past few decades as mixed methods research (see also Appendix 1). The explorative objective and the features of the object of study give reason to search for theoretical guidance within different fields of knowledge and to employ methods that are best suited for answering questions deemed relevant during the explorative process. A definition put forth by Greene (as cited in Johnson, Onwuegbuzie, & Turner, 2007) is used to describe this methodological view:



Mixed method inquiry is an approach to investigating the social world that ideally involves more than one methodological tradition and thus more than one way of knowing, along with more than one kind of technique for gathering, analyzing, and representing human phenomena, all for the purpose of better understanding. (p. 119)

Because there is little empirical knowledge about the research area, an exploratory design was considered to best suit the purpose of the study (Clark, Huddleston-Casas, Churchill, O'Neil Green, & Garret, 2008). The methodological lenses of a mixed methods approach includes entering and reentering iteratively the field of practice so as to deepen gradually the understanding of financial advisory services by collecting new material guided by questions that arise from earlier findings and from a systematic literature review, as well as using the practice as a standpoint from which to search for relevant theory. Teddlie and Tashakkori (2012) put forth the argument that mixed methods research “is an iterative, cyclical approach to research, which includes both deductive and inductive logic in the same study or program of study” (p. 781).

Studying financial advisory services can be carried out in numerous ways, depending on the viewpoint of the researcher. It is important to understand how useful a research approach is in answering the research questions asked. This evaluation of the usefulness of the research approaches can then be extended to the models, concepts, and methods used in the different papers presented here. Because this summary section is written as the last part of the thesis, it gives no justice to the knowledge creation process but is structured to be an “adequate” guide for the reader. Appendix 2 summarizes the perspectives and tools used in each paper.

The presentation of both subjective data—as the perceptions of the customers, self-reported and observed by advisors and researchers, and observations by the researcher—and more objective data, as tests of different variables affecting customers' choices, is colored by the lenses of the my preunderstanding. Within an interpretative tradition, the importance of the viewpoint of the researcher is stressed (Silverman, 2006); however, it is not at all common in a more positivistic tradition. Because a mixed methods approach was used in this thesis, it is my belief that, for reasons of validation,

it should be possible to follow the knowledge process of the researcher, and, therefore, these lenses are accounted for in Appendix 3.

### 1.5. The research process

A multi-methodological approach and a multifaceted theoretical approach were employed to fulfill the purpose of the study (i.e., to provide new knowledge about a field of practice). A brief description of the research process is provided in this subsection. In general, different methods were employed so as to find the best possible answers to different research questions. In each case, there are, of course, a number of other possible methods that could have been used. Qualitative methods were employed to find the best answers to “how” questions, whereas quantitative methods were used when other types of questions were posed. The research questions stated in section 1.2.3 did not exist when the process started; they instead emerged from the processes of collecting material and reviewing the literature. The research process is illustrated in Figure 1:5.

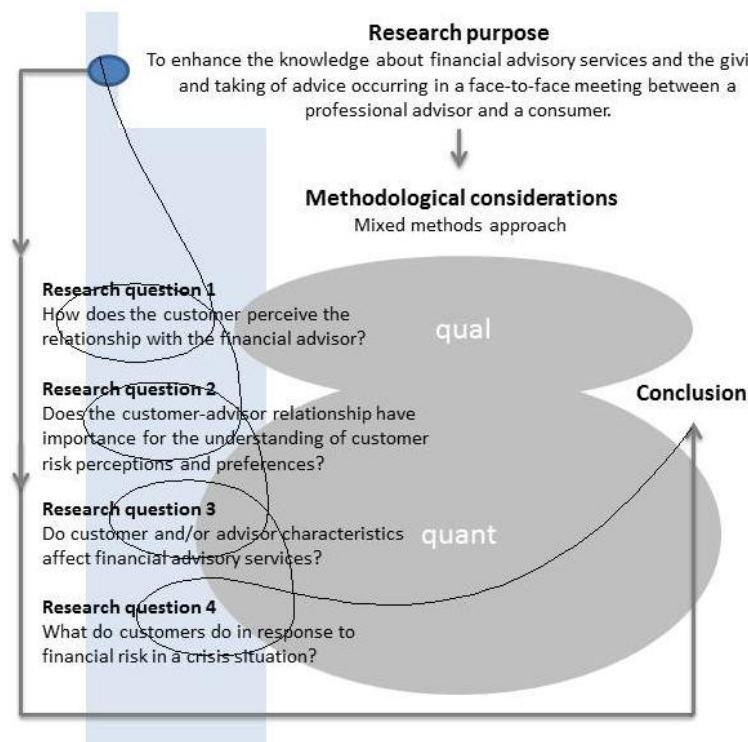


Figure 1:5. The research process.

The research questions induced the collection of data/field materials in the following manner:

→ An open explorative perspective (qualitative methods)

Q1: How does the customer perceive the relationship with the financial advisor?

- Interviews with bank customers

→ A more narrow explorative perspective (quantitative methods)

Q2: Does the customer-advisor relationship have importance for the understanding of customer risk perceptions and preferences?

- Survey among customers and advisors

Q3: Do customer and/or advisor characteristics affect financial advisory services?

- Survey among customers and advisors
- Survey among customers

Q4: What do customers do in response to financial risk in a crisis situation?

- Survey among customers

An exploration of financial advisory services revealed different fields of knowledge and findings. However, it should not be inferred that they represent the only potential research tools. Abductive reasoning was used to fulfill the purpose of the study—that is, a search for theoretical knowledge and practical guidance regarding financial advisory services was performed. This process was iterative, and the literature reviews that were conducted did not follow a chronological order. However, for reasons of clarity and comprehensibility, the main theoretical ideas are presented singly. A brief presentation of the theories used throughout the five studies is given in chapter 3.

### **1.5.1. Papers in the thesis**

Five papers were written based on research conducted to answer the research questions that were originally posed. The first paper used a qualitative approach, whereas the remaining papers adopted a quantitative approach. The five papers (see chapter 4 for a brief description of the data, methods, and results of the papers) are titled as follows:

1. Customers' Ways of Making Sense of a Financial Service Relationship Through Intersubjective Mirroring of Others (with K. Eriksson, published in *Journal of Financial Services Marketing*)

2. The Dark Side of Trust and the Light Side of Working Alliances in Financial Services (with J. Sallis and K. Eriksson, submitted to *Journal of Consumer Research*)
3. Relationships Between Advisor Characteristics and Consumer Perceptions (accepted for publication in *International Journal of Bank Marketing*)
4. Gender Stereotyping in Financial Advisors' Assessment of Customers (published in *Journal of Financial Services Marketing*)
5. Lay Actions in the Face of Crisis—Swedish Citizens' Actions in Response to the Global Financial Crisis of 2008 (with M. Wester, published in *Journal of Socio-Economics*)

As illustrated in Figure 1:6, the papers address the previously mentioned research questions.

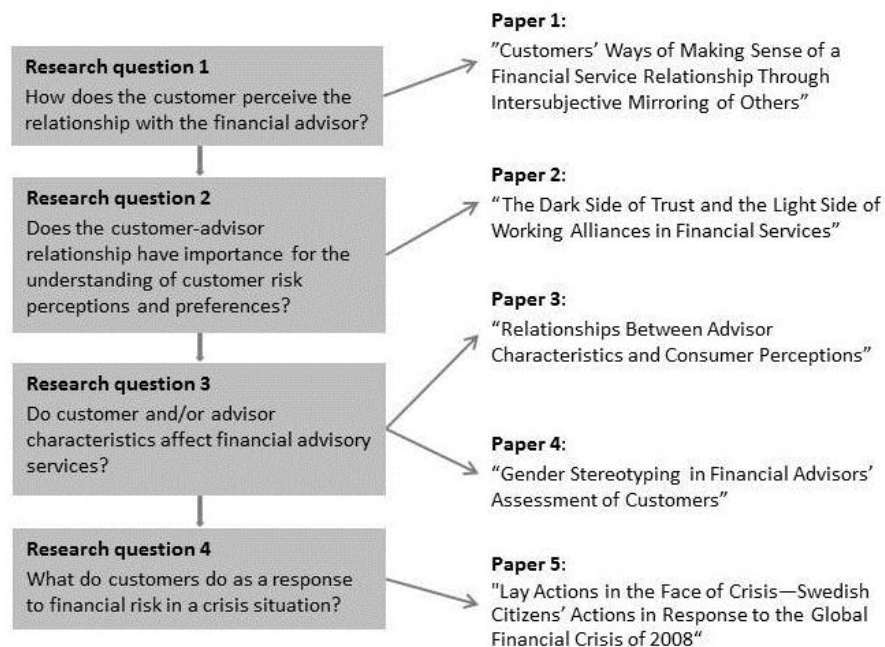


Figure 1:6. The papers based on research conducted to answer specific research questions that gradually arose during the research process.

## 1.6. Structure of the thesis

The summary section of the thesis spans chapters 1 through 5. Chapter 1 addresses the relevance of the research problem, the purpose of the work, and methodological

considerations. Chapter 2 gives illustrations from practice and maps out the Swedish case so as to give guidance to readers who are not familiar with the practice. The main theoretical tools used in the thesis are explained in chapter 3. The data and field materials, methods, and most notable results of each paper are presented in chapter 4. The overall conclusions and implications for theory and practice are discussed in chapter 5.

The second part of the thesis consists of five papers, two of which were written by me and the remaining three were written in collaboration with other researchers as a way in which to broaden perspectives. The authors contributed equally to the co-written articles, and their names are presented in alphabetical order—with the exception of paper 2, where the names of the authors are presented in reversed alphabetical order. To guide the reader through my process of knowledge development about a field of practice, the papers are presented in an order related to the research questions. (If the papers were listed chronologically, paper 3 would precede paper 2.)

## **2. The practice of financial advisory services**

This chapter serves to illustrate some important aspects of financial advisory services. There are, of course, many different aspects of these services that are not accounted for here; however, the idea is to highlight a few possible problems that are inherent in the practice of providing and receiving financial advice. Section 2.1 provides three illustrations: two real-life accounts and one fictional. Section 2.2 provides a brief description of Swedish regulations and problems that have been identified by law scholars and by regulating or monitoring institutions, and section 2.3 touches on Swedish household finances from a general perspective. Because the focus of the present thesis is on neither law nor economics, the descriptions of these areas are kept short. Readers who are interested in the Swedish regulations surrounding financial advisory services are advised to read the extensive work of Korling (2010). A recent report by Andersson and Korling (2012) also discusses the problems with the present regulations and the information provided to consumers. Individuals interested in learning more about Swedish household savings and pension plans are advised to read papers by Engström and Westerberg (2003); Palme, Sundén, and Söderlind (2007); and Sundén (2006), among others. For more information on financial literacy and numeracy in Sweden, individuals are advised to start by reading studies by Almenberg and Widmark (2011); Almenberg and Säve-Söderbergh (2011); Almenberg and Dreber (2012); Almenberg and Gerdes (2012).

One could, of course, illustrate the positive aspects of financial advisory services: policymakers' good intentions; the industry's honest attempts to comply with regulations; advisors' attempts to do the best they can to please regulators, employers, and customers; advisor's provision of good investment recommendations to consumers; and consumers' experiences with good relationships and services. I have chosen to illustrate what can be labeled as problematic with financial advisory services

and the definition of financial advice from a practice perspective to show how the problem presented in chapter 1 is grounded in practice.

## **2.1. Three illustrations**

“It is just like going to my physician!” stated an interviewed consumer when asked to describe in his own words the relationship with his financial advisor.<sup>2</sup> He continued to describe the relationship as follows:

I do not understand all she says, and she does not know all about me.... I frankly think she is not interested in knowing me any better since she never asks anything ... but I am sure she knows her trade, so I just let her talk and hope that she makes all the risky decisions. It's kind of comforting just to rely on someone else to fix things. I just want to get rid of the feeling that I am doing the wrong thing. Maybe I will not die from a bad investment as [I would] from a ruptured appendix, but I might miss the chance of getting a good life for me and the ones depending on me.

These are the translated words of one customer of a Swedish retail bank. He is not an expert in financial matters, but he is definitely an expert on his own life, perceptions, and priorities. He gives his advisor a full mandate to evaluate the threats and possibilities involved and to invest on his behalf. His said reason for doing so is to avoid having the responsibility for any possible negative consequences of the financial risk taking involved.

By contrast, the advisor described the situation a bit differently:

I have known this customer for many years now, and we have a very good relationship. I feel that I know how he assesses risk, and I just give him investment proposals that I know will suit his preferences.... How [do] I know that?... Well, I guess I must have asked him in the beginning.... And ... well, you know ... I know him really well ... and I know he does not like taking any

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<sup>2</sup> The interview excerpt was translated from Swedish to English. The original recordings, made at a Swedish bank branch on October 17, 2007, are materials used in a study not included in this thesis.

excessive risks because he doesn't want to risk losing his savings. However, I always invest a bit more aggressively than I know he would have liked if he really took the time to engage in the matter.... He really isn't interested in financial matters.... This way he at least gets a chance to be a part of the development in the financial markets. His investments have done well throughout the years, and I feel quite sure he is happy with the arrangement.

This advisor described a relationship, whereas the customer did not mention this word when stating what goes on between them. The advisor is fully aware that she is in fact making risky decisions on behalf of her customer and that she is taking a greater degree of risk than she knows the customer prefers. Her rationale is that this approach increases his chances of making a profit when markets go up. What she does not comment on is that the customer also assumes a higher risk of losing in times of falling markets. However, as evident from the excerpt of the interview conducted with the customer, taking high financial risks with the possibility of losing his savings is exactly the thing he feared the most and the reason he sought her advice for his investments.

A 2003 French movie directed by Patrice Leconte gives yet another perspective. In *Confidences trop intimes*, a young lady, Anna, is going to pay her first visit to a psychotherapist to talk about her unhappy marriage. By mistake, she ends up at the office next door, and without realizing the mistake, she tells her troubles to an investment advisor instead. Neither she nor the advisor, Monsieur Faber, realizes the mistake at first. They engage in an hour-long conversation, which, from the audience's perspective, seems quite reasonable—both as therapy and as financial advisory services. After the second session, Anna realizes the mistake, and the movie goes in a different direction. The point of this illustration is to underline the vagueness of financial advisory services. We, the audience, could not tell the difference either at first. Anna's meeting with the financial services advisor could very well have been a meeting with a therapist.

From the Swedish perspective, financial advisory services that are offered during a face-to-face encounter between an advisor and a customer comprise three different components: information, advice, and sales. However, it is very possible that advisors and customers would find it difficult to identify these advisory components.



The provider and the receiver of financial advice in a Swedish bank might be just as confused as Anna and Monsieur Faber in the movie example.

In 2009, an 89-year-old Swedish lady, the late Lillie Clinell, received 700,000 SEK in reparation from a large Swedish retail bank (Sveriges Television [SVT], 2009). The bank admitted that it had made mistakes in its provision of financial advisory services over a 10-year period to Lillie Clinell. The bank did not admit to giving the wrong investment advice, but it agreed that it had not acted correctly in documenting the advice given. Lillie Clinell's daughter helped her mother lodge complaints when she discovered that her mother at the age of 85 had been recommended a 20-year endowment insurance, among other dubious products. Lillie trusted her financial advisor at the bank and bought a product that would pay off in 2025, at which point in time Lillie would have been 105 years old.

This true story is fascinating because the stakes were high, the customer was victimized, and the mistakes made by the bank were simply appalling. This story is included here not to discredit banks or financial advisors in general but rather to illustrate a problem with the face-to-face relationship in a financial advisory context, which is central to the purpose of this thesis. When Lillie was interviewed on Swedish television, she described her situation as follows:

I thought a "personal advisor" would be working for me. I never thought they might work for themselves also. If they are called advisors, I trust them to give me advice that suits my personal finances the best way.... I had no money of my own when I was married. Everything I earned went to my husband's account. I felt he was taking good care of our personal finances.... I am concerned about meeting people that behave nicely. And she did. But she was almost a bit too intimate. We talked about personal things because she was just getting married. We talked about intimate things. (SVT, 2009)

Lillie Clinell admitted that she had no experience with money or even with handling her own personal finances. She also revealed that she trusted the advisor because the advisor had presented herself as a professional personal financial advisor and had invited Lillie into an intimate relationship in which they shared personal information that went beyond financial matters.

However, customers are not clients in therapy, nor are they pupils or children looking for guidance. They are consumers of age with a responsibility for their own financial decisions. Whether or not customers know a great deal or very little about financial markets, they must make decisions about what financial products and services to buy based on their own goals and life preferences. However, they can seek the guidance of financial experts to help them make better decisions about household finances, of which they might not be so knowledgeable. It is important to bear in mind that however good the intentions, knowledge, and skills advisors have, they can never promise their customers any given output from the investments recommended. Expertise in financial matters cannot be equated with correctly predicting the future, a fact that may not always be fully acknowledged by all customers.

## **2.2. Regulatory framework of financial advisory services in Sweden**

Because of its similarity to general information and sales talk, and the fact that liability for financial advice is handled differently among regulating authorities in EU member states and other parts of the world (Korling, 2010), there is an urgent need for more in-depth knowledge about the practice of providing and receiving advice within the financial services sector. Regulating this relationship is done to protect consumers from assuming unwanted risks. The two main bodies of regulation that govern the Swedish financial sector in this area are the Financial Advisory Services to Consumers Act (Swedish Code of Statutes [SFS], 2003:862) and the Securities Markets Act (SFS, 2007:528), which follows the Markets in Financial Instruments Directive [MiFID] (2004/39/EC).

Assessing customers' knowledge regarding risk, financial experience, and understanding of products offered by a financial institution is the job of an advisor. Except for product knowledge and general knowledge about economic matters and relevant regulations, this is assumed to require an understanding of how risks are perceived by laypeople and of the basics of financial psychology and heuristics used in guiding individuals' financial decisions, as well as the possession of good personal skills in helping customers to express their financial needs and hopes for the future. These are the objectives of Swedish mandatory education programs for certifying financial advisors. However, there is evidence that this certification of financial advisors is not enough to protect consumers' interests. The Swedish Financial Supervisory Authority

(Finansinspektionen [FI]) has investigated the compliance of the two regulations of consumer-bank affairs that are of interest from the consumer perspective and found important flaws (FI, 2005; 2007). The somewhat uncertain consumer situation described in these reports also warrants further investigation of financial advisory services in the interest of practitioners and policymakers. In 2.2.1, 2.2.2 and 2.2.3 the Swedish regulations surrounding financial advisory services is described more extensively, but since law studies is not in the scope of this thesis the summary is brief.

### **2.2.1. History**

There are two main bodies of regulation that govern the Swedish financial sector: the Financial Advisory Services to Consumers Act (SFS, 2003:862) and the Securities Markets Act (SFS, 2007:528). It was, among other things, against the backdrop of households' changing spending habits and the aforementioned crises at the beginning of both the 1990s and 2000s that on May 10, 2001, the Swedish government decided to initiate a special investigation to chart and analyze issues concerning customer protection in financial advising. The investigation revealed that a large number of investment alternatives with varying degrees of risk to assume were open to consumers (Statens offentliga utredningar [SOU], 2002:41). In addition, the investigation noted that financial advising is a very important service from the consumer perspective. The basis for this special investigation was the Parliamentary Committee on Future Consumer Policy, which was assembled in January 1999. This committee was tasked with submitting proposals as to how consumer policy should generally be shaped so that individuals can maintain control over their everyday operations. Financial services were identified as requiring review. At that point, the committee had already identified some of the difficulties inherent in defining the term *advising* and in drawing a clear boundary between advising and sales. Despite the fact that the committee had stated its concerns that further review was required, action was called for in the following areas: legislation, alleviation of consumer burden of proof, documentation of work by advisors, consideration of consumer interest, and the granting of FI a role as a supervisory authority. The final report titled *Strong Consumers in a World Without Boundaries* (SOU 2000:29) became the basis for the already mentioned investigation concerning consumer protection in financial advising (SOU, 2002:41).

At about the same time as the investigatory work for Swedish advisory legislation was initiated, the industry introduced licensing for personnel in funds trading in April 2001. The system, which was developed within the Swedish Securities Dealers Association [Svenska Fondhandlarföreningen], has been run by a subsidiary, SwedSec AB. The system has introduced a license requirement for those in securities trading who have direct contact with consumers, for example, with respect to financial instruments. All personnel in financial firms who are permitted by FI to trade securities require this license. The license is issued after the employee has undergone a test and vetting. In October 2011 Sweden had 9,710 active license owners (SwedSec, 2012). The license holder must follow SwedSec's recommendations, which include laws and regulations as well as common practices within the industry. In the event of a breach of these regulations, SwedSec can temporarily or permanently revoke a license or issue a warning. From the beginning of 2001 through October 2012, 125 cases have been raised, 31 licenses revoked, and 32 warnings issued (SwedSec, 2012). SwedSec issues licenses for a broad range of financial competences and to get a more accurate figure of the amount of professionals working directly with lay consumers in financial advisory services in Sweden other sources are needed. *The Employers Association of The Swedish Banking Institutions* and *The Financial Sector Union of Sweden* have agreed on post groupings in the BESTA statistics. According to their 2010 statistics Sweden had 4,851 financial advisors licensed to work with private investors, out of which 69% were female and 31% male (P. Schönning, personal communication, August 26, 2011).

On July 1, 2004, the Financial Advisory Services to Consumers Act (2003:862) entered into effect. The law pertains to the advising that businesses provide to consumers who seek to invest their assets in financial instruments and in certain life insurance policies (s.1). The act was intended to protect the consumer against negligent advising and is enforceable to the advantage of the consumer (s.2). According to the act, advising must be of a personalized character; hence, it cannot be used against general advising, such as in the media. Liability for damages may be claimed if the professional/advisor deliberately or negligently causes the consumer capital losses (s.6). The act (s.5) states that the advisor must serve the interest of the client and adjust advising to the wants and needs of the client. The preliminary work of the act states that the advisor should also evaluate the consumer's knowledge of—

and familiarity with—financial instruments and adjust guidance accordingly. The act states that the advisor must also advise the consumer against actions that might be seen as unsuitable for the consumer in question. The company/advisor is obligated to ensure that the individual performing the advising has sufficient competence, that the advising is documented, and that this documentation is communicated to the customer (s. 4). When the act (SFS 2003:862) entered into effect in 2004, Sweden was one of the first countries in Europe to regulate financial advising. In several countries, there has been a tendency, not the least of which in financial advising, toward the expansion of advising responsibility. England, Denmark, and Norway are a few countries where this responsibility, in various ways, has become more comprehensive with time (Korling, 2010).

In the same year that the Swedish Financial Advisory Services to Consumers Act took effect, the EU issued the MiFID (2004/39/EC) by which member states were to enact rules on joint securities trading in their own legislation. This enactment of legislation occurred in Sweden through the Securities Markets Act (SFS 2007:528) and through an update in 2011 (SFS 2011:885). The Securities Markets Act (SFS 2007:528) was supplemented with new regulations for FI (FI, FFFS 2007:16; FFFS 2007:17). This also led to changes in the rules of the Swedish Securities Dealers Association and other organizations within the industry. The act states that securities institutions must serve the interests of their clients and observe certain rules so as to support clients with easily comprehensible information and recommended investment strategies. The securities institution must also classify its clients into various customer categories (The Securities Markets Act, chapter 8, s.15): nonprofessional, professional, and equivalent counterparts. The category determines what protection the client enjoys under the act. Agreements between client and securities institution with respect to rights and obligations must be documented (The Securities Markets Act, chapter 8, s.26).

The introduction of the Securities Markets Act attracted new interest to how it differs from the Financial Advisory Services to Consumers Act. Korling (2010) pointed out a number of interesting aspects: a) The Financial Advisory Services to Consumers Act (2003:862) is primarily applied toward consumers, whereas the Securities Markets Act speaks about clients, nonprofessionals, professionals, and equivalents. Hence, a client can be considered a professional according to the Securities Markets Act but can be considered a consumer in relation to other

legislation, such as the Financial Advisory Services to Consumers Act; b) In addition, the Financial Advisory Services to Consumers Act's provisions of business law (ss. 4 and 5) do not apply to securities institutes. No specific requirements regarding advisory competency are spelled out in the Securities Markets Act. The provisions of FI state, however, that the institution must ensure that its personnel have the skills relevant for the services they provide; c) One complication is that the legislation (the Financial Advisory Services to Consumers Act and the Securities Markets Act) neglects to define the term advising.

In 2012, the ESMA issued new guidelines on certain aspects of the MiFID suitability requirements (2012/387). One notable aspect in these guidelines is investment firms' responsibility for securing investor knowledge in financial matters and for checking that the information gathered from a customer is correct. Sections 16 and 41 are worded as follows:

16. Investment firms should take steps to ensure that the client understands the notion of investment risk as well as the relationship between risk and return on investments. To enable the client's understanding of investment risk, firms should consider using indicative, comprehensible examples of the levels of loss that may arise depending on the level of risk taken, and should assess the client's response to such scenarios. The client should be made aware that the purpose of such examples, and their responses to them, is to help determine the client's attitude to risk (their risk profile), and therefore the types of financial instruments (and risks attached to them) that are suitable.

41. Investment firms should take reasonable steps to ensure that the information collected about clients is reliable. In particular, firms should:

- a) not rely unduly on clients' self-assessment in relation to knowledge, experience and financial situation;
- b) ensure that all tools employed in the suitability assessment process are appropriately designed (e.g. questions are not drafted in such a way that they lead the client to a specific type of investment); and
- c) take steps to ensure the consistency of client information.

(ESMA, 2012, p. 27 and p. 33)

In November 2012, the Swedish minister of Consumer Affairs commissioned an investigation of the Consumer Protection in Financial Advisory Services. This investigation started on December 1, 2012, with the directive (dir. 2012:98) to recommend actions to promote consumer protection. Among aspects to be explored during this investigation are regulations, compliance, and possibilities for consumers to make complaints.

### **2.2.2. Quality controls**

On this basis, it is understandable that both the individual advisor and the client/consumer would have difficulty comprehending how things are in legal terms, which raises the question of how these acts have been maintained since their introduction in Sweden. FI has been given supervisory authority for both acts and has carried out a number of quality controls on advising services. The first of these, *The Consumer and Financial Advising Report* (FI, 2005), was carried out in 2005. Seventeen of the most customer-intensive firms in banking, securities, and insurance were examined by survey and site inspection. The purpose was to determine whether the firms had implemented the regulations of the Financial Advisory Services to Consumers Act. The investigation concluded that the regulations were functioning well and did not inhibit development in the area of business. As a consequence of implementing these regulations, firms introduced processes that the rules demanded, competence increased among advisors, the advising services themselves became more transparent for consumers, and firms learned to recognize the difference between marketing products and sales.

Two years later (in 2007), FI carried out an investigation titled *Advising, the Client and the Law—an Investigation into Financial Advisory Services*, (FI, 2007). As part of this investigation, FI sent 10 employees to 40 bank offices. These employees posed as clients seeking advising services. To complete the survey, interviews were conducted with approximately 60 clients regarding the advising they had received. The survey brought a number of problem areas to light:

- The firms lagged in acquiring the necessary client information.
- The firms were not seen as adequately documenting the advisory services correctly.

- The firms did not completely live up to the requirement to communicate this documentation to the client.
- The boundary between advising and sales was partly unclear.

In a 2008 report titled *The Consumer Protection on the Financial Market* (2008:13, DNR 08-5342), FI summarized the aforementioned problem areas as deficiencies in financial advising.

A 2009 report (Eriksson, Persson & Söderberg, 2009) confirmed the results from FI's earlier investigations, showing that the boundary between advising and sales is unclear. The uncertainty of advisors with respect to the term *advising* and how this differs from the term *sales* was pointed out, along with the fact that clients were unsure as to whether advisors were providing them with advice or a sales pitch. The report also revealed that clients viewed advisors as trying to sell various financial services and products rather than provide financial guidance to a greater extent than advisors thought.

### **2.2.3. Legal definition**

The Banking and Finance Business Act includes a statement that exemplifies what financial services are considered to be (2004:297, chapter 7, s.1) and among possible tasks "provide financial advice" is mentioned. The preliminary work on the Financial Advisory Services to Consumers Act (SOU, 2002:41) explains, at the same time, that there is no recognized definition of the term *financial advising*. One thing that is completely clear is that advising is something other than marketing and sales. Advising fulfills a unique role and aims to present recommendations and trading alternatives based on an individual client's personal needs and expectations. The Financial Advisory Services to Consumers Act's area of application has been limited to such financial advising that entails a risk that consumers will partly or completely lose their invested capital or go into debt. In other types of financial services, consumers face less risk. The risk of losing their money or jeopardizing their entire savings then appears slight for consumers, and questions as to whether or not consumers should choose a certain type of bank account or have variable or fixed interest on mortgage loans are not included. Consumers are dependent on receiving correct information about these products and services. Here, however, other



legislation is applicable, such as the Marketing Act (2008:486), which includes rules for a company's marketing of financial services.

The advising meeting may include several stages, such as marketing, information, sales, and financial advising. The preliminary work for the Financial Advisory Services to Consumers Act outlines the advising situation in comparison with a sales situation (SOU, 2002:41. p. 111 f.):

Consumers seek advisory services as to how they should suitably invest their savings. The advisors can respond to consumer inquiry in various ways.

1. The financial firm gathers information from the consumer on his or her overall financial situation and goals. The firm then responds to consumer inquiry by generally describing all trading options and recommending one or more of these, without referring to particular products.
2. The firm can also, after having collected information on consumer requirements and preferences, choose to describe a number of various products and recommend one or more of these as suitable investment options.
3. Finally, the firm can choose to directly describe the advantages of a specific product without touching on other options, and through an oral sales presentation or by providing brochures and similar materials of an advertising nature, try to convince the consumer to enter into an agreement for that specific product.

The first case serves as an example of financial advising without an injection of marketing and sales.... The second case includes elements of marketing that should be able to be evaluated according to marketing legislation.... However, this situation also includes elements of financial advising, in that consumers, in response to their questions on suitable investments, are recommended one or more specific products. (SOU, 2002:41. p. 111 f.)

This advisory element is covered by the Financial Advisory Services to Consumers Act:

In the third example, the marketing and sales component is dominant. However, in this case consumers may, depending on circumstances, have a

solid reason to perceive their service representative's information as advising. In response to their inquiries, consumers are given a recommendation—albeit an implicit one—to buy a certain product. (SOU, 2002:41. p. 111 f.)

The objectivity of this recommendation has to be interpreted on the basis of the Financial Advisory Services to Consumers Act:

If the consumer instead, on the basis of the marketing that he or she has received, engaged a financial firm to purchase fund shares on behalf of the consumer, for example, specified in terms of type and number or amount, without seeking advice from the firm, then the situation is different. This transaction should be considered a purely “representative/agenting” transaction, without an advising component. (SOU, 2002:41. p. 111 f.)

Comprehending the boundaries between information, marketing, sales, and advising can, for example, prove difficult for clients. A number of uncertainties are inherent in financial advising (Eriksson et al., 2009). Neither the Securities Markets Act nor the Financial Advisory Services to Consumers Act provides a definition of the term *advising* (Korling, 2008). The said acts cover only two types of advising. Other types of financial services either are protected by other legislation or are not protected in any specific act at all. In addition, there is no clarifying legal practice of the term *financial advising* (Eriksson et al., 2009).

There are reasonable grounds on which to discuss whether the term is adequately defined in law. Korling (2008) illustrated this discussion, and Andersson and Korling (2012) added to this discussion by proposing policy changes with the goal of enabling better information to customers. There might also be some discussion as to whether bank advisors can actually provide objective advice when, in principle, advising sometimes only serves as a form of guidance in choosing a specific bank's own products. Perspectives have also been advanced stating that the Financial Advisory Services to Consumers Act's area of application should be expanded—that is, it should not be limited to only investment with financial instruments. Clients may, for example, potentially be advised to leave their money in an account (Johansson, 2007).

Swedish banks have met the demand for rule compliance by training and certifying their employees in advising trades. This process takes place either internally or in cooperation with a consulting firm specializing in the certification of financial company employees. In addition, banks, each in their own way, have produced computerized advisor support—that is, tools that structure the advising discussion in accordance with the intentions of the law and that guide the content of the advice that employees provide to their clients. One difficulty associated with such training is, of course, the previously mentioned problem of definitions. The term *advising* in a financial context is not as self-evident as one might expect. This is an important reason for promoting studies to gain more knowledge of the practice.

## **2.3. Swedish households**

### **2.3.1. Household savings and debts**

The fundamental functions of the financial system are to administer capital (savings and financing), process payments, and manage risk (Rose & Hudgins, 2008; Sveriges Riksbank, 2011). The financial crisis that erupted in 2008 has highlighted the vulnerability of financial systems and the fact that all markets are made up of the decisions of many small investors. Household savings are the main domestic source for financing capital investments in a country and are considered the major driver of economic growth in the long run (OECD, 2011). This section serves to illustrate the working material for Swedish financial advisors and their customer as a background for the thesis' purpose. According to Swedish regulations accounted for in 2.2 not all kinds of assets are subject to advisory services. Deposit savings are for example not included as the risk level is considered low. Neither are liabilities as mortgages or other credits. Financial advisor gives advice concerning investments in different financial instruments regarded as being volatile and complex in that the buyer need a certain amount of financial knowledge to be able to make investment decisions.

The financial wealth of Swedish households was 4,106 billion SEK at the end of the third quarter of 2012 (SCB, 2012). A reference could be the Swedish GDP of 3,503 billion SEK in 2011. How Swedish consumers – with or without the help of financial advisors - have managed their portfolios within the financial system has varied

over time (Figure 2:1). In 1980, Swedish households had over half of their financial assets in bank deposits. In the late 1990's, stocks and funds became the dominant savings method. However, during the past few years, household savings have again experienced a shift in profile and bank deposits are now more popular.

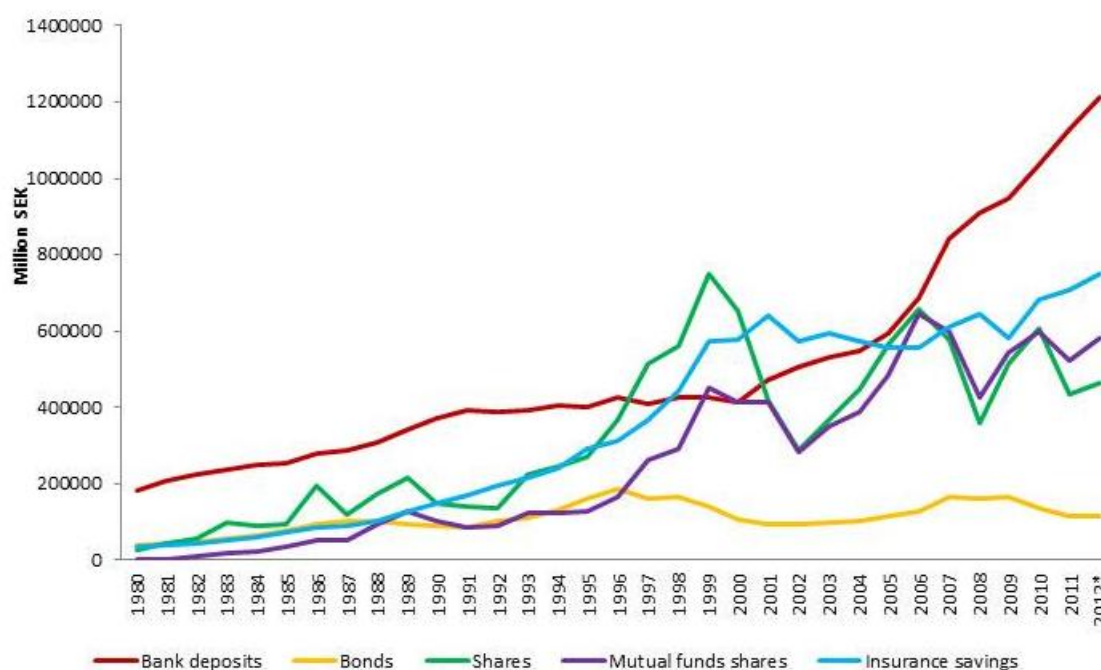
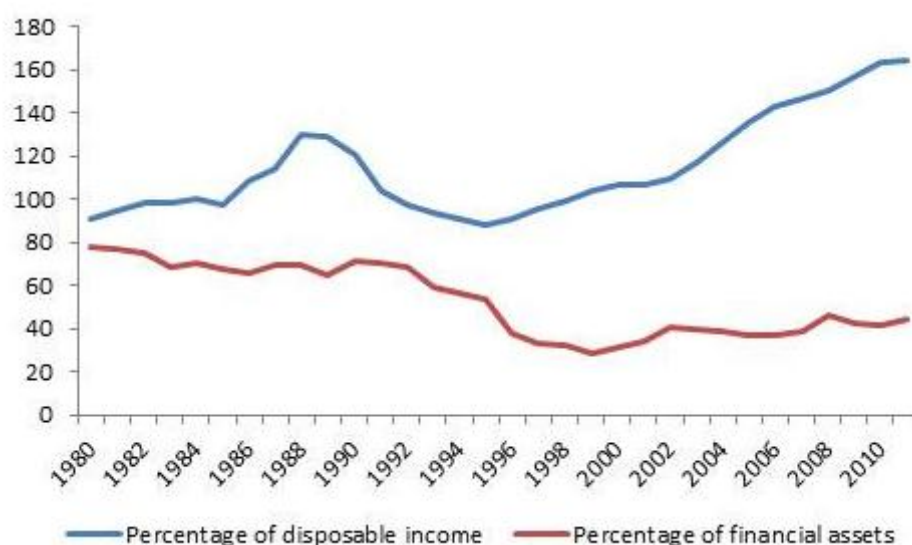


Figure 2:1. Household Savings, 1980–2012\*. Source: Household Financial Assets, SCB Sparbarometern. \*For 2012, data represent Q3.

As there are shifts in types of financial assets hold by households we can assume that individual investors over time make new investment decisions based on perceptions of market potentials and risks. Not all of them are made with the help of advisors, but some are and this makes it important to learn more about the impact of financial advisory services on consumer financial decisions, as accounted for in chapter 1 (1.1).

Household debts (Figure 2:2) are not part of what is considered to be included in the advisory part of the advisory services according to Swedish regulations. However, during a financial advisory session at a Swedish bank branch the overall financial status of the customer is likely to be examined and discussed. The proposals of investment made by the advisor can be assumed to be made based upon

this more general investigation of customer assets, liabilities, risk tolerance, risk perceptions and plans for future. This is one of the reasons for consumers and advisors to be bewildered about the definition according to Swedish law (2.2). The advisory session can include the total of consumer personal finances as well as information, advice and sales. It is up to the advisor to be very strict about when the actual financial advice is delivered.



*Figure 2:2.* Household debts 1980-2011 as percentage of disposable income and as percentage of financial assets. Source: Ekonomifakta, 2012.

Another illustration that might be of interest as a background to the research purpose of this thesis is a comparison between countries of household financial balance sheets (Figure 2:3). The comparison, made by Ynesta in an OECD-report (2008), show different types of assets over time in Sweden, Germany and the U.S. and illustrate rather different traditions. Ynesta (2008) concludes that Swedish households hold risky assets and long-term investments.

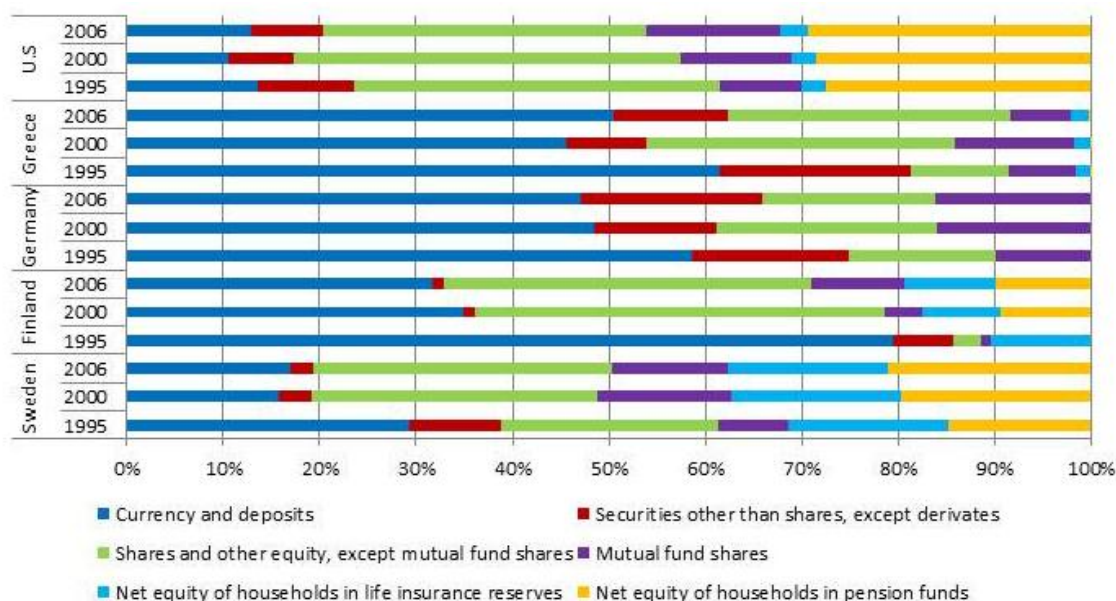


Figure 2.3. Households' financial balance sheets in 1995, 2000, and 2006 in five OECD countries. (Source: Ynesta [OECD], 2008)

### 2.3.2. Financial literacy and numeracy

Another aspect of importance for consumer protection and financial advisory services is the level of financial literacy and numeracy exhibited by the population. Almenberg and Widmark (2011), using data from a Swedish national survey commissioned by FI, measured levels of numeracy and financial literacy and linked these to respondents' participation in stock and housing markets. They found that many Swedish adults have low levels of both numeracy and financial literacy and that there are large differences between demographic groups. The same data was used in a study of retirement plans (Almenberg & Säve-Söderberg, 2011) where women, older respondents, respondents with low levels of education and respondents with low income displayed lower average levels of financial literacy than could be expected. The researchers found higher levels of financial literacy – in a broader sense as this construct strongly correlated with demographic variables – among respondents reporting having tried to plan for retirement than among non-planners however this relationship is weaker in Sweden than in many other countries. Almenberg and Säve-Söderberg also found understanding of risk diversification to be strongly correlated with planning for retirement.

A relationship with a professional financial advisor at a bank or some other kind of financial services provider is in the present thesis understood as a way in which customers can get professional advice to be better to handle risk and to learn more about the possibilities and risk connected to their personal finances, their personal risk tolerance and risk perceptions, and about financial matters in general. Because ownership of different financial instruments has increased among laypeople in Sweden (Figure 2:1), together with an increased responsibility for personal lifetime financing and an enhanced responsibility for savings for retirement, it is assumed that the need for financial knowledge and good expert advice has also increased on an aggregated level. This is one more argument for the importance of collecting more knowledge about the practice of financial advisory services.

### **3. Theoretical influences**

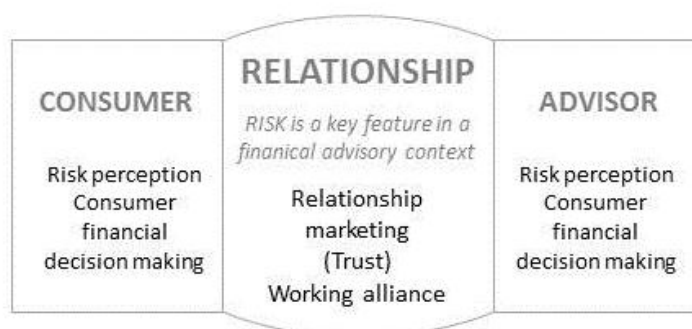
To develop a better understanding of a field of practice, a researcher can turn to existing theory as a means of further exploration. Some relevant theoretical traditions are briefly addressed in this first part of the compilation thesis so as to help explain the research process. As the illustration about financial advisory practice (chapter 2) indicates, there are some concepts seemingly more important than others in developing an understanding of financial advisory services. These are (without any specific order of importance) relationships, risk, and consumer financial decision making.

According to Shiller (2001), drawing on theories from many disciplines helps advance an understanding of financial market behavior. Instead of searching for tools to understand anomalies from the principles of a rational behavior underlying the efficient market hypothesis, he put forth the idea of consulting other fields of research with an open mind to what has been found and suggested seeking answers to quite different questions rather than to the mundane question, Why does it not work?

Some new light may be shed on the matter by taking an approach that attempts to answer the question, How does it work? As the empirical example in section 1 shows, an exploration of the field of practice with an empirically well-grounded how-does-it-work approach gives reason to adopt more than a single well-developed theory to try to explain the multifaceted interactions that occur in financial advisory services. Those aspects that seem most relevant in analyzing this field of practice—relationships, risk, and consumer financial decision making—have been thoroughly studied within different academic traditions. The theories introduced in this section are helpful but, taken separately, are insufficient to provide a better understanding of financial advisory services. Taken together, however, they seem to shed some new light on this field of practice.



To introduce this theory section, it is helpful to build on the illustration given in the Introduction (chapter 1). Figure 3:1 shows the two perspectives used—that is, “space between” and “between,” which were commented on in section 1.3 (see Figure 1:4)—and the main theoretical tools used. In the following paragraphs, each of the main theoretical frameworks is briefly reviewed.



*Figure 3:1.* The use of different theoretical tools to promote better understanding of the practice.

It has been established earlier in this thesis that financial advisory services are multifaceted and rich phenomena (chapters 1 and 2). To develop a better understanding of aspects of financial advisory services, a multifaceted explorative approach has been adopted to maintain some semblance of the richness in the storyline. The theoretical framework is therefore based on theories obtained from different fields of knowledge—relationship marketing, behavioral finance, risk psychology, and psychotherapy, which are chosen based on my preunderstanding (accounted for in Appendix 3)—and combined with events that occurred in the environment during the process (i.e., the financial crisis).

The main theoretical tools are accounted for in this section. The five papers also review the findings of previous studies—namely, findings concerning consumer characteristics, socioeconomic factors, financial literacy, and trust. However, a review of the literature is not presented in this compilation thesis. An emphasis is instead placed on the main theoretical frameworks used here. The papers themselves provide a review of the relevant literature.

### **3.1. Relationship marketing**

Although the concept of relationship marketing was initially developed as an approach to the study of marketing in business-to-business service relationships (Berry, 1983, 2002), it has also long been considered suitable as a standpoint for the study of consumer markets (Grönroos, 1996; Sheth & Parvatiyar, 1995), despite the fact that this idea has been challenged by some scholars (e.g., Fournier, 1998; O'Malley & Tynan, 2000; Pressey & Matthews, 2000). (For a more extensive review of the past, present, and future of the field of relationship marketing, see, e.g., Eiriz & Wilson, 2006; Harker & Egan, 2006; Littler & Tynan, 2005).

An underlying assumption—and a driving force behind the introduction of the concept of relationship marketing by Berry (1983) who among other industries also studied the financial industry—is that long-lasting relationships are better than short ones because costs associated with establishing business relationships become distributed upon many possible occasions of value exchange instead of just one. The output is assumed to be profit. Later, when commenting upon his pioneering paper, Berry (2002) pointed out that “the intangible nature of services makes them difficult for customers to evaluate prior to purchase” (p. 74). This statement accurately describes financial services, where the outcome of a service (e.g., mortgages, pension savings, other long-term engagements with a financial service provider) is often not even possible to evaluate years after the purchase. However, the existence of strong relationships helps reduce buyer risk and uncertainty. The interest in relationship marketing has been rather extensive within studies of banking services (Das, 2009). Because long-lasting customer relationships have so far been common between customers and retailers in financial services, relationship marketing has been used as a framework for analyzing the financial industry (e.g., Colgate & Alexander, 1998; Molina, Martín-Consuegra & Esteban 2007; Perrien, Filiatrault & Ricard 1992; Rajaobelina & Bergeron, 2009). A quest for long-lasting relationships has been a central theme throughout the short history of relationship marketing. However, current conditions suggest that this theory's future as a well-seen support for management and marketing in practice might be challenged. All over the world, customer loyalty is being tested by the consumer movement. The global financial crisis of 2008 opened the eyes of customers and policymakers to the lock-in effects in the system, which did not create mutual benefits for insurance and bank companies and their customers. Today, there

are ongoing debates in Sweden about the rights of consumers to move their assets among service providers of pension funds and about the idea of financial “advice” in a legal aspect (Andersson & Korling, 2012). Meanwhile, the public’s loyalty to their providers of financial services is decreasing (Svenskt Kvalitetsindex, 2012).

A meta-review undertaken by Agariya and Singh (2011) provides a list of definitions of constructs within the field of relationship marketing. Notably, none of the 72 definitions listed, which cover the period of 1982–2010, mentions the “inside” micro-dimensions of relationships, which is the focus of the present thesis. However, through the years, a more cognitive-emotional view seems to have developed in the descriptions of how to do relationship marketing. Harker (1999), in a content analysis of 26 definitions, pointed to the relative newness of the field as a reason for the disparities in the definitions and pleaded for the integration of different “schools” of relationship marketing.

Agariya and Singh (2011) found that the term relationship marketing was first used in 1982 by Hammarkvist, Hakansson and Mattsson, and there defined as to “build, maintain and develop customer relations”. However Berry (1983) is usually credited for the construct and his definition of relationship marketing was “attracting, maintaining and – in multi-service organizations – enhancing customer relationships.” This definition was criticized for its lack of any genuine relational aspect (Barnes, 1994). Grönroos (1990) argued that activities involving the establishment, maintenance, and enhancement of relationships are to be carried out through a mutual exchange and fulfillment of promises. Pathmarajah (as cited in Harker, 1999) added a process-oriented and personal perspective to the discussion by proposing the following definition: “It is the process whereby the seller and the buyer join in a strong personal, professional and mutually profitable relationship over time.” Morgan and Hunt (1994) concluded that it involves “all marketing activities,” whereas Sheth and Parvatiyar (1995) defined it as being “about developing close interactions.” Several scholars have emphasized the importance of fulfilling customer needs. For example, Perrien and Ricard (1995) stated that it “rests on an in-depth understanding of customer needs and characteristics,” and Bendapudi and Berry (1997) said that it is “centred on understanding and satisfying customer needs.” To develop a better understanding of the situation, Tzokas and Saren (1997) proposed “nurturing a relationship climate that will promote a dialogue”, which Harker (1999) explained it can be achieved “through a

mutual making and fulfilment of promises.” By contrast, Gummesson (2002) highlighted the networking perspective, and Kotorov (2003) emphasized the strategic aspects. An even richer definition of relationship marketing is the one put forward by Lambert (2010). His approach to devising a definition for relationship marketing was to summarize the more recent concepts used. He then concluded that relationship marketing “is being viewed as strategic, process-oriented, cross-functional, and value-creating for buyer and seller, and as a means of achieving superior financial performance.” This recently devised definition may reveal what the field is all about—that it encompasses a lot.

Throughout the years, scholars have consistently highlighted three main facets of relationship marketing: (a) attracting/building/creating/establishing/getting; (b) maintaining/nurturing/supporting; and (c) enhancing/extending/liquidating/terminating. The emotional content of a relationship has also been brought up in different forms during the history of relationship marketing but not to the degree that the three facets of relationship marketing have been mentioned by scholars. Some aspects of the emotional content of a relationship that have been emphasized are commitment (Bennett, 1996; Morgan & Hunt, 1994; O’Malley & Tynan, 2000), trust (Barnes, 1994; Bennett, 1996; Doney & Cannon, 1997; Morgan & Hunt, 1994; O’Malley & Tynan, 2000), promises (Grönroos, e.g., 1990, 1996; O’Malley, Evans, & Patterson, 1997), and loyalty (Ravald & Grönroos, 1996).

In their 2011 work, Agariya and Singh analyzed the defining constructs used by the 72 cited authors of 456 papers. Of the 50 constructs identified as applicable to general relationship marketing, the 7 most used were trust; satisfaction/experience; loyalty, commitment; service quality; communication; and empathy/customer orientation. When analyzing the general relationship marketing that defines constructs most commonly used in studies on the banking sector, they found them to be trust; customer satisfaction/experience; customer loyalty; service quality; role of customer service personnel; security/privacy; and ease of use. The differences between the two lists of the most commonly used constructs point out the specific features of the financial industry and give reason to study these constructs further using both qualitative and quantitative approaches.

The most often used construct was—independent of object of study—trust. It is therefore considered a key construct of understanding the relationship between buyer

and seller—in this case, between customer and advisor. The definitions for the terms *advisor* and *advice*, used in communication with consumers by the financial industry and by policymakers, are problematic, as mentioned in chapters 1 and 2. Studies have showed that this type of terminology leads consumers to believe that their financial advisors provide them with unbiased advice rather than sales pitches (Inderst & Ottaviani, 2012; Levine, 2012; Mullainathan et al., 2012). Research has also confirmed the negative influences of a selling orientation among financial advisors (Bejou, Ennew, & Palmer 1998). Another aspect of long-lasting relationships is the possible negative effects of the too trusting nature of customers. The notion of a “dark side of trust” has been described in association with long-term relationships (Grayson & Amber, 1999). Instead of promoting understanding, trust can sometimes become a substitute for understanding. Schwartz et al. (2011) pointed to this problem in longer relationships, where customers are more interested in keeping the relationship than in obtaining a good deal for themselves. This may sound like a win-lose situation (i.e., a win situation for the service provider and a lose situation for the customer); however, the underlying idea of relationship marketing implies that a mutual exchange—namely, a win-win situation—shall occur for a relationship to last. Results showing different kinds of interpersonal bindings question the theory and, hence, create demand for more research. Selnes and Sallis (2003) showed that trust in fact can reduce relationship performance. There is most certainly room for more debate about the grounds for, the conceptualization and definition of, and the utility of relationship marketing.

Calls for more research on relationship marketing have centered on further theoretical development (Gummesson, 2002) and in-depth study of differences between customers’ and service providers’ views of relationships (Leverin & Liljander, 2006). The present thesis can be considered an answer to these calls.

### **3.2. Working alliance**

The concept of a working alliance—also referred to as *therapeutic alliance*, *therapeutic working alliance*, *helping alliance*, or simply *alliance*—has its roots in psychoanalytical theory. However, several studies (e.g., Horvath & Luborsky, 1993; Safran & Muran, 1995) including meta-analytic reviews (Horvath & Symonds, 1991; Martin, Garske, & Davis, 2000; Tryon, Blackwell, & Hammel, 2007; Wampold, 2001) have revealed it to be a common factor among different schools of therapy practice. Research has sufficiently

showed that the alliance has a direct impact on the outcome of therapy, regardless of the techniques used in therapy and of the theoretical underpinnings of the used techniques. When the alliance is good, there is a good chance that the outcome will be better than in cases when the alliance is weak. The meta-analysis of Horvath and Symonds (1991), which included 20 studies, found that 7% and 5%, respectively, of the variances of the outcomes were associated with the alliance. Tests have showed that the session frequency, therapist experience, and patient diagnosis, as well as measurement aspects such as scales used and method variance, have no significant effects on this correlation (Wampold, 2001). The correlation between alliance and outcome of therapy seems robust thus far. Causality can be twofold; however, evidence from meta-analyses has revealed that the alliance affects the outcome of therapy but not vice versa (Horvath & Symonds, 1991; Wampold, 2001).

The term *working alliance* was first used by Greenson in 1967 (as cited in Wampold, 2001). Although the meaning of the term differs slightly among centers of research, the basic idea of a collaborative relationship is common in all definitions. Most definitions of this term are based on three themes: (a) the collaborative nature, (b) the affective bond, and (c) the joint ability to agree on goals and tasks (e.g., Martin et al., 2000). Bordin (1979) proposed that the concept of an alliance could be used to achieve a better understanding of contexts other than that of psychotherapy:

The working alliance between the person who seeks change and the one who offers to be a change agent is one of the keys, if not the key, to the change process. The working alliance can be defined and elaborated in terms which make it universally applicable, and can be shown to be valuable for integrating knowledge—particularly for pointing to new research directions. ... The concept of the working alliance would seem to be applicable in the relation between student and teacher, between community action group and leader, and, with only slight extension, between child and parent. (p. 252)

In medical literature (Morgan, 2003; Tryon et al., 2007), there are indications that the physician-patient relationship is a relationship that has been characterized by one party dominating the other. By contrast, in the therapeutic context, professionals seek a collaborative role. Because financial advisors cannot give advice unless their

customers cooperate with them by being forthcoming about all aspects of their personal economy, preferences, risk perceptions, and plans for the future, the metaphor of a client-therapist relationship seems applicable. This gives good reason to look into the measures of a common factor deemed essential for outcomes in a therapeutic context and to apply the concept of alliance to studies of business administration.

Alliance research has grown, resulting in the development of various methods of measurement with somewhat different theoretical underpinnings (Horvath & Symonds 1991). The scales that were developed to measure alliance include the Pennsylvania scales, the Vanderbilt scales, the Toronto scales, the Working Alliance Inventory (WAI), the California scales (Therapeutic Alliance Rating Scale [TARS] and California Psychotherapy Alliance Scale [CALPAS]), and the Therapeutic Bond Scale (TBS). These measures, which operationalize the alliance, exhibit reliability. There is evidence supporting the validity of the construct, but it relies on a positive relationship with the outcome of therapy (Horvath & Luborsky, 1991). Research has revealed that the inter-correlation among these different measures of working alliance is strong (Horvath & Symonds, 1991; Martin et al., 2000; Tichenor & Hill, 1989; Wampold, 2001).

The idea of narratives as ways for consumers to make sense of their preferences has been well covered in consumer marketing (Shankar, Elliott & Goulding 2001; Stern, Thompson & Arnould 1998; Thompson, 1997). New insights for marketers can be gleaned from the collection and interpretation of customer stories. Here the idea of an exchange of narratives as a way for customers and advisors to make sense of each other's information and contexts is useful in promoting an understanding of what occurs in practice. In therapeutic working alliances, patients construct a narrative about some aspect of their lives, and therapists use professional techniques to encourage their patients to construct a narrative, interpret it, and provide ways for their patients to reflect and perhaps reconsider aspects of their lives that had been previously taken for granted. Aspects of life that are known implicitly are made explicit and become common through sharing with others—in this case, professional therapists who are experts on the process. In financial working alliances, customers construct a narrative about their financial situation, ideas about the future, and perceptions of risks involved with different types of investments, and advisors use professional techniques to encourage the narrative, interpret it, and suggest an appropriate investment strategy (i.e.,

the narrative of the bank). The parallel between these contexts is in the exchange of narratives between laypeople, who are experts on their own life situations, and professionals, who have to provide expert guidance based on an understanding of the customer narrative (Joiner & Leveson, 2006; Joiner, Leveson & Langfield-Smith, 2002). This thesis suggests that professionals in financial services use the exchange of narratives as an implicit working technique for the provision of good professional advice. This is in line with what is explicitly made by therapists in therapy sessions. However, attention must also be paid to the differences between the contexts. Therapists have, of course, quite different session goals than financial advisors. Whereas therapy is an ongoing process that involves the frequent holding of meetings aimed at revealing the personal preferences of patients and promoting patient trust, financial advisory services represent a business context in which the two parties involved seldom meet more than once a year and the aim of both parties is to carry out joint business transactions that will hopefully promote the financial status of both parties.

### **3.3. Behavioral finance, risk tolerance, risk perception, and consumer financial decision making**

The core objectives of financial advisory services are to obtain an accurate joint picture of the financial risks involved in different investment alternatives and to develop a clear joint understanding of the individual risk tolerance and risk preferences of customers. Relationship marketing proposes the establishment of a sincere dialogue as a way in which to achieve this understanding. The formation of a working alliance has been proposed here as a means of deepening this dialogue for better understanding.

However, there are also specific aspects of the core business of financial services that need to be considered in the study of the practice of financial advisory services. Because of the amount of financial risk involved for the customer, the interaction between a customer and a financial services advisor is a riskier endeavor for the customer than the simple act of buying a pair of shoes or paying for a dentist's consultation. When doing business with a financial services retailer, the customer is not in a position to compare all alternatives at hand. It is also impossible for the outcomes of various investment propositions to be evaluated at the time of purchase. Instead of merely evaluating information on different investment alternatives, the customer must



rely on other factors or means so as to make sound financial decisions. Within the field of relationship marketing, studies of the banking sector have highlighted the importance of trust; customer satisfaction; customer loyalty, service quality; role of customer service personnel; security/privacy; ease of use; customer retention; technology; and brand. However, to better understand the practice of financial advisory services, a discussion of behavioral finance and risk psychology is needed.

The proposed link between relationship marketing and behavioral finance—in that findings regarding behavioral finance can help understand consumer reactions in financial services markets (e.g., Chuah & Devlin, 2011; De Meza, Irlenbusch & Reyniers 2010)—gives reason to delve deeper into what affects consumer financial decision making in a financial services context. Behavioral finance consists of two main building blocks: limits to arbitrage and psychology (Barberis & Thaler, 2003; Shleifer & Summers, 1990). Given the purpose of this thesis, only the building block of psychology is considered of interest here (and, therefore, is elaborated presently). Whereas the paradigm of traditional finance theory presumes rationality from the actors, as assumed in both Bayes' law and Savage's notion of subjective expected utility, new ideas have brought in a dimension of nonrational agent behavior. To explain why individuals do not act rationally in accordance with the aforementioned "economic laws," researchers turned to cognitive psychology and experimental evidence showing how different biases affect how individuals form beliefs and make decisions (Barberis & Thaler, 2003). Hirshleifer (2001) and Barberis and Thaler (2003) provide a more thorough overview of the field.

Research has revealed systematic ways in which individuals' decisions deviate from what would be considered rational (given the neoclassical approach previously mentioned). This area of study consists of two subareas: (a) heuristics and biases, and (b) frame dependence. Tversky and Kahneman (1974), who devised a heuristics and biases approach to judgment under uncertainty, conceived the heuristics of representativeness, availability, and anchoring and adjustment. Heuristics is the trial-and-error process that makes up the rules of thumb used by an individual instead of a sometimes very complex calculation of the probabilities for different outcomes (Tversky & Kahneman, 1974). This use of simplified intuitive methods gives rise to systematic errors referred to as biases. Some examples of such biases are overconfidence, conservatism, home bias, and sample size neglect. However, heuristics

and biases are not often distinguished from each other and, instead, are referred to as heuristic-driven biases.

The context of a problem has been assumed not to affect the outcome of a decision, but researchers of behavioral finance have showed that individuals are influenced by the way in which the problem is presented. Loss aversion, mental accounting, and prospect theory are some well-known examples. Researchers of behavioral finance study how individuals make financial decisions under uncertainty, and the experiments performed by Kahneman and Tversky (1979) have had a great impact. Investor risk assessment is often explained in terms of how the psychological disposition of individuals influences their ability to assess risk correctly (Bazerman & Moore, 2009; Plous, 1993; Shapira, 1995). Investor behavior is affected by biases owing to the heuristics used to evaluate different decision-making options—such as anchoring, which refers to the tendency of individuals to underestimate the importance of the starting value in a calculation (Tversky & Kahneman, 1974), and overconfidence, which refers to the overestimation of the outcomes of one's performance (Barber & Odean, 2001).

Mental models presented by Kahneman and Tversky and other scholars have been incorporated in the field of risk perception primarily by Slovic and the psychometric paradigm. According to the psychometric paradigm, there are several characteristics of a risk that can increase risk perception. These characteristics include perceived dread, severity of consequence, and unknown consequences (Slovic, 1987).

In the study of financial advisory services, it is important to distinguish between risk tolerance, which indicates how much risk an individual investor is willing to take to reach a specific goal, and risk perception, which indicates the risk the same individual perceives to be inherent in a specific investment suggestion. The concept of risk tolerance has been explored (e.g., Hanna, Waller & Finke 2011), and different methods for developing risk tolerance assessment instruments have been devised (e.g., Grable & Lytton, 1999). Roszkowski and Davey (2010) showed that risk tolerance is a relatively stable concept—whereas risk perception is not—and discussed whether or not financial advisors can educate their customers about markets and investment risks as a way of influencing consumer risk perceptions.

Consequently, financial advisors have two different tasks concerning risk communication to fulfill when they participate in a face-to-face meeting with

customers. Financial advisors need to understand not only the risk tolerance of their individual customers so as to know what investments to propose as part of the portfolio but also customer risk perceptions, particularly how these perceptions affect consumer financial decision making. It is important for financial advisors to understand that the following questions are not the same: What risks can you take/do you want to take? What risks do you perceive are implicit in the proposed investment? They should also realize that questions about what risks are perceived in different financial markets or in the economy belong to the realm of the latter question. Taken together, these questions capture the risk preferences of customers.

Modern society has been described as a risk society (Beck, 1992). In modern society, citizens face risks that are very hard to grasp fully. Many risks cannot be evaluated until it is too late to take any action against them, and the fluctuations and cumulative effects of different financial markets are often among risks that are beyond the imagination of lay consumers. Hence, ordinary citizens need to rely on the knowledge and advice of experts. Financial advisors can be seen as risk experts who, based on the knowledge and experience they gain from their training, translate risky decisions into probabilities of outcomes. In the best of all possible worlds, financial advisors present their technical views of investments in terms that customers can understand and make recommendations based on their evaluation of customers' risk tolerance and risk perceptions, thereby guiding customers to make informed choices. Laypeople invest their savings based on the recommendations of expert advisors and rely on experts to govern the financial system. The importance of expert knowledge puts into focus the differences between lay and expert perceptions of risk. Research has revealed that advisors and customers assess financial risk differently (Callan & Johnson, 2002; McCrae, 2006), with non-experts tending to overemphasize the probability of negative outcomes (Shapira, 1995). In addition, past success often leads to increased risk taking although in actuality the odds of different outcomes have not changed (Osborn & Jackson, 1988; Thaler & Johnson, 1990). How risks are presented or framed also has a substantial effect on risk propensity (Kahneman & Tversky, 1979).

Ameriks and Fore (2002) stated that laypersons lack the knowledge to evaluate different economical outcomes and to define and estimate risk. Risk tolerance and ways to measure and communicate risk preferences have been studied (Callan & Johnson, 2002; Harlow & Brown, 1990; McCrae, 2006). Jungermann (1999) pointed out that, in

practice, financial advice is often given in the form of a single suggestion from the advisor, which is then rejected or accepted by the client instead of being discussed and altered to suit the individual. Other scholars have pinpointed the role of technical language in the financial services industry (Joiner & Leveson, 2006; Joiner et al., 2002), noting that customers' perceptions of advisors' credibility are correlated with the use of technical language in the advice giving/taking situation which also affects the customers' intention to seek professional advice in the future. If customers do not understand the advice given, its relevance to their own personal economy, and its correspondence to their risk preferences, they are reluctant to follow the advice and to trust the financial advisor with their future investments.

When individuals have to make a decision about financial risk, they tend to be loss averse rather than variance averse (Duxbury & Summers, 2004; Engelberg & Sjöberg, 2007; Kahneman & Tversky, 1979). In this type of situation, individuals cling to what they have even though there is sufficient reason to take action. Research has also revealed that loss aversion and attitudes toward money reflect attitudes toward relationships involving money, social status, and power (Engelberg & Sjöberg, 2007). If individuals place a high value on money as a marker of social status and power, they are more likely to be vulnerable to financial risks and losses on their investments.

In a normative attempt to discuss guidelines for advisors in the financial services industry, Callan and Johnson (2002) brought forward different risk tolerance instruments for financial advisors to use that would help make customers' risk tolerance explicit and, in so doing, understandable from the perspectives of both customers and advisors, thereby promoting possibilities for better giving and taking of advice. This is of interest for the financial services industry because evidence has showed that financial advisors have an incentive to recommend asset allocations that are not commensurable with investor risk preferences (Jansen et al., 2008).

As previously mentioned, numerous studies have been conducted on the individual's psychological disposition toward risk. Theories, such as expected utility theory (von Neumann & Morgenstern, 1947) and prospect theory (Kahneman & Tversky, 1979), have been developed—and subsequently criticized and refined—by many researchers in search of the individual psychological factors that can explain risk. Because of this quest to find more definite clues to individual predispositions in decision making involving risk, the field of neuroeconomics is growing (Glimcher,

2003). There is also an emergent literature on the genetic determinants of economic behavior. Although this kind of research is not used as the theoretical grounds for this thesis, it deserves to be briefly mentioned because the future outcomes of this kind of research might have wide implications for the understanding of how individuals relate to risk. Research has revealed that variants of two genes determine an individual's disposition for taking risk (Kuhnen & Chiao, 2009). These genes, which have been linked to emotional behavior, anxiety, and addiction, regulate dopamine and serotonin neurotransmission.

The results of several studies on risk psychology showing demographic differences in risk perception are also valid in terms of financial behavior. Men are more likely to take risks than women, and the same tendencies for overconfidence among men can be seen (Barber & Odean, 2001; Byrnes, Miller, & Schafer, 1999; Harris et al., 2006; Weber et al., 2002).

An alternative approach has been to study financial risk taking as a contextual, real-life decision-making situation. Some examples are a study of bank loan officers' actual credit decisions (McNamara & Bromiley, 1997) and a study of the motives behind saving behavior (Groenland & Wahlund, 1996). This type of research is often critical of studies about individual predispositions toward risk for being detached from real-life risk decision making (Wärneryd, 1996).

Some examples of research dedicated to exploring consumer financial behavior are studies of consumers' decisions about mortgage rates (Coulibaly & Li, 2009; Paiella & Pozzolo, 2007); studies of how different attributes among financial advisors, such as race and gender at the individual level, affect consumers' decisions (Bertrand, Karlan, Mullainathan, Shafir, & Zinman, 2005; Weber et al., 2002); and studies of how individuals invest differently depending on what sources they use to obtain financial advice (Gerhardt & Hackerthal, 2009; Mitchell & Moore, 1998).

Consumers' financial decisions are influenced by risk perceptions and different heuristics and biases, as well as by advisor ideas of what to recommend in any given market situation, thus giving reason to delve deeper into how the practice of financial advisory services is affected by these factors. Because risk is the core around which actors conduct business, with an outcome that hopefully benefits both parties, more knowledge about specific risk perceptions and general consumer financial behavior will

help make both parties better prepared to participate in a dialogue about future investments.

### **3.4. Summary of theories used**

It is not feasible to synthesize one conclusive theory from a number of theories selected to give a framework for answering multifaceted questions about a field of practice. The purpose of this thesis is not to make one general theoretical claim but rather to find out more about the specifics of the practice of financial advisory services so as to achieve a better understanding of the different parts that compose the financial services relationship and, thereby, supposedly affect its outcome. From this perspective, a discussion of a new general theory is not in line with the purpose of this thesis.

However, the chosen perspectives hopefully give a comprehensive framework that is of interest to both researchers and practitioners in the field. To grasp what happens in the critical moment when an advisor and a consumer give and take (respectively) advice, it is necessary to combine tools given by theories of different disciplines.

Adding the concept of a working alliance (a concept derived from research in psychotherapy) to the well-established theoretical framework of relationship marketing promotes understanding of the relational aspect of importance for the specific features of financial advisory services. With the goal of conducting business together, the buyer and the seller meet in a regulated context, where one of the main tasks of both parties is to talk about financial risk in a way that is feasible for them both. A certain level of joint understanding of the concept of risk is necessary for the advisor to make an appropriate business suggestion and for the customer to make a well-grounded financial decision. Therefore, understanding and communicating risk are at the center of this relationship—as expertise in risks (analyzing, packaging, and communicating risks) is the actual core business of the supplier. However, the term *risk* has different connotations for the two parties. When laypeople—as most consumers here are considered to be—talk about risk, they think about actual consequences in real life, whereas experts (i.e., financial advisors) think about probabilities (Wester-Herber, 2004). For these two parties to achieve the level of joint understanding of the concept of financial risk that is necessary, their relationship needs to develop a deeper level of listening that is practiced in psychotherapy but has not yet been described in the context of business. Therefore, the main theoretical contribution of this thesis is the

enhancement of theory on business relationships with the addition of the concept of a working alliance to the theoretical framework of relationship marketing (paper 2). This realization of the need to search for tools in the field of psychotherapy arose from employing a micro-level relational perspective (paper 1), where the importance of a symmetric mirroring was identified.

The inner part of the relationship between consumers and advisors (i.e., the “space between” these actors) was studied from the perspectives of relationship marketing and psychotherapy. By contrast, background information about the more formal parts of the relationship (i.e., the influence of the individual traits of the actors [consumers and financial advisors], which not only made each relationship unique but also represented a basis for study and generalization) was obtained by reviewing literature on behavioral finance, risk psychology, and consumer financial decision making. Because the joint understanding of risk is considered a core objective of financial advisory services, the idea was to test if individual characteristics had any impact on the perceptions of consumers and advisors.

## **4. Summary of the papers**

A summary of the data, methods, and main results for each of the five papers is presented in this chapter. Based on the overall results, answers to the research questions are also provided.

### **4.1. Paper 1**

The paper titled “Customers’ Ways of Making Sense of a Financial Service Relationship Through Intersubjective Mirroring of Others” explores customers’ perceptions of receiving financial advice in a face-to-face service encounter with a bank advisor at a bank branch. The purpose of this study is to focus on the intersubjective micro-context of the face-to-face financial service encounter as a way of grounding the forthcoming research conducted for the thesis in the actual perceptions of customers and as a possible means of contributing to relationship marketing theory.

#### **4.1.1. Field materials and methods**

This study was based on a grounded theory-inspired (Charmaz, 2006) process of gathering and analyzing empirical field materials. A stepwise procedure was carried out to ground the derived concepts in the empirical material so as to find patterns of experiences among customers. Seventeen bank customers were purposely selected from a theoretical interest in maximizing possible differences in the ways in which customers think of their contact with a bank advisor and the bank. The customers were interviewed for as long as it was necessary for them to tell their stories (between 2 and 3 hours)<sup>3</sup>. Because every interview was videotaped, it was available for viewing by the customers as a part of the method used and for analyzing in a stepwise manner by the researchers.

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<sup>3</sup> The interview team included psychotherapist Graham Barnes, PhD, hereby acknowledged.



The interviews focused on face-to-face interactions with an advisor. All 17 customers were asked to tell their stories about their financial selves and way of relating to the bank advisors and the bank. After the interview, the researchers and the specific customer involved analyzed each videotaped interview, thus making it possible for the researchers to ask questions about each customer's ideas of the concepts used. This second step of customer involvement in the analysis of the material was documented by one of the researchers who took notes. These notes were also used as field materials for analysis.

Each customer story, with corresponding entailment analysis and field notes, was analyzed by the authors of the study separately and discussed between the authors<sup>4</sup> in an attempt to derive concepts and to understand what was entailed for the respective customer. The concepts derived from different interviewees' stories were gathered together and checked against the total field materials to reach saturation, and categories were created jointly by the authors. The categories were then tested against each one of the 17 stories to search for similarities and differences in the material.

#### **4.1.2. Results**

The customers' accounts were reconstructed into one of four qualitatively different conceptions of how customers perceived they were constituted during their face-to-face encounter with the bank advisor. These four types of stories, which used metaphors from the interviews with the customers to emphasize points of interest, revealed whether or not the customers perceived the existence of a relationship with a provider. The four types of stories summarized how the customers made sense of their interaction with the bank advisor—the relational aspect. Only two of the four categories, the “It is like going to the dentist” and the “Like someone I really know,” illustrated what customers perceived as mutual relationships with the financial advisors. In these two types of customer stories, a symmetric intersubjectivity existed in which customers and service providers could establish genuine relationships. The other two categories that emerged referred to non-relationships as perceived by the customers (“It is just prying” and “It is like I am unseen”) and were asymmetric in that an intersubjective mirroring of the other did not occur. The findings of this study showed

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<sup>4</sup> Sussi Yildiz-Dag is recognized here for taking part in this analysis and contributing to the paper.

that for a relationship to exist, it was necessary for the advisor to be a mirror of the self for the customer and vice versa. Hence, the customer and the service provider (here a financial advisor) cannot be regarded as two isolated entities when talking about relationships in relationship marketing. This study suggests that intersubjective symmetry should be considered an important factor in relationship marketing theory.

## **4.2. Paper 2**

The paper titled “The Dark Side of Trust and the Light Side of Working Alliances in Financial Services,” which builds on findings in paper 1, is an attempt to contribute to marketing theory by bringing into focus the communication of financial risk together with the relational perspective of paper 1. This study examines trust, risk, and the psychotherapeutic concept of a working alliance in face-to-face encounters between customers and advisors in financial advisory services in an attempt to extend relationship marketing theory in strong-link consumer service encounters.

### **4.2.1. Data and methods**

The study was conducted on behalf of the Swedish Financial Supervisory Authority, which provided good access to the sample. All Swedish banks licensed to give financial advice were asked to provide a specific number of advisors based on the size of the bank. A total of 775 potential pairs of respondents was generated. Within each bank, the advisors were chosen at random by the bank’s compliance officer based on the criterion that the advisors would provide financial advice to a customer within a specified two-week period. The advisors received their version of the questionnaire, the customer questionnaire, and two return-addressed, postage-paid envelopes. They were instructed to complete and return the questionnaire and to request that the customer also complete and return it immediately after the meeting.

The questionnaire had mirrored questions for customers and advisors, with questions on perceptions of financial services together with background questions on socio-demographics, financial literacy, and the length of the relationship. Before the questionnaire was sent out, a pretest was created, and a small number of advisors and customers were asked to comment on the relevance of the questionnaire and their understanding of the questions. The final instrument, which was also developed based

on feedback from experts at FI, had 71 mirrored questions. The advisors were asked an additional 46 questions about their job situation and 11 background questions. The customers were asked 15 background questions.

Questionnaires were filled out and returned by 462 advisors and 393 customers. The data were combined into matched pairs; 87 unmatched cases were deleted, resulting in 375 matched pairs. Of the matched pairs, 7 were then deleted because of missing data. The final sample consisted of 368 matched pairs, yielding a 46% response rate. The mean age of customers was 55 years, and the mean age of advisors was 44 years. The customers had been with the corresponding advisor for an average of 3 years.

Data were collected from May through June 2008, just a few months before the eruption of the global financial crisis. A two-group linear structural relations (LISREL) analysis validated the following: (a) a model showing how a working alliance between financial services customers and advisors can affect advisors' assessments of financial services buyers' perceived risk preferences, and (b) the role that trust plays as a mediating variable.

#### **4.2.2. Results**

The paper explains how a working alliance between financial service customers and advisors affects advisors' understanding of financial services buyers' perceived risk preferences and what role trust plays as a mediating variable. The results showed that the pairs clearly had a working alliance, trusted each other, and believed that they communicate well. The reality is that as trust increases, advisors' understanding of customers' perceived risk preferences decreases, and as is apparent from the recent global financial crisis, customers become overexposed to risk. Customers and advisors think they understand each other, but they in fact do not.

#### **4.3. Paper 3**

The paper titled "Relationships Between Advisor Characteristics and Consumer Perceptions" is based on a semi-experimental study conducted among Swedish citizens.

#### **4.3.1. Data and methods**

Two hundred respondents picked randomly at a train station were asked to evaluate advice on how to invest 1 million SEK (100 SEK  $\approx$  €10  $\approx$  US\$15) together with a photo of what they were told was an experienced financial advisor at a Swedish bank. There were four different sets of questionnaires with photos showing a frowning female, a smiling female, a frowning male, and a smiling male advisor, respectively. Any person passing by in the train station was asked to participate. The target numbers of respondents were 25 males and 25 females answering each different set of questionnaires, yielding a total of 200 questionnaires for analysis.

This was an artificial situation. No real-life advisor was present, and no discussion about any implications of the advice was possible. It is important to note that the situation did not resemble any in which the respondents would have previously experienced when evaluating financial advice. However, it was considered a possible way to investigate gender and mood biases suggested by other researchers.

The respondents were asked to answer 12 questions, with answers recorded on a 7-point Likert scale (a 9-point Likert scale was used on the question on risk perception, and a 5-point scale defined what percentage they would be likely to invest on), and 4 background questions. Three dependent variables were constructed out of customer ratings; the amount of financial risk associated with the advice; the likeliness for the respondent to follow the advice; and the credibility of the advisor. The material was analyzed using two-way between-groups analysis of variance (ANOVA) tests.

#### **4.3.2. Results**

A number of hypotheses were made to investigate if there are differences in consumer ratings of risk, willingness to follow advice and advisor credibility due to advisor gender and mood. The following was found to be statistically significant results: consumers rate the financial risk higher when the advice is given by a female advisor; they are more likely to follow advice given by a female advisor and they are more likely to follow advice from a smiling advisor; the male advisor was considered the most credible.

The results from this study showed no significant differences between male and female customers' ratings of the three variables, but consumer mood did affect the ratings of financial risk associated with the advice in that the more positive the consumers felt the higher they rated the risk.

This paper suggests that advisor characteristics, as tested by the individual characteristics of gender and mood, significantly affected consumer ratings.

#### **4.4. Paper 4**

The paper titled “Gender Stereotyping in Financial Advisors’ Assessment of Customers” presents the results of a comparison of male and female advisors’ assessments of their customers. This paper grew out of a survey (see also paper 2) conducted in collaboration with the Swedish Financial Supervisory Authority (FI).

##### **4.4.1. Data and methods**

The data used for this paper were the same as those in paper 2, and a summary of the data collection can be found in section 4.2.1. For this paper, only advisors’ answers were used, and the empirical material consisted of the answers of 361 advisors to a questionnaire that was distributed a few months prior to the eruption of the 2008 financial crisis in Sweden. The effects of customer gender on advisor perception were also examined.

The gender representation among customers was well balanced in the material, with 49.3% female respondents and 50.7% male respondents. There were considerably more female (63.4%) than male (36.6%) advisors; however, this is an accurate reflection of gender distribution among Swedish financial advisors.

To test a hypothesis on presumed gender differences in advisor perceptions of their customers, six attitudinal statements were chosen from the questionnaire and six selection variables were constructed. These variables were all bipolar measures coded on a 7-point Likert scale, 1 = “do not agree at all”; 7 = “agree totally.” Because of the normal distribution of the answers, parametric tests were run: independent samples *t* tests (to test the results for the effects of consumer gender) and two-way between-groups analysis of variance (ANOVA) tests.

##### **4.4.2. Results**

The study provided statistically significant evidence that advisors assessed their customers differently depending on their own gender. The investigated variables were the advisors’ assessment of the following: consumers’ perception of their own risk

tolerance, customer satisfaction with the advisor, customer trust in the advisor, customer likelihood to follow the advice given, and advisors' ratings of customer financial literacy. Male advisors systematically rated consumers' answers higher than did their female colleagues. This finding might be linked to male overconfidence. The reasons for this discrepancy, however, were not elaborated on in the paper. There was one exception where the case was the opposite: advisors' ratings of consumer financial literacy. Female advisors rated customer literacy higher than did their male colleagues. No obvious reasons for this finding were found. Advisors and their employers in the financial services industry, policymakers, and, of course, consumers need to be aware of the possible existence of gender stereotyping in financial advisory services.

#### **4.5. Paper 5**

The financial crisis erupted in Sweden in the autumn of 2008. At the height of the crisis, newspapers for several months reported alarming news about the breakdown of the global financial system. Some of the more established Swedish financial actors had to face the consequences of previous actions, as did several of their international colleagues in the trade. The paper titled "Lay Actions in the Face of Crisis - Swedish Citizens' Actions in Response to the Global Financial Crisis of 2008" was initiated because opportunities to study lay actions in times of financial crises are rare. The paper reports what laypersons did in response to the crisis and the risk perceptions behind these actions. The paper has a deductive approach.

##### **4.5.1. Data and methods**

A survey was conducted among a sample of Swedish citizens in the spring of 2009. In total, 3,138 respondents were asked whether they had performed any action in the autumn of 2008 as a response to the financial crisis. The survey was distributed by TNS/SIFO International (the Swedish branch of a global market research company) to their Web panel, thereby ensuring a representative sample of the Swedish population. Of the total sample, 16.7% ( $n = 523$ ) stated that they had taken some action to protect their money during the financial crisis. From the remaining sample ( $n = 2,615$ ), a subsample of 530 respondents was randomly selected.

A direct logistic regression was performed to assess the impact of nine factors on the likelihood that respondents reported action as a response to the crisis. An open-ended question was asked so as to give respondents who took action an opportunity to indicate explicitly what they did. The answers to this question were coded into eight alternatives. Six of these were regarded as financially circumspect actions, and the remaining two (those in which respondents reported changing their bank relationship and leaving their previous bank and those in which respondents reported actively selling off all bonds and stocks to be high on liquidity) were regarded as financially rash actions. A chi-square test for independence was conducted to compare the scores on the continuous variables for the two groups.

#### **4.5.2. Results**

Previous research has showed that a majority of laypeople do not act in response to a major financial crisis situation. In this study, 16.7% of those surveyed reported that they had taken some form of action as a response to the financial crisis that erupted in Sweden in 2008. The strongest predictor of consumers' likelihood to take action was ethnicity (being of non-Nordic origin). This finding might be attributed to a lack of familiarity with, or trust in, Swedish institutions or to other reasons not studied here. Other factors positively affecting the choice to take action were increased age, a high level of education, possession of assets affected by the financial crisis, a perception that other individuals had taken action, and the attachment of high importance on being knowledgeable and up-to-date on financial matters. Women and respondents who worried about their everyday financial situation were less likely to take action than men and those respondents who did not worry as much about everyday household finances. Compared with the group of individuals that acted circumspectly in response to the financial crisis, the group of individuals (among those who took action) that acted rashly consisted of a lower number of individuals who thought that they had assets affected by the crisis, a lower number of individuals with higher education, and a higher number of individuals who considered it to be important to be knowledgeable and up-to-date about financial matters. The results might be of great interest to policymakers when analyzing what kind of information would be the most suitable to disseminate to the public in times of major financial crises.

#### 4.6. Summary

To summarize, the thesis consists of five articles based on four different sets of primary field materials/data that I collected. For these studies, three different questionnaires were constructed and distributed, and videotaped interviews were carried out. This work involved the use of different research approaches and various techniques for gathering material/data and conducting the analyses. The thesis relies on a mixed methods approach and combines interpretation and hypothesis testing in an attempt to obtain new knowledge of a field of practice. So what did this mixture of perspectives and methods bring forth in terms of new knowledge? A brief summary of the results obtained gives the following answers to the research questions posed (see 1.2.3):

How does the customer perceive the relationship with the financial advisor?

Paper 1 → Not all customers perceive the interaction as a relationship. What seems to be crucial for the customers' notion of a relationship is the symmetrical mirroring of the other.

Does the customer-advisor relationship have importance for the understanding of customer risk perceptions and preferences?

Paper 2 → Yes, it does. A relationship between a trusting customer and an advisor can in fact leave all the risky decisions to the advisor, whereas an added dimension of an ongoing conversation—that is, a working alliance—gives grounds for a joint process of securing that the appropriate level of risk (what is desired by the customer AND found suitable for the customer by the advisor) is defined and maintained in the investments proposed by the advisor.

Do customer and/or advisor characteristics affect financial advisory services?

Papers 3 and 4 → The effects of one such characteristic—namely, the gender of both customer and advisor—were tested and showed to affect the perceptions of the other, the perceptions of financial risk inherent in a proposed piece of advice, the perceptions of the risk preferences of the other, and the perceptions of the financial competence of the other.

What do customers do in response to financial risk in a crisis situation?

Paper 5 → Most laypeople do not act at all. Among those who do act (here 16.7% of the total sample), most take financially circumspect steps, and a small number act rashly.



## 5. Contributions, implications, and limitations

The five papers presented in this thesis, and briefly summarized in section 4, all contribute to a better understanding of the practice of financial advisory services. Table 5:1 gives an overview of different aspects of the papers, providing information on the main focus, perspective, and method (see also Appendix 2). Papers 1 and 2 have a relational focus, and papers 1 through 4 focus on factors that affect the relationship. Whereas a focus on the relationship implies that the relationship is the main object of study, a relational focus indicates a qualitatively different mode of inquiry in which the micro-foundations of the relationship itself are the main focus of the study and intersubjectivity is entailed in the definition (see also Figure 1:4, which outlines the two perspectives of the thesis).

Four of the papers (2–5) focus on risk perception, with communication about financial risks being considered the core business of the financial advisor. According to applicable regulations for consumer protection, there is a demand for the advisor to investigate customer risk tolerance and to engage in a dialogue with the customer about risk perceptions as a means of putting together the most suitable portfolio (i.e., a portfolio that takes into consideration the risk preferences of the individual consumer).

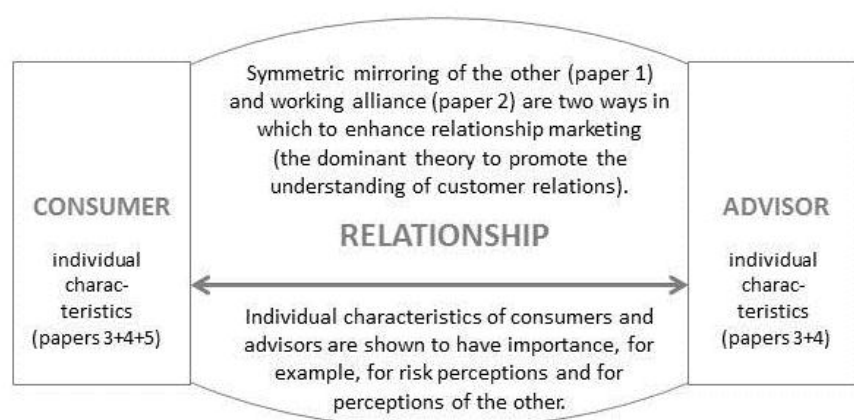
*Table 5:1.*

Different Aspects of the Five Papers

	Rela- tional focus	Focus on the relationship	Focus on risk perception	Consumer perspective	Provider perspective	Dyadic perspective	Qual. method	Quant. method
1	X	X		X			X	
2	X	X	X			X		X
3		X	X	X				X
4		X	X		X			X
5			X	X				X

Given the aim of contributing to the understanding of financial advisory services and the multi-method approach presented in chapter 1, three different perspectives are applied in the papers: the consumer perspective (papers 1, 3, and 5), the advisor perspective (paper 4), and a dyadic perspective (perspectives of advisors and consumers; paper 2). This complexity of perspectives and focuses is intentional because it is assumed to give the best possible credit to the complexity of the practice of providing and receiving financial advice. The overall contributions, implications, and limitations of the thesis are outlined in this chapter.

The figures from chapter 1 (Figures 1:3 and 1:4), which were followed up with the main theoretical tools in chapter 3 (Figure 3:1), can now be completed with the findings from the five papers presented in chapter 4. Figure 5:1 summarizes the overall research contributions of the thesis within the chosen framework of perspectives. These contributions are elucidated in sections 5.1 and 5.2 so as to enhance the understanding of an important field of practice—financial advisory services.



*Figure 5:1.* Overall research contributions.

## 5.1. Theoretical implications

The findings of the papers presented here contribute to the understanding of why so many small investors were overexposed to risk in the global financial crisis of 2008 and to the avoidance of the kind of future large-scale market effects partly caused by poor lay understanding of financial markets and products. As mentioned in chapter 1, a great deal of literature exists that explains the reasons for and the effects of the financial crisis

of 2008. The lack of financial knowledge among laypeople has been considered an important focus for further research. Previous studies have discussed the effects and potential of financial advisory services from financial aspects. The importance of the relationship between a customer and a trusted provider has also been mentioned in the literature. However, the findings presented here suggest there are other aspects of this relationship that are as important to recognize when evaluating the role of financial advisory services. The characteristics of both consumers and advisors, as tested from the aspect of gender, are shown to be of statistically significant importance for both consumer and advisor perceptions of different aspects of the core elements of financial advisory services.

Focusing on the micro-foundations of the relationship between customer and advisor reveals the importance of mirroring for customers in perceiving any relationship with the advisor. This focus on micro-foundations also uncovers the existence of two types of interactions that customers do not consider to be relationships. Regardless of how customers perceive their interactions with advisors, there are occasions when customers are too trusting, which researchers have identified as “the dark side of trust.” Applying the concept of a working alliance (a concept borrowed from psychotherapy research) has opened up possibilities for further exploration of the inner parts of the financial advisory session. When a working alliance exists between the customer and the advisor, customer risk preferences are better understood by the advisor than when the understanding is guided by trust alone. These findings contribute to the theory of relationship marketing in two ways. First, they identify types of interactions that customers do not consider to be relationships. Second, they propose and test the concept of a working alliance as a way of enhancing theory and, thereby, the understanding of relationships between consumers and service providers.

## **5.2. Practical implications**

Some important practical implications can be drawn from the findings and suggestions presented in this thesis. By taking into consideration the results presented here, financial institutions that provide advisory services would most likely enhance the education of their advisors and, in so doing, improve customer relationship development. Educating advisors can provide them with new insights—and, thereby, hopefully enhance their ability to provide better advisory services—in at least three ways: Advisors can learn

about their own biases toward others and toward risk and be more observant when practicing their profession in the future. They can work to detect and reduce the effect of biases of which their customers are unaware and, thereby, provide customers with better instruments to make decisions involving financial risk. Advisors can be educated in areas such as psychology and pedagogy so as to be better prepared to adjust their approach to individual customers. They might also become better educators of laypersons and, in so doing, help financial literacy policy programs to achieve their aim to disseminate financial knowledge more equally among citizens. Education in areas that are of general interest to society, like financial psychology and factors affecting risk tolerance and risk perceptions, is important because the effects of decisions on, for example, pensions and mortgage loans are long term and influence the self-supportiveness of consumers. Even though the links between knowledge of risks and actual behavior are uncertain, the connection between relationships and sales has been well established. An understanding of the relationship itself and of how advisors can contribute to consumers' risk assessment is of importance to the business because it gives an opportunity to develop the sales process further.

According to the findings of this thesis, it is important for advisors when involved in an advisory session with a customer to make a distinction between the following two questions: What risks do you want to take in relation to your economic situation?; and What risks do you perceive are implicit in the proposed investment, different financial markets, or other related entities? Taken together, these two questions and perspectives of risk tolerance and risk perceptions capture the risk preferences of customers, but the answers are not always explicit for customers. Making the risk preferences of customers explicit is a core function of financial advisory services. The idea of a working alliance is proposed here as a way in which practitioners can make these customer preferences explicit during the dialogue between a lay customer and a professional financial advisor.

Financial literacy initiatives emphasize the importance of educating customers and providing technically sound advice (Joiner & Leveson, 2006; Joiner et al., 2002). However, it is equally important—and also underlined in regulatory frameworks as well as recent EU guidelines—for advisors to understand their customers' perceived risk. An advisor and a customer set out to create an investment plan that matches the customer's risk tolerance and the risk perceived by customer to be entailed in

alternative investments. The success of this investment plan depends on the full participation of the customer and the attentiveness and interest of the advisor.

In the financial advisor-customer context, both parties are assumed to purposefully set out to build a type of business relationship. From this relationship, an investment plan emerges, which is based on the professional competence of the advisor in (a) content skills (knowledge about financial products and markets and the technical working tools of the industry) and (b) skills necessary to build a working alliance (defined as a collaboration, an affective bond, and an ability to agree on goals and tasks).

In this context, one important concept that needs to be jointly understood by both parties is customers' risk preferences, which are not always explicitly known as such by customers. To make risk preferences a possible subject of a business conversation, skilled professional advisors establish working alliances. Through the establishment of working alliances—ongoing exchanges of information on the core theme of interest (in this particular context, risk preferences communicated as risk tolerance and risk perceptions)—customers' risk preferences become explicitly known, thus making it possible for professional advisors to provide good advice. Becoming skilled in establishing a working alliance can therefore be regarded as a means by which the advisor can gain better knowledge of customer risk preferences and, thereby, give advice best suited for the individual customer in accordance with the intentions of regulations and in the long-term interest for both consumers and the industry.

In the context of financial services, the present regulations make the definitions of advice giving, information and sales talk unclear to both customers and advisors. The more we can learn about the special features of advice giving and taking, the better equipped will the industry be in supporting customers' investment choices for an uncertain future. An alternative to be considered would be to rename the legislative approach so that the concept is more clearly defined and not left to be interpreted by the actors. Enhanced knowledge of how financial advice is given and taken in practice will however increase the possibilities for better compliance to existing regulations and will guide future policymakers. This is indeed of great interest to regulatory authorities, industry, and consumers.

### **5.3. Limitations and ideas for future research**

One could argue that among the limitations of this thesis—although not among the presented aims of the thesis work—is the fact that the advice itself—the proposed financial products and services—is not investigated or in any way taken into account, nor is the financial outcome of the advice provided and received during the studied advisory sessions or in possible earlier encounters between the customer and the advisor. The perceptions of the customer will, among other things, be colored by earlier experiences of how well the advisor's proposed portfolios performed. The same can be said about differences in the length of the relationship. The materials presented in the studies accounted for here all describe ongoing relationships between consumers and service providers, and no special attention is given to new customers and ways in which to obtain and retain them in a first advisory encounter. These limitations can also be regarded as interesting areas for future research. The papers explore some factors of importance for financial advisory services and build evidence that they are important for the understanding of practice. The work of determining the weighting and the causality still remains. Other areas of interest for future research include more in-depth studies of how the characteristics of both customers and advisors (e.g., gender, income, education, personal risk tolerance, financial literacy), which have been shown to have importance for the financial decisions of laypersons, affect the financial advisory session.

The contributions to relationship marketing theory claimed in this thesis need to be tested and developed further. Studying the micro-foundations of relationships can be a rewarding process; however, to make more general contributions, the results need to be tested in other settings—in this case, (a) that not all relationships between customer and advisor are seen as such by the customer, and that customers identify relationships based on the way they are mirrored by their service providers; and (b) that the concept of a working alliance is instrumental in understanding the risk preferences of buyers of financial services.

Torn in different directions by regulations and expectations of employers and those of customers, advisors have the not-so-easy task of providing financial advice. The perceptions, working situations, and roles of financial advisors are, of course, interesting areas for future study. Some questions to be considered further include the following: What factors affect the advice given by advisors? Bank recommendations

represent one factor, for sure, but what other factors are involved? What effects do banks' incentive programs have on the performance of advisors, the outcome of the advice-giving session, and the perceptions and trust of the customers? What effects does media coverage of the banking industry—and, more specifically, of financial advisory services—have on customer perceptions of risk, of advisors, and of advice given? How do advisors learn to give advice, and what kind of knowledge is this? How does the unclear role of the advisor—as salesperson, advisor, and “friend of the customer”—affect the working conditions and focus of the advisor?

There are also very different roads that could have been taken to gain more knowledge about this practice and that can still be taken in the future. The brand and the historic performance of the financial services provider as a company are among other factors that could affect customer trust and perceptions of the customer-advisor relationship. Therefore, it would be interesting to study these factors further as well as the talked actions of consumers and advisors in the financial services context. Several approaches and methods such as ethnomethodology and conversation analysis could be used to study the kinds of discussions between two parties that constitute the giving and taking of financial advice defined here. The question of how financial risk (or decision under uncertainty) is jointly discussed and considered as an adequate platform from which a consumer can make a sound financial decision still remains to be explored. Other ways of studying financial advisory services could involve theoretical frameworks (e.g., game theory). The development of such approaches, which will most certainly widen the perspective, is welcomed. Financial advisory services constitute a field of practice with several dimensions of importance for all levels of society: regulators, industry, and individual consumers. Hence, this field can be studied with the lenses of many different disciplines, such as economics, law, business administration, and psychology. The present work has a multidisciplinary approach and contributes in several ways (illustrated in Figure 5:1) to a better understanding of practice.

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## APPENDIX 1 - Mixed methods research

Since Campbell and Fiske (as cited in Johnson et al., 2007) first introduced triangulation in 1959 as a way of ensuring the validity of results (further developed by Denzin [1978], who recommended the use of between-method triangulation), this approach has grown into a methodology of its own. What is called the mixed methods approach has been described as “a third paradigm”<sup>5</sup> (Johnson & Onwuegbuzie, 2004, p. 14). This epithet refers to the long-lasting debate between advocates for either the positivist or the constructivist and interpretivist view on what are good research methods. The positivist view has argued for the application of only quantitative methods to research designs, whereas the constructivist and interpretivist view has called for purely qualitative designs. This dispute is well known to researchers within social sciences, and the methodological debate between different scholars has been rather intense. The ideas of purity of perspectives and incompatibility thesis (Howe, 1988) have even been argued to be counterproductive to the outcome of research by locking young researchers into one paradigm or the other instead of focusing on determining the best way in which to answer the posed questions and recognizing the similarities between the two conflicting ideas (Onwuegbuzie & Leech, 2005). An in-depth debate on methodology is not presented here because doing so would not serve the purpose of this thesis. There are, however, some aspects of the position taken that need to be declared concerning research strategies and research design.

The mixed methods approach can be given a philosophical “home” within a pragmatic tradition dating from the work of Peirce, James, Dewey, and others of the American pragmatist movement in the second half of the 19th century. Pragmatism, of course, has its own interesting history, roots, and developments; however, given that the primary interest here is to describe the rationale behind the thesis work, they will not be further examined. Morgan (2007), who studied several methodological issues that arise when combining qualitative and quantitative methods, advocated the regaining of pragmatism. Table A1 (Morgan, 2007, p. 71) serves to illustrate how the

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<sup>5</sup> The term *paradigm* was first coined by Kuhn (1962). Since then, it has been extensively used in research literature as well as more popular works. Here, it relates to the research paradigm, as defined by Johnson and Onwuegbuzie (2004).

pragmatic approach relates to the two other “paradigms” and is here reproduced for the sake of clarity.

*Table A1*

A Pragmatic Alternative to the Key Issues in Social Science Research Methodology

	Qualitative approach	Quantitative approach	Pragmatic approach
Connection of theory and data	Induction	Deduction	Abduction
Relationship to research process	Subjectivity	Objectivity	Intersubjectivity
Inference from data	Context	Generality	Transferability

Note. From “Paradigms Lost and Pragmatism Regained: Methodological Implications of Combining Qualitative and Quantitative Methods,” by D. L. Morgan, 2007, *Journal of Mixed Methods Research*, 1, p. 71. Copyright 2007 by Sage Publications. Reprinted with permission.

Johnson and Onwuegbuzie (2004) described the mixed methods approach as “a pragmatism of the middle” (p. 17) and as one that provides answers that work in practice. Based on the research questions, the methods chosen are the ones found best suited to give answers. Greene, Caracelli, and Graham (1989, p. 259) inductively identified the following as rationales behind mixed methods research: triangulation, complementarity, development, initiation, and expansion. Biesta (2010) provided a comprehensive overview of pragmatism and the philosophical foundations of mixed methods research. A brief history of this third paradigm, as well as practical guidance on how to conduct research, has been mapped by Creswell and Clark (2007). In their 2007 article, Johnson et al. set out to bring order to the multitude of definitions that have been put forward for mixed methods research.

From among the many definitions for mixed methods research that were collected and described in a study by Johnson et al. (2007), the one chosen to guide this thesis is the definition offered by Greene:

Mixed method inquiry is an approach to investigating the social world that ideally involves more than one methodological tradition and thus more than one way of knowing, along with more than one kind of technique for gathering, analyzing, and representing human phenomena, all for the purpose of better understanding. (Johnson et al., 2007, p. 119)

Greene's definition is chosen because it mentions the object of study: the social world. A more technically oriented definition, which is also in line with the methodological use in this thesis, is worded as follows:

Mixed methods research is the type of research in which a researcher or team of researchers combines elements of qualitative and quantitative research approaches (e.g., use of qualitative and quantitative viewpoints, data collection, analysis, inference techniques) for the broad purposes of breadth and depth of understanding and corroboration. (Johnson et al., 2007, p. 123)

Because they are not considered to be conflicting, both definitions are used in this thesis as bases for understanding the research design used. An abundant amount of information is also available on how to conduct mixed methods research (Creswell & Plano Clark, 2007; Collins & O'Cathain, 2009; Onwuegbuzie & Leech, 2005). In their 2004 article, Johnson and Onwuegbuzie (pp. 22–23) provided plenty of examples of mixed methods research design and mixed methods research process models. Brannen (2005) then examined how the qualitative and quantitative approaches are woven together in the practice of doing research work.

Of special relevance to this thesis is the use of the mixed methods approach in business and counseling research. Cameron and Molina-Azorin (2011) have investigated the existence of mixed methods research in seven fields of business studies: marketing, international business, strategic management, organizational behavior, operations management, entrepreneurship, and human resource management. They found that these fields were totally dominated by quantitative studies (76% of the empirical articles reviewed), followed by mixed methods studies (14%), and, lastly, by qualitative studies (10%). In a content analysis of articles published in a leading counseling journal (*Journal of Counseling & Development*) between

2002 and 2010, Leech and Onwuegbuzie (2011) concluded that mixed methods research studies comprised only 2% of the published articles and that qualitative articles were even scarcer. The dominating paradigm in this particular journal was apparently a quantitative one. Obviously, some evidence exists that mixed methods research is not the most frequently used approach in fields of relevance to this thesis. However, the ontological and epistemological grounds for this work are within a pragmatic tradition, an abductive connection between theory and data is made, the researcher's relationship to the research process is intersubjective, and the inference drawn from data is about transferability. According to Morgan (2007), all of these are features of a mixed methods research approach.

## APPENDIX 2 – Paper overview

	Article	Main question	Data	Method	Dominating fields of theory
1	"Customers' Ways of Making Sense of a Financial Service Relationship Through Intersubjective Mirroring of Others" (with K. Eriksson, published in Journal of Financial Services Marketing)	How do customers perceive a relationship with a financial advisor?	Videotaped in-depth interviews with 17 customers of advisory services in Swedish banks.	A qualitative interpretative analysis of the interviews with the output of a typology.	Relationship marketing
2	"The Dark Side of Trust and the Light Side of Working Alliances in Financial Services" (with J. Sallis and K. Eriksson, submitted to Journal of Consumer Research)	Can working alliance, a concept borrowed from psychotherapy, help explain what goes on in a relationship between an advisor and a customer in a financial advisory services context?	A questionnaire sent out in spring 2008 in collaboration with the Swedish Financial Supervisory Authority. A dyadic sample of 368 matched pairs of customers and financial advisors.	A quantitative hypotheses testing approach to qualitative data applying a two-group-analysis in LISREL.	Relationship marketing Working Alliance
3	"Relationships Between Advisor Characteristics and Consumer Perceptions" (accepted for publication in International Journal of Bank Marketing)	What effect do advisor characteristics have on consumer perceptions of risk, likelihood to follow advice and advisor credibility?	A questionnaire distributed in 2007 among 200 Swedish consumers.	A quantitative analysis based on hypotheses testing.	Behavioral Finance
4	"Gender Stereotyping in Financial Advisors' Assessment of Customers" (published in Journal of Financial Services Marketing)	Are there differences in male and female advisors' assessment of their customers?	A questionnaire sent out in spring 2008 in collaboration with the Swedish Financial Supervisory Authority (see paper 2).	A quantitative analysis based on hypothesis testing.	Behavioral Finance
5	"Lay Actions in the Face of Crisis-Swedish Citizens' Actions in Response to the Global Financial Crisis of 2008" (with M. Wester, published in Journal of Socio-Economics)	What did Swedish consumers do as a response to the financial crisis in the autumn of 2008?	A questionnaire distributed in 2009 among the Swedish population. Two samples of ap. 500 individuals in each of the two groups: those that did nothing and those did something as a response to the crisis.	A quantitative explorative analysis.	Behavioral Finance



## **APPENDIX 3 - The researcher's preunderstanding of the object of study**

Because this thesis is partly qualitative—that is, it builds on collected and interpreted field material (e.g., interviews, videotapes) concerning the providing and receiving of advice in a financial services context—a description of the researcher's understanding of this field of practice is of interest. This understanding is based on experiences gained (a) before entering the doctoral program and (b) during the doctoral program (parallel to the dissertation project).

### **A. Experiences gained before entering the doctoral program**

From 1989 through 2000, the researcher worked as a consultant and had one of Sweden's largest retail banks as a customer. The work assignments from 1989 through 1997 included producing information, writing internal training and strategy material, and contributing to the preparation of annual reports. In other words, I not only developed an understanding of the company's internal rhetoric but also helped formulate it. From 1997 through 2000, I was engaged as a full-time consultant on an internally initiated future-oriented change project. A large number of different types of interviews were conducted under the auspices of the project. The aim was to find out how bank customers in general (i.e., not only this particular bank's customers) viewed themselves as economic beings and in relation to banks. The knowledge collated (i.e., the results of a comprehensive empirical collection and analysis) would then be used by the bank's practitioners to develop "a new bank," one that was better suited to meeting customers' needs and requirements. This objective rested heavily on theories of relationship marketing.

A number of different projects were introduced with the overall aim of "revolutionizing retail banking" through a radical increase in customer orientation. One of these was the "Customer Stories Project," for which I was responsible from 1998 through 2000. During the project, a small number (about 30) interviews were also held with employees to increase the understanding of what the bank's personnel perceived to be shortcomings in communications between the bank and customers. However, the project's main work concentrated on the knowledge of bank customers.

Within the “Customer Stories Project,” 604 personal interviews were conducted with consumers (some of these consumers were also entrepreneurs, but they were interviewed in their role as consumers) and 51 interviews with corporate customers. Prior to the interviews, a collaborative relationship was established with a researcher from the Department of Sociology at Stockholm University. This researcher contributed knowledge of methods for processing the information and the Nudist computer program as a suitable tool with which to analyze the large quantity of text. The researcher and some of her doctoral candidates also helped to read and analyze the first section of the material (about 70 testimonials from consumers) and to categorize their statements in detail so to demonstrate the knowledge gained to those participating in the project. Other customer stories (as well as the first 70 that the researcher’s group helped read) were independently read by three people in the larger project group, categorized according to a “from-the-bottom-upward” logic, and entered into Nudist for analysis. Each and every one of the three people (of whom I was one) read each interview and coded statements using their self-selected concepts in a grounded theory-inspired way. The three “readers” then discussed among themselves the chosen concept for each statement so as to represent it in the best possible way. When all the material had been read and coded, these readers discussed the large quantity of concepts that arose and compiled these concepts at three levels. An analysis of the material was then performed.

The analysis of these interviews, which was performed partly with the help of researchers but had a primarily practical objective, led to the result that (briefly described here) the experiences of bank customers when meeting with the bank were expressed through the following collective (highest level) concepts: risk; confidence; institution; interactivity; perception of time; spatial perception; money as means.

Discussions concerning the project in 1998 led to the adoption of a new strategy. The earlier interviews had provided important knowledge of customers’ conceptual world and of the way in which customers perceived their meetings with bank employees. The project then clarified the insights into customers’ own meaning-creation processes. How would concepts such as confidence and risk be perceived by customers? To answer this question (and many others), the project accepted the assistance of academic expertise in the fields of conversation analysis and psychology. Instead of using a reducing method, which would give opportunities to see contexts

in their entirety and generalize from the large material already collected, the project sought to deepen the understanding of what different statements meant to individual customers.<sup>6</sup>

In the second stage of the project (1999–2000), 20 longer interviews were therefore held with customers who had been chosen based on a special “theoretical” interest. The earlier interviews had shown minimal, yet discernible, differences between customers’ perceptions of the meeting with the bank depending on customer characteristics (this was not analyzed further). For the in-depth study, customers were purposely selected to represent each of these categories<sup>7</sup>. The 20 respondents were interviewed until saturation was reached. The interviews, which lasted 2 to 3 hours, were filmed and then analyzed separately by me, one other project participant, the project’s scientific expert (Graham Barnes, PhD, a registered psychotherapist), and the individual customers. For approximately 2 days, the individual customers assisted the project group by analyzing their statements and defining central key concepts, all for the purpose of creating greater understanding of what lay behind the concepts used by the customers.

Several techniques used in the fields of psychology and conversation analysis were applied in the customer analyses. Professor Ranulph Glanville, PhD, a specialist in cybernetics and human learning, assisted the project by providing insights into theory and practice, as well as acting as a special mentor for the project group. After the customers had individually analyzed their filmed interview with the project group, the results of all interviews were collected, forming the basic material that was used in the project’s analysis of customer needs and customer requirements in their relationship with the bank. These interviews were analyzed so as to retain the rich nature of the material as much as possible rather than reducing it to a limited number of collective concepts.

In very simplified form, the conclusions of phase 2 of the project can be said to constitute an insight into the level of importance bestowed by each individual

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<sup>6</sup> Because this project was an internal bank project (as opposed to an academic project), no research-related requirements were set regarding method or choice. I claim no reliability regarding the results but would like, by describing them, to give a clear picture of my preunderstanding and of the specific interest in the giving and taking of advice in a financial context.

<sup>7</sup> These “categories” represented differences in age, gender and education.

customer on the relationship with the bank and with the bank's representative, in light of more existential matters concerning money and economics. It was evident, both during the customer interviews and when the project delivered its material internally in the bank, that the bank employees did not understand this existential dimension described by the customers. At that time, both management and employees obtained training in sales techniques from the retail sector and used retail metaphors to describe their work. More than 10 years later, it is interesting to reflect upon the way the results of this ordered study were handled in the bank. At that point in time, better computerized support rather than employee training was considered the key to establishing and maintaining customer-bank relationships. How banks today perceive their role in establishing and maintaining this type of relationship is an interesting area for research but is beyond the scope of this thesis.

In this context, I would also like, among other very interesting aspects of the material, to highlight the negative experience of "not being seen as who I am" that was strongly expressed by customers with regard to receiving advice from bank employees. The same sentiment applied to risk. The interviewed customers stated that the way in which they were treated when it was time to make certain decisions was crucial. The greater the element of risk that was perceived by the individual customer, the more important the perceived relationship was.

In connection with public discussions about the Financial Advice to Consumers Act that were carried out in 2003 and 2004, I found that interest in the giving and taking of advice in a financial context had been renewed. The Swedish government and legislature had established that the giving and taking of advice held some type of specific importance that was possible to regulate. Hence, consumers most likely felt more secure when meeting with the bank than they would have if the relationship were not regulated by law. One can only speculate as to what the consequences would have been if the act had been named the "Financial Sales to Consumers Act" instead. The age-old question of what's in a name prompted me to begin laying the groundwork for this thesis.

## **B. Experiences gained during the doctoral program (parallel to the dissertation project)**

Two projects influenced the direction of this dissertation. These projects helped lay the foundation of knowledge about the objects of main interest: the financial services sector and the consumer-advisor relationship.

### **B.1. Competency requirements in the Swedish financial sector**

On commission by the board of the Centre for Banking and Finance at the Royal Institute of Technology in Stockholm, I sought to reveal in a report titled *Future Competence Requirements in the Financial Sector* (2008) what future demands for competence exist in Sweden's financial sector. The aim was to create a basis for discussion between various actors so as to ensure that a workforce with the proper educational background is available to meet the needs of the sector in the long term. The resources for the project's execution were provided by Första Sparbanken Foundation, a foundation for economic research.

The report was built on semi-structured interviews (four problem areas, which had been identified through a preliminary study, were discussed through open dialogue) with 42 representatives of various areas within the financial sector. From these interviews, which were anonymized, a scenario regarding the sector's development and future competence requirements was produced. The conclusions were subject to comment by representatives of various academic subject areas and educational backgrounds relevant to the social sector studied.

Based on the opening conversations with the interview subjects in the preliminary study, subsequent interviews were carried out with a particular focus on the following four areas: (a) changes in regulations for the financial industry (national and international), (b) offers/demand/products within the industry, (c) technology/IT, and (d) structural and strategic changes in the industry.

In addition to these areas of focus, the project left ample room for the individual interview subjects to express their views on development and competence requirements. The key concepts from the study of future competence requirements are the following:

1. There are currently a number of inadequacies in today's educational programs. The industry's awareness of these inadequacies is clear and fairly uniform. However, views on the future's competence requirements are splintered and, in many cases, fairly shortsighted.
2. Increased cooperation between the financial sector and colleges and universities—for the purposes of knowledge building and greater integration of problems and methods from actual practice into theoretical education—is an important objective for the future, along with the offering of tailored educational programs by colleges and universities for those aspiring to work in the industry. One example of cooperation between industry and educational institutions is the desire for students to be given greater exposure than they currently have to the actual IT systems with which financial companies work.
3. The internationalization of the finance industry requires adjustments and adaptations to be carried out in educational programs. International perspective and knowledge are ranked high on the competence scale. Some ways in which to achieve constant adaptation and continuing progress might include expanded study exchanges and joint educational initiatives with Nordic colleges and universities. Holding advanced economic educational programs in English would also be a means of providing students a broader international base with a far-reaching and industry-anchored comprehension.
4. Meeting future needs for competence requires the offering of elite educational programs with a more specialized focus. For example, a clear demand exists for a professionally oriented, specialized educational program for traders (stocks, commodities, interest, etc.), something which is lacking today. There is also a demand for a broader “crossover” education in which corporate economics, national economics, and macroeconomics are combined to a greater extent than they are today.
5. Several specific areas of competence are identified as being necessary to cultivate so as to meet future demands. They include the following:
  - a. Mathematics – Because a strong mathematics education, in terms of both breadth and depth, is unequivocally of major importance in the industry (e.g. retail, wholesale, securities sectors), the quality of this type of education needs to be improved. A lack of statisticians is also identified.

- b. Corporate economics and national economics – Knowledge concerning the connection between financial systems and the areas of corporate economics and national economics needs to be enhanced.
- c. Legal – Increasingly complex regulations require greater legal competence—in terms of both breadth and depth.
- d. IT – A general knowledge of the most common financial systems used in the industry is required. Skills in advanced systems architecture are needed at the specialist level.
- e. Project management and process work – Because the financial sector increasingly builds on projects and processes, competence in these areas is increasingly vital for the future.
- f. Pedagogy, psychology, and marketing – Competence in satisfying customer demand at all levels requires increased knowledge of various forms of communication.
- g. Ethics and corporate social responsibility (CSR) – In the wake of stiffer regulations—ranging from advising ethics to money laundering and terrorist financing, as well as a high level of corporate ethics in society—the need for general competence in these areas is growing.

## **B.2. A study of the regulated financial services relationship**

As described chapter 2, FI has determined through a number of studies that there exist some uncertainties associated with advising services in a financial context—uncertainties presumably connected to the interpersonal dynamic arising in a physical meeting between client and advisor. Apart from the questions as to whether or not advising is correctly documented and whether this documentation is also given to the customer, some issues at stake are of such a nature that they could be explained by systematic problems in the communication between client and advisor. These problems might, for example, entail differences in expressions, perception of trust, and experience/interpretation of risk.

To clarify further whether—and, if so, how—these potential problems affect the advisory services situation, two colleagues (professor Kent Eriksson, PhD, and professor Annina Persson, PhD) at the Centre for Banking and Finance and I have studied the relationship between client and advisor. A better understanding of how

advising takes place in practical terms affords the industry's companies greater opportunities for rule compliance, which is why the results (briefly described here) are of interest to FI and other actors.

From May through June 2008, a questionnaire survey on the relationship between advisor and client was carried out. The aim of the survey was to increase understanding of the advising relationship. It would also serve as the basis for a dialogue between FI and industry players regarding the application and continued follow-up of the Financial Advisory Services to Consumers Act and corresponding rules in the new securities legislation in accordance with the MiFID. The material also came to serve as a basis for research on the advisory relationship (papers 2 and 4 in this thesis).

The following is a summary of the results obtained:

1. The report confirms the existence of an overall consensus on the perspectives of bank clients and bank advisors with respect to advising services.
2. The report confirms previous surveys carried out by FI showing that the demarcation between advising and sales is unclear. This finding was true for both clients and advisors.
3. The report finds that there are discrepancies between the understanding of bank clients and bank advisors with respect to advising in the following areas:
4. Clients perceive the advising conversation as being driven by product-oriented sales on the part of advisors to a greater extent than the advisors believe that the clients perceive.
5. Clients indicate a greater degree of faith than what advisors would assume the clients hold toward them. It therefore seems as though the advisors underestimate the amount of faith that the clients place in them.
6. Clients perceive the risk information and cautionary statements provided by advisors to be less important than personal meetings with their advisors.
7. The report also indicates that the perception of clients' degree of risk aversion differs between advisors and clients. Clients are unable to envision losing portions of their savings to the same extent that advisors regard their clients as being able to envision.
8. Bank clients perceive financial risk differently depending on whether they receive information from a bank advisor or other sources (i.e., media, family, and friends).



9. Media, family, and friends influence clients' preferences for high risk and views of high risk. Media and the social network around bank clients comprise the context in which greater risk-oriented investment preferences are formed.
10. Bank clients perceive their advisors as having a correct appreciation of their risk preferences, depending on the information the bank clients receive from their advisors. When it comes to risk, advising therefore seems to function well—largely because of the informational material that advisors give to their bank clients.
11. Some degree of uncertainty exists as to what is actually documented in an advising situation and how this is communicated to clients, despite the fact that the area may be considered to be fully regulated. It is necessary for FI, as part of its ongoing oversight, to continue to follow up and review so as to ensure actual compliance with documentation requirements.
12. The report analyzes multiple consequences concerning the Financial Advisory Services to Consumers Act and points out, among other things, that the act provides unclear guidance on how to differentiate between sales and advising and how the obligation to provide precautionary advice should be applied.

The overall conclusion of this study is that there seems to be agreement between bank clients and advisors on the perception that the advising services provided correspond to the requirements set by law. The clients express a high degree of faith in their banks, their advisors, and the financial advice they receive. However, this faith should be tempered by the fact that the advisors did not succeed in properly identifying their clients' perspective on the level of financial risk they were prepared to assume; instead, the advisors demonstrated overconfidence in their clients' willingness to assume risk. Helping bank clients become aware of their own assumption of risk and of the risk levels inherent in various financial products before making a decision is considered a key component of advising services and of the intention of legislators when regulating advisory services in law. It may be concluded that certain deficiencies exist in financial advising. This study recommends the creation of a principled model for legislation and oversight, together with financial/economic education as a way in which to overcome these deficiencies. A more in-depth section on the legal aspects involved (i.e., the primary focus of the study) is provided. The fact that advisors

themselves are unsure of the boundary between sales and advising may be seen as an additional confirmation that the term *advising* should be further discussed and clarified.