

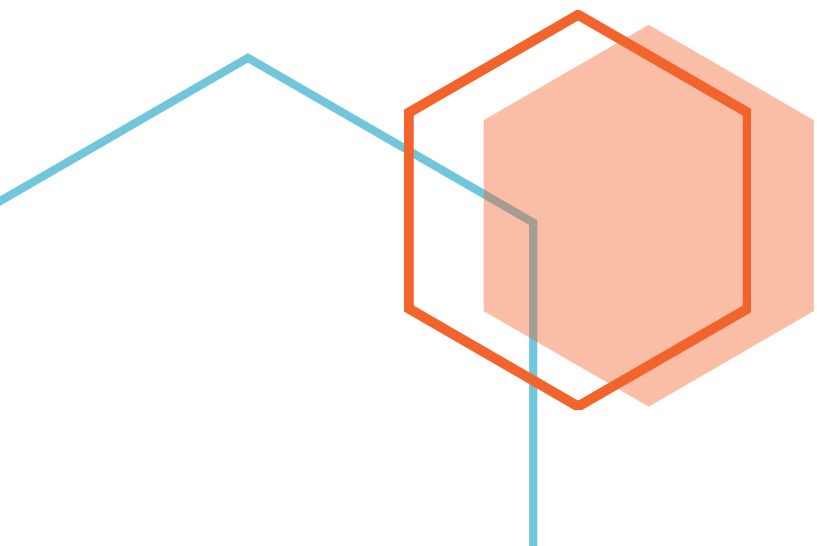


# Trust in the New Mexico Financial Industry

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In a first-of-its kind report, we briefly present the findings of a comprehensive survey on trust and related practices for the Daniels Fund Ethics Project. We find that while building trust in local communities is a cornerstone of many financial institutions, progress on building trust is uneven in New Mexico. Successful firms are proactive about engaging local communities through a diverse set of channels.





## Introduction

"To be trusted is a greater compliment than being loved." – George MacDonald

### The Urgency of Building Trust

In 2006, Gallup reported 49% of Americans had either a 'great deal' or 'quite a lot' of trust in the financial services industry. During the height of the Great Recession, trust fell to 21% before modestly recovering to 33% in 2021. Bill Daniels' inclusion of *Trust* among his foremost ethics principles acknowledges how difficult it is to earn and maintain trust, a fact particularly relevant in the financial industry. Higher levels of trust in financial institutions are associated with higher financial engagement, credit scores, and greater financial security.

### Trust in New Mexico

One of New Mexico's greatest assets is its population diversity, with 49.3% of the population reporting as Hispanic/Latino, 11.0% as American Indian/Native American, and 36.8% non-Hispanic White. Consequently, New Mexico financial institutions are uniquely experienced in serving historically underserved communities. Still, New Mexico retains one of the highest ratios of unbanked (11.4%) and underbanked (22.2%) residents in any state. In *Growing Up Without Finance* (Brown et. al, 2019), researchers found that exposure to financial firms early in life made individuals more trusting of financial institutions and have greater financial literacy overall. This was particularly relevant for underdeveloped financial areas – ('financial deserts') found in rural communities often located miles from banking institutions. For example, over 16% of Native American householders remain unbanked.

### Surveying Trust

Our survey was sent to over 200 New Mexico financial professionals across dozens of financial institutions, in positions ranging from commercial banking analysts to wealth managers. 71% of our respondents held executive positions and were evenly split (50%/50%) between men and women. Approximately 76% of our respondents identified as Caucasian, a figure notably less diverse than New Mexico as a whole. In this report, we highlight the major survey findings into three categories: gauging the importance of trust; identifying obstacles to building trust; and finally, the best practices of local institutions for building community initiatives.

## Survey Questions



Respondents were asked 15 questions around their approach to building trust in New Mexico communities, including:

How do you gauge financial trust in your community?

How does your firm take initiative to engage with underserved communities?

How would you rate your firm's commitment to building a culture of trust in your community?

If you were to improve your firm's culture around trust, what would you do?

What are the biggest obstacles to building trust in the financial community?

What are some best practices your firm has developed to improve trust in your finance community, particularly with underserved communities?



## The Importance of Trust

"The best way to find out if you can trust somebody is to trust them." --Ernest Hemingway

### How do you measure trust?

No firm attempted to measure their perception of trust in the community quantitatively, specifically, or consistently. Many respondents to our survey suggested that trust could be measured by poverty rates and economic growth data. Some responses included:

"I would gauge trust by participation/engagement in the financial system."

"Consistency. Subject matter specialty versus general knowledge. Perseverance and persistence."

"Our community has a high level of trust in community banks. Don't tend to trust the large banks."

"The confidence exhibited to invest, save and the attitude that putting aside today's immediate need in favor of the longer term."



## Summary Findings



- Trust was universally respected in our sample. Both individuals and firms placed a high premium on 'trust'.
- However, no individual institution surveyed took part in a way to measure trust in their communities.
- **Best practice guideline:** listen and engage with your community members. What do they trust about your institution? How can you do better?



## Underserved Communities

“The Federal Deposit Insurance Corp. (FDIC) estimates that about 33 percent of New Mexicans are unbanked or underbanked.” – *Albuquerque Business First*

### How does your firm take initiative to engage with underserved communities?

Many New Mexicans are inadequately exposed to financial services. When asked whether their firms take initiatives to reach out into underserved communities, respondents fell into three, evenly distributed categories:

**No Engagement.** “We do not. We are simply trying to grow.”

**Outsourced Engagement.** “We support a local non-profit through donations and volunteer hours.”

**We’re Looking to Improve.** “We listen and focus on individuals/family more than profitability. “

### If you’re unable to engage underserved communities, what would you do if you could?

Responses to this question were varied, and roughly 60% of respondents provided some feedback. Many viewed the problem as insurmountable, and often not worth the effort. Several responses focused on direct engagement – volunteering, listening, and learning about the needs of underserved communities.

**Macroeconomic.** “Anything that could provide affordable housing.”; “focus on crime reduction and revitalization.”

**Education.** Firm Driven: “Financial literacy and coaching.”  
External: “Expect our educational institutions to incorporate this function.”

**Direct Engagement.** “Listen and learn...cultivate relationships with people who are connected with these communities.”

A few respondents viewed this primarily as a function of society outside of financial institutions, whereas others viewed this within their purview but found themselves limited by time and resources.



## Obstacles to Establishing Trust

"It takes 20 years to build a reputation and five minutes to ruin it." – Warren Buffett

### What are the biggest obstacles to building trust in your financial community?

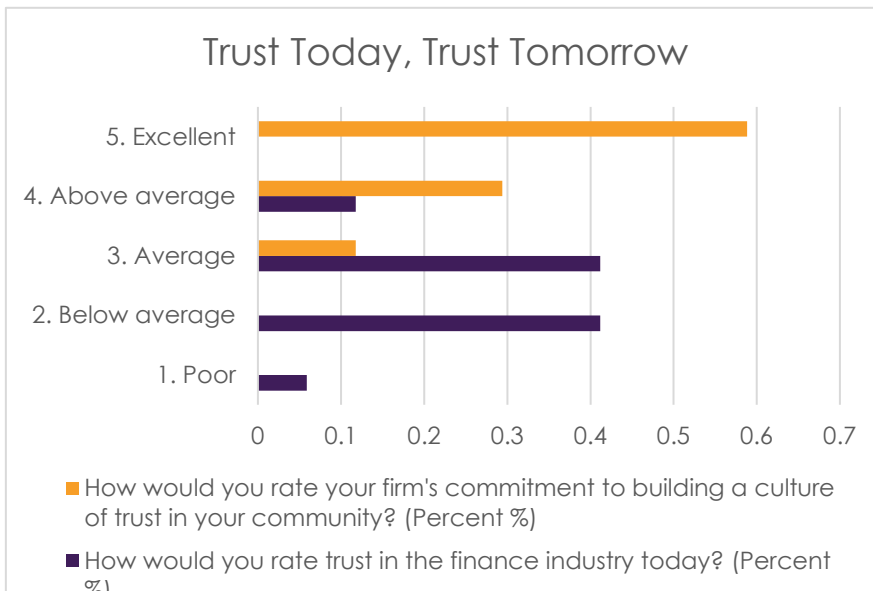
Although respondents differ greatly on both the necessity and level of commitment to improve their trust and standing with underserved communities, the New Mexico financial community was strongly aware of the reasons for collective institutional mistrust:

"Failed systemic issues..[and] irregular action."

"Historical perception and mistrust of the financial services industry."

"Time, credibility, actually caring. If you have the time, truly believe in your community, and actually care - it's a piece of cake."

"Communication that community banks are here to work for the best of each customer that walks in the door."



## Summary Findings



- Most NM Financial Institutions see their perception of trust as being guided by factors out of their control: historical perception and bad actors.
- Several respondents advocated for firms to take more initiative in building trust.
- **Best practice guideline:** take the time and resources to be active in building trust in your communities.



## Best Practices

"He who does not trust enough will not be trusted." --Lao Tzu

### What are the best practices in your firm for building trust in the community?

Firms differed in their approach, but all suggested some form of service. For firms that viewed trust as a primarily external problem, firms were focused on their commitments to building a reputation for excellent service. For those companies who saw themselves as part of their local communities, they encouraged agency and engagement.

"Help people that don't have the money to hire you. Mentor kids that don't have the family background to advise them on career development. Help everyone that asks for help."

"We work and volunteer within the communities we are located."

"Build bilingual team members."

"Proactive outreach with all clients, at least four times a year."

### Trust in Service: Summary Best Practices.

Our New Mexico firms – much like Bill Daniels would hope for – were united in their commitment to ethics and superior service. However, these firms differed in scope: some viewed their businesses as insular entities, while others saw their firms having a responsibility to serve their communities. About one-third of firms surveyed saw their company as taking a key role in developing trust within their communities. Proactively, this includes hiring and mentoring local individuals; diversifying their engagement; increasing their visibility in the community through volunteer efforts; and dedicating parts of each day to building community relationships.

## Summary Findings



- Local financial firms view building trust as a combination of providing excellent service and community engagement.
- Firms that were engaged in the community felt they were positioned strongly for future growth.
- Investing in mentorship and listening to community members were key hallmarks of successful outreach.



## Seven Best Practices

New Mexico Financial Trust Survey, 2021

**Provide high-quality service to *all customers and clients*, regardless of income or background.**

**Focus on education, not sales pitches.**

**Always offer full disclosure and complete transparency.**

**Spend extra time mentoring the next generation of finance leadership, and respect the diversity of your communities.**

**Be proactive about listening and engaging with your local community members.**

**Engage communities through volunteering and visibility – show that your institution is trustworthy.**

**Take extra time on financial literacy projects and improving client understanding of financial principles: for many clients, this is their first time working with an institution.**