Alibaba, Carousell, Airbnb, Tinder: Trusted digital technology platforms are powering the new economy and technology is rewiring our notions of trust. Nowadays, it is normal for us to meet a partner online, stay in a stranger's house or hitch a ride with the nearest person. The effects are nothing short of a revolution.

Welcome to The Trust Economy.

The Trust Economy has a profound impact on our economic and social lives. Trust has always been the core of our economy. Human society is a product of what we collectively trust in. Digital platforms blur the lines between strangers and trusted connections. As technology evolves who, what and how we trust, the global economy is transforming with it.

The Trust Economy details what this means for businesses and people. As the nature of trust is changing, our approach to building it needs to adapt. The book introduces a new method for effective trust building in the digital age. It guides those seeking to understand this global shift in trust patterns and human behaviour. *The Trust Economy* explains why everyone should develop a trust strategy to thrive in this day and age.

'Philipp's brains run at the speed of light. With structure and intellectual rigour, he provides an invaluable framework for organisations to plan and design for trust.'

Jin Kang VP of Group Customer Experience at OCBC Bank and Publisher of Designful.Co

'Trust is the elusive currency in politics and economics everybody craves. Philipp makes a great case for why and how to build it. A must read for any marketer!'

Jörg Dietzel Head of Global Creative and Sales Media at Audi AG

Philipp Kristian Diekhöner believes trust drives our digital economy. He loves to turn deep human insights into simple and beautiful ideas that create the future. Philipp is a global keynote speaker and author on innovation, digital transformation and *The Trust Economy*. He shaped the Asian innovation activities of several Fortune 500s and helped some of the most successful Singapore start-ups transform their industries. For instance he named, branded and strategically positioned *Circles.Life*. Philipp now helps leading organisations embrace *The Trust Economy* and realise greater value. He was selected to be a *WEF Global Shaper, Kairos Fellow* and *St. Gallen Symposium Leader of Tomorrow*. Philipp has contributed to *Forbes, Esquire, Economist Intelligence Unit* and several industry publications. In his free time, he is an avid yogi.

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the trust economy

Philipp Kristian Diekhöner

Marshall Cavendish Business

'Philipp is a rare talent. Vision, deep thinking, insight, connectedness and confident execution. He's proven all.'

Walter De Oude Founder and CEO of Singapore Life

'Philipp is one of the most creative yet astute thinkers I've met in many years as an investor and entrepreneur.'

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the trust economy

How digital technology is transforming trust and creating social and business innovation

Philipp Kristian Diekhöner

JULY 2020

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the trust economy

How digital technology is transforming trust and creating social and business innovation

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preface

LIFE HAS BEEN one tremendous coincidence. My fascination for trust was sparked several years back in Germany, when I took a research assistant position with a PhD candidate in trust management. Thinking deeply about the role of trust in our lives surfaced unexpected connections to my first love, the domain of innovation. My perspectives eventually coalesced into this book – my first. I hope it will enrich your notion of trust, innovation and the important relationship they have with each other. I do not claim to present the absolute truth, but simply offer a new way of looking at the business world that we are so familiar with. It may not be perfect, but it is an attempt to improve how we realise value for others and ourselves. Prepare to be surprised and challenged. In case you want to share your thoughts, feel most welcome to drop me a line. I would love to hear from you.

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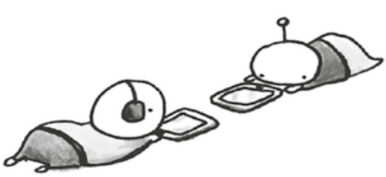

PART I

the trust renaissance

chapter 1

WHY TRUST MATTERS

A SIZEABLE NUMBER of today's largest, most impactful and highest-valued startups have something in common: they create new forms of trusted intermediaries. They bring together large communities of people – on both the supply and demand side – by providing a digital exchange platform that users can trust. Aside from some ground rules, these communities self-regulate to ensure that they deliver a quality service and weed out the 'black sheep' among the crowd. This enables strangers to trust each other, and hence facilitates an exchange of value, be it in the form of accommodation, transport or goods[1]. The upshot? All parties benefit from wider variety, quicker transactions, lower costs, and greater innovation.

An example of a successful trust-driven digital community is the Singaporean marketplace app Carousell. Carousell provides a platform and captive audience for everyday people to buy and sell things to each other. Unlike in a traditional e-commerce platform, Carousell's inventory comes in an unlimited variety, based as it is on whatever its users choose to sell. Allowing people to determine what goods are up for sale creates a market that thrives on the vast spectrum of human preferences. This clearly differs from standard online retail, where the inventory curation process is centralised. What's more, many Carousell sellers customise their profile pages into informal e-commerce stores with more or less distinct inventory, theme and terms of sale. Buyers are thus able to browse hundreds of vendors and types of curation via a single service – one whose trustworthiness extends to all its users.

Since inception, Carousell has largely refrained from intervening in the community. For instance, listings uploaded by users are visible immediately, relying on the user base to flag inappropriate activity. This freedom may seem peripheral, but is actually crucial for making the service feel personal and user-friendly. Carousell's reputation system further encourages self-regulation. Only if both parties agree to any given offer are they able to leave feedback for each other. This helps ensure all feedback relates back to whatever has been transacted.

Whether it is Carousell, Craigslist, or Etsy – great peer-to-peer (P2P) systems put users in the driver's seat. The similarity among them is the courage to let users govern, and to provide them with the tools to figure it out. Users are empowered to build a self-sustaining community and culture on the 'petri dish' given to them. While it may seem risky at first to give users the freedom to self-organise (for example, there's the danger that negative influence on a P2P platform can compromise the value others see in it), this appears to be the most effective approach available. For a P2P platform to work, users need to take the initiative to contribute, browse, and contact others on the platform. Too much formal structure is detrimental to user-driven value exchange. By giving power to users, they will take ownership of the platform.

The inherent value of peer-to-peer models becomes particularly evident in their customer-centric nature. If you are offering a service that you also consume, you are likely to possess a relatively intimate understanding of what needs you are addressing. Peer-to-peer models operate on the bold assumption that what unites us is stronger than what separates us, and that individuals can cater to other individuals equally or more effectively than organisations that offer a predefined value proposition. The reinterpretation of the hospitality industry is a classic example of this paradigm, with new entrants operating on hardly any infrastructure as compared to hotels, yet providing users with a finer granularity of choice.

The largest difference between traditional service businesses and P2P social systems is the way in which a service gets delivered – access is provided by the platform, but the core service is provided by individuals, who become one-man businesses. This gives the supply side of the equation as much variety and independence as the demand side. By leveraging underutilised assets that would otherwise remain idle, this system achieves a more resourceful exchange of value between individuals. At the same time, each successful transaction also creates equity in the form of relationships among members of the community. This enhances the overall value of the platform and, according to users' accounts, makes for a more rewarding experience.

The point is that organic, independently operating groups of people have a tendency to self-organise and develop a type of 'crowd intelligence'. But in order for this to happen, trust is pivotal. We need to trust the 'strangers' with whom we transact, and more importantly, we need to trust the intermediary platforms that facilitate these transactions. The communities that arise in these conditions of trust have the potential to create tremendous economic value. This is an important horizon to keep in mind as we reimagine the way we live, work and play in the future.

chapter 2

HUMANS FIRST – TRUST AND TECHNOLOGY

THE EVOLUTION OF TECHNOLOGY and the evolution of humanity proceed at radically different paces. One way to appreciate this is by comparing human societies before and after industrialisation. While industrialisation resulted in dramatic improvements in productivity and overall economic welfare, it largely removed the role of personal relationships from commercial dealings. Standardisation and scale replaced individual connection and personalisation. With industrialisation came widespread urbanisation, revolutionising human society from small communities to 'super-tribes'[1]. Our behaviour, however, did not quite adapt at the same pace, and humanity seems to have remained hard-wired to build small-scale communities in which people mutually support each other.

This puts the advent of digitalisation in an interesting light. Instead of finishing off what industrialisation started – removing even more human touch from our commercial interactions with one another – the digital revolution is having quite the opposite effect. By enabling us to freely connect with virtually anybody at negligible cost, the advent of digital has brought about a 'relationship renaissance'[2]. We are in the process of pivoting our economy away from centralisation and standardisation and returning it to a relationship-driven status quo that resembles how business was done before we industrialised and urbanised our planet.

In their book *The Human Brand*[3], Chris Malone and Susan T. Fiske illustrate how brands are the human face of companies, and how our interactions with them reflect our need for feeling personal connections with the products and services we consume. Brands that are humane and build personal relationships with their customers come across as trustworthier.[4] One survey found that 84% of millennials did not trust traditional advertising.[5]

The Human Brand illustrates how we relate to brands and the people around us via what is called a Stereotype Content Model[6]. According to this model, we make spontaneous judgments of people and brands according to our perception of their warmth and competence.[7] The connection between warmth, competence and how much we appreciate the people and companies around us appears logical. From a trust building angle, being humane (warmth) and delivering on promises (competence) are critical components of trust building processes. Behaving in a humane fashion is especially important in establishing a connection on which trust is founded, as we explore later in this book; competence is essential in establishing trust because it gives us proof points to support our perceptions.

While the technology supporting human commercial and social interactions has changed, interpersonal trust building remains as important as ever. When looking at many successful startups and young organisations, it may be tempting to label them 'technology companies'. Indeed, technologies such as the internet have enabled the emergence of incredible innovation. The possibilities offered to us are fascinating. What makes them truly valuable, though, is the human interactions they enable. Even the best imaginable technology is worthless if it is not used. Crucially, usage of these technologies is driven by trust in them.

Trust mechanisms

Blockchain, a technology that comes with an inbuilt trust mechanism for recording transactions of value, has had a hard time convincing the world to trust in its capability to create a well-functioning alternative currency system. This is surprising because the technology is incredibly clever in how it ensures trust.

Users in a Blockchain system have a record of all transactions ever made in the currency, which are logged in a virtual ledger that keeps getting updated and synchronised with every user whenever a transaction occurs. That makes it very difficult to defraud the system, because the ledger is public (everyone is watching) and traceable to the very beginning of time such that nothing can be hidden.

Blockchain is particularly interesting in that it utilises a decentralised network to process transactions. The Bitcoin Blockchain is a great showcase for demonstrating the value of Blockchain as a currency system that no longer needs a central trusted institution, such as a central bank. 'Nodes' in the Bitcoin system process or 'mine' transactions in exchange for the opportunity to receive a specified quantity of units in the system's internal crypto-currency. For the Bitcoin Blockchain, miners are currently compensated with exactly 12.5 Bitcoin per unit or 'block' that they mine[8]. This incentivises them to keep the value of the currency stable.

Bitcoin is a self-regulating value transfer network powered by collective trust in the currency. If the processing nodes were ever to lose trust in the economic value of the currency units they received as compensation, the system would collapse. Loss of trust in any currency would render it pretty much worthless.

A crypto-currency, in this respect, behaves just like fiat currencies. As long as transactions happen, people trust the currency to have some value to them. No parties to a transaction would go through the trouble of transacting in a currency if they did not trust in its economic value.

The mining of Bitcoin takes a great deal of computing power, which costs money to run (e.g. in the form of exorbitant electricity bills[9]). The fact that Bitcoin miners are doing their job creates social proof in the value of the currency movements they are vetting – a genius feat, illustrating how technology is a powerful vehicle for enabling better, more effective ways of doing what humans have always done: trade with each other.

Smart contracts

Blockchain technology is much more than Bitcoin. Smart contracts, for example, are a highly versatile application of Blockchain technology that use a distributed ledger similar to the Bitcoin Blockchain to execute pieces of software that involve an action of sorts (such as the ownership transfer of an asset from person A to person B). These applications resemble offline legal contracts in that they set terms under which two parties transact. Unlike traditional contracts, smart contracts need not be drawn up or validated by individual 'trusted' parties such as a lawyer or notary public.

Instead, they establish mutual trust between parties to an agreement without the need for trusted intermediaries. This comes in useful when mutual trust between two parties must be 'manufactured', i.e. in any situation where a legal contract would normally be necessary. It opens up possibilities to involve many parties in a contract without hassle and without paperwork. It allows agreements to be automatically 'executed' if certain conditions are met and the conditions can be verified.

Early applications of smart contracts that have been tested so far include flight delay insurance running on the Ethereum Blockchain. It pays the policyholder automatically in case a delay occurs, with premium payment and compensation both made in the internal crypto-currency used to process the smart contract – a closed-loop system. Flight delay information is public and available dating far back into the past, such that the probability for a delay can be accurately computed. This makes accurate risk pricing possible even in the absence of a diversified risk pool. Unlike traditional insurance, smart contract insurance creates a fully automated intermediary between the person transferring risk (the insured) and the person assuming risk and responsible for payouts to the insured (the insurer).

Smart contracts can also be used by a group of people to create a mutual risk pool that automatically pays out benefits on the occurrence of predefined events that can be verified (e.g. certain unexpected medical expenses). This resembles the mutual insurance model[10], with the exception that there is no central connecting intermediary to create trust between individual parties. In order for the model to work well, the source of information upon which the smart contract is executed (the 'oracle') must be trusted. This can be achieved by using a trusted third party source (e.g. the verdict of a doctor), or by establishing a social contract between individuals in the risk pool that aligns the group's interests and prevents fraud. Such social contracts – e.g. long-term friendships, family ties, or similar affiliations – are an important fabric in enabling self-regulating communities that transact based on social capital. The principle extends beyond smart contracts and Blockchain to pretty much any community-driven business model out there today.

Value propositions

Most of the new age tech companies that have succeeded in the past decade or two harness the power of communities in their business model in some way. This can take the form of customer reviews, user-generated content, peer-to-peer networks, social discovery, etc. The tech companies behind the digital products we use today create thriving businesses by establishing 'social capital markets' – networks of people that shift between consuming and providing goods and services. In a nutshell, these companies connect those who offer a proposition (e.g. in the form of goods and services) with those who seek it, and do so in increasingly effective ways.

Such lean and dynamic value intermediaries may well be blueprints for corporations of the future. They usually operate little physical infrastructure and are global by definition not by size; quickly adapt to shifts in supply and demand; exit and enter markets with ease; and can transition to serving an entirely new customer base in a much shorter time than many corporates today. These new types of technology-based, community-driven companies have substantial operating advantage.

We don't know for sure what the next wave of technology innovation will look like exactly – in the same way a telegraph operator would have been hard-pressed to imagine a system like the internet. A more potent form of technology may well replace software some day. However, it is never technology alone that offers any lasting competitive edge. Rather, it is the ability to build better infrastructure for humans to exchange value – infrastructure that has the ability to adapt and evolve and harmonise with how we communicate and interact in a digitally enabled world. Whatever that looks like from a technology point of view matters to tech teams, but is marginal to the customer. Technology is an innovation enabler, not an end in itself.

For example, nobody in the world really wants an app – people want services and goods to achieve some ends in their lives, and apps have proven a new status quo for the provision of these services and goods. Say we invent a technology that provides an even better solution for accessing the functionality and content that apps can offer today, so long as the majority of people agree it is a better alternative, it will likely become our future standard.

However, a new way of doing things is adopted only when we trust that it works better than what exists. Without trust in something new, the new can never achieve enough support to replace the old. Why else do you think we are still travelling the planet carrying a paper booklet with a microchip as a personal identification device instead of using more progressive technology? How come we still fill in our personal details on physical immigration forms every time we enter a country? The main reason for this hassle is that not enough people making decisions on these matters trust that a new or emerging technology can deliver as reliably as what exists today.

Trust, innovation and society

Trust has a paradoxical role in the realm of innovation. It can act both as an enabler and an inhibitor of change. It can tip the balance in favour of an innovation, or prevent it from gaining traction. This makes it a pivotal factor in determining how we progress as a society.

Venture capital-backed startups illustrate this principle nicely. Typically, these companies are funded (and thus valued) on the basis of forward-looking success – the degree to which venture capitalists trust in them largely determines their market valuation. Optimism about the future, i.e. trust in their potential for success, defines the entrepreneurial worldview. Entrepreneurs start companies also because they believe in the merit of trying something uncertain. They understand that the opportunity cost of not acting can be substantial. Besides looking for commercial success, they may find that there is a lot more to be learned from doing things their own way than from working for an established company.

On the other hand, people who do not subscribe to such an optimistic and courageous view of value creation may trust in the likelihood of failure more than the odds of success. They may find themselves gravitating towards stable jobs in large organisations, which offer a promise of security and a structure that eliminates exposure to uncertain risk, which might lead to failure. People who distrust the value of uncertainty will focus on reducing it, while people who trust more in its success potential will actively seek opportunities to take risks that may lead to uncertain outcomes.

The basis of human systems

In addition to shaping our individual worldviews, trust shapes how society is organised. We collectively agree to put our trust in certain procedures, principles and truths in order to structure humanity into manageable (and largely peaceful) settlements. The shared beliefs and operating codes underlying society permeate our daily lives and govern everything from international relations to how we greet our neighbours. Customs and cultures are outcomes of collective human trust in the value of establishing conventions that guide us as we go about interacting with others.

In the same way, our financial and legal systems are built on a shared consensus as to how humans go about interacting with each other, be it for the purpose of exchanging value or maintaining order among people who live in close proximity to each other. Chris Skinner, author of *Value Web*[11], explores the origins and future of our financial systems in such a light. He posits that the tangible systems that societies have put in place are nothing but fictitious stories that humanity has collectively agreed to trust.

To make this less abstract, compare the concept of a chair with that of a private limited company. The chair definitely has a verifiable existence – you can touch it, sit on it and sell it to another person without much explanation – while the private limited company exists only on a piece of paper with a government body. You are able to do things with the private limited company, including selling it to someone, just like you could with the chair. The only difference is that the concept of a company is not a verifiable physical reality, as it exists only in the form of a 'legal fiction'.

Private companies are a consensually agreed-upon societal convention around the world, and almost everyone understands and believes in the concept of a private company. This allows us to treat their existence as 'real'. They do not factually exist outside the realm of human society – unlike the chair in our example, which exists in its basic physical form irrespective of whether we believe it does.

Trusting in such fictions and 'imagined realities' has been a cornerstone of our success as a species. According to Professor Yuval Harari in his book *Sapiens*[12], these stories allow us to organise our interactions in a much more sophisticated manner than any other animal species ever could:

> The fact is that no animal other than Sapiens engages in trade, and all the Sapiens trade networks were based on fictions. Trade cannot exist without trust, and it is very difficult to trust strangers. The global trade network of today is based on our trust in such fiction entities as the dollar, the Federal Reserve Bank, and the totemic trademarks of corporations.[13]

The systems that have shaped human society are just very persistent illusions, legitimated by our trust. Governments, associations, communities and private companies are common examples for such 'fictions' that enable civilisation as we know it. They do not exist in any tangible physical form, but are created by our shared trust in their rightful existence.

Imagine for a moment a large multinational organisation. How would it be referred to if we were to stop believing in the concept of private companies? It would be impossible to define its global infrastructure of offices, customers, people and inventory as one entity without this concept. In short, humans create alternative realities on top of nature using their imagination and their ability to communicate these alternative realities in the form of stories that we collectively believe in.

Innovation

Therein lies the key to innovation – the very engine of our growth and advancement. Whether we are seeking to change perception, adopt a new habit or redefine an industry, we are in fact trying to create a new reality. And for that to work, we need to collectively agree to trust in that new reality.

In *The Little Black Book of Innovation*[14], Scott Anthony establishes one of the simplest definitions of innovation:

something different that has impact[15]. In relation to trust, that definition can do with a little more specificity. After all, 'something different' may mean the same thing except in blue, and 'impact' may well be achieved without changing anything. Innovation always involves an alteration of the status quo, and therefore requires trust to shift from the current to the desired new reality.

This book explores the link between trust and innovation in detail, so it is worthwhile to have a good operating definition of what we mean by 'innovation'. I suggest defining it as 'a man-made positive change to reality with commercial impact for a majority of people.' This may sound more complex than the first definition, but it helps accentuate how innovation comes about: Someone finds a way to change reality, makes a business of it and impacts the lives of many. Along the way, he or she manages to build trust in the new reality being created, and that enables the innovation in the first place.

Much as trust enables innovation to reshape the status quo, it also prevents the same from happening. No startup can disrupt an industry without shifting the balance of trust away from the current reality (existing value propositions) to the new reality (their value proposition). Winning over potential customers' trust is absolutely essential in order to compete.

In fact, enhancing trust relationships with existing customers is an effective antidote that incumbents can use to defend their position. EY's global consumer banking survey[16], for instance, recommends that financial institutions should focus on building trust with their customers to improve relevance[17] and prevent Fintech from becoming a threat to them. For industries facing a threat of transformation, trust with customers becomes a critical battleground – because transformation in an industry cannot happen unless customers buy into it.

Trust building is generally a positive-sum game. It can drive behaviour change that leads to the adoption of new ideas. On the other hand, trust building does not necessarily lead to innovation that enlarges the pie – it is also an essential factor of competition. Trust building in a competitive market creates winners and losers in the sense that the most trusted companies are the most competitive. The more trust a company builds, the more value it effectively creates for its customers, and the stronger its position in the market. The less effectively a company builds trust (i.e. the more it invites distrust), the less privileged its position, and the more vulnerable it becomes to being displaced.

Following the Global Financial Crisis (GFC) of 2007–2008, the financial services sector has become especially vulnerable to transformation from the outside. It is also impossible to refute that the crisis caused a unanimous loss of trust in financial institutions. This may make it easier for startups to win over customers from incumbents. The overall 'trust capital' of the industry is now lower, making the status quo less attractive and stable.

Global events like the GFC and their impact on public perception show us how a shift in the balance of trust can create threats and opportunities respectively. They result in value gained, lost and redistributed across the industry. As a rule of thumb, anything that builds trust results in more value for those associated with it. Anything that destroys trust is associated with a cost, including opportunity cost.

Jobs to be done (JTBD)

Even though they may not realise it, all companies are in the business of trust. As Clayton Christensen argues, companies often make the mistake of defining their business too narrowly.[18] He suggests adopting the concept of 'jobs-to-be-done' (JTBD, for short).

JTBD refers to a person's underlying motivations for buying a product or service – e.g. the functional, emotional and social needs they seek to fulfil with their purchase[19]. This carries major implications. Significantly, it shifts focus away from what is being produced and towards why this matters to the user. A customer may consider products and services from completely different industries to achieve the same JTBD. Say the customer's JTBD is to improve his overall health. There are many options for going about this. He or she could change jobs to reduce stress and free up time, buy vegetables from the local market, book a detox retreat in Bali, or sign up for a yoga package. Understanding the role you play in people's lives as a company or individual (read: the 'job' people trust you to do for them) allows you to increase your value and broaden the definition of what business you are operating in. This sheds a new light on what enables your business to create value.

If we rephrase that, we find that customers' trust in an outcome is the actual reason why people consume goods and services. Without trusting that these fulfil the JTBD, there would be no reason to purchase. The amount of value we obtain from them is determined by how much trust we put in them. Trust becomes a fundamental gatekeeper to all value creation, moderating how much we consider things to be worth, i.e. how much we trust something will benefit us or achieve our JTBDs.

This helps us understand what may seem like irrational discrepancies in how we value things. The less we are able to rationally and quantitatively assess the value of something, the more we need to base our trust on our own imagination of what benefit we might obtain from it. There is not much of an objective reason why we might be willing to pay more for a Lacoste polo shirt than for one from H&M,

why a Porsche 911 costs more than a Nissan GTR, and why we shell out $10 for a serving of hot water with a teabag in a fancy hotel but would hardly be willing to pay a dollar for the equivalent product from a vending machine in the university cafeteria.

As Dan Ariely puts it in his book *Predictably Irrational*, 'we are really far less rational than standard economic theory assumes'[20]. He demonstrates through a series of experiments how the context in which we make decisions – for instance, how many options are available to us – influences the choices we make. Relating this back to trust, it means that our choices change based on our relative perception of value, and the degree of trust in our own perceptions.

Much has been written about the cognitive inaccuracy involved in human decision-making. A great article on major biases and how they relate to financial decision-making published by Forbes some time ago concludes that 'human psychology is a dangerous thing, and there are some alarmingly standard mistakes that people make again and again.'[21] This is seconded by a study linking brain, behaviour and psychology, finding that 'our thinking is obstructed by cultural belief systems that tend to rely on rigid inaccurate irrational thinking.'[22]

The degree to which we trust the choices available to us makes us value them differently, with profound implications on our life choices. Taking into account its important influence on our notions of value, this calls for a redefinition of the concept of trust.

chapter 3

REDEFINING TRUST

IN AN ENLIGHTENING DOSSIER for the World Economic Forum on building trust in business, Sridharan Nair, Managing Partner at PWC Malaysia, opens with a reference to how trust and value creation are directly related[1]. He uses organic vegetables as an example. If we trust their worth to be more than the regular variant, we are willing to pay more for them. The article focuses on ways to approach trust as a tangible business asset.

In line with this analogy, this chapter suggests a radically simple and logical definition of trust, and an explanation of how trust works in economic contexts.

The economic nature of trust needs to be appreciated if we are to understand its influence on value creation – especially in relation to new or original value creation in the form of innovation. The more trust there is, the greater the value created. Conversely, whenever trust leaves a system of value creation, value leaves with it. The collapse of currency systems showcases this effect. The same happens during a bank run. When trust in a banks' core ability to safeguard depositors' funds dissolves, customers no longer perceive value in keeping their money with the bank[2], to the extent that having money in the form of deposits is seen as a risk, resulting in negative value for customers due to fear of loss.

As Warren Buffett says, 'Trust is like the air we breathe. When it's present, nobody really notices. But if it's absent, everybody notices.'[3] Whether we are buying food or acquiring a competitor, our trust in an expected gain drives economic activity. Without this, value creation is impossible.

Nowadays, this inherent role of trust as an enabler of value creation is more easily visible and reinforced through the major successes of some global peer-to-peer businesses. This has given rise to the idea of a 'trust revolution'[4] in business – although the resurging influence of trust as a key concept in business thinking is perhaps more accurately a renaissance.

Whether or not we are aware of it, trust is mission critical to our daily social and economic lives. Without baseline trust, many fundamental principles of our economies would no longer work. A $100 note is valuable to you because you trust that everyone mutually agrees on its value and is willing to exchange it for goods and services. Without this mutual trust, a currency system is impossible to maintain. We see this effect in historic cases of hyperinflation, which are tipping points at which society loses trust in a currency and thereby renders the currency close to worthless.

Trust very much defines economic activity, and we easily forget just how interlinked it is with value. For example, a stock price is the quantified trust in a listed company's fair valuation and future performance. Without this context, it appears as though we struggle to exactly define what trust is, or how it is built. We should not be having this trouble. When people express how much they trust something, they mostly refer to how much they value it. Try replacing 'trust' with 'value' in any given context and you will pretty much say the same thing.

How trust has traditionally been defined

A peek at leading dictionaries' definitions of trust reveals entries with limited explanatory powers.

The Oxford English Dictionary, for instance, defines trust as follows:

> 1. Firm belief in the reliability, truth, or ability of someone or something
>
> 2. Acceptance of the truth of a statement without evidence or investigation
>
> 3. The state of being responsible for someone or something

The Merriam-Webster Dictionary offers another version:

> Belief that someone or something is reliable, good, honest, effective, etc.

Contrast that with academic definitions of trust in the social sciences, which read something like this:

> Interpersonal trust is an expectation about a future behaviour of another person and an accompanying feeling of calmness, confidence, and security depending on the degree of trust and the extend of the associated risk. That other person shall behave as agreed, unagreed but loyal, or at least according to subjective expectations, although she/he has the freedom and choice to act differently, because it is impossible or voluntarily unwanted to control her/him. That other

> person may also be perceived as a representative of a certain group.[5,6]

These perspectives are valid but quite vague, and refer to situational applications of trust, without acknowledging the importance of trust in economic interactions, its role in value creation, or its universal relevance. As Einstein is believed to have said, 'If you can't explain it simply, you don't understand it well'[7]. Perhaps trust is difficult to operationalise because little effort so far has been made to assess its role in business from a tangible point of view.

A new understanding of trust

The Trust Economy challenges this status quo in which trust is a barely understood, overlooked concept that we fail to pay attention to. In this book, trust is redefined as a crucial business asset, specifically as:

> Value realised by means of an economic or social interaction.

For example, the more we value law and order, the more we trust it to be effective in regulating our society. The more we value a job candidate, the more we trust them to contribute to the organisation.

A little thought experiment. Would you lend $100 to a complete stranger? Probably not. But what if your mother asked you for $100? You almost certainly would. The difference between the two is essentially trust. Family relations offer a great example of the link between value and trust. We trust our family unconditionally because we value them more than most other people in our lives.

We also easily trust what we accept as unchangeable or beyond our influence, whether or not we like a person or organisation. For instance, we trust the bank to keep our savings, because most of us consider that a better option than keeping the money under the mattress. It does not mean that we like our bank, or trust it to do much more than safeguard our money, but given the limited choices we have, our trust in this basic banking service is high enough for us to park our financial lifeline there.

Without trust, everything is nothing and it is quite impossible to create any form of customer value. For instance, people that do not trust food from China will not be willing to pay much (or anything at all) for it, regardless of its objective quality. Distrust causes a loss in perceived value and that reduces value creation potential.

Trust in the financial services industry

Remember how the Global Financial Crisis gradually took over global markets and spun us into recession? Unfortunate macroeconomic events that affect us all demonstrate what forms the core hypothesis of this book – the moment trust leaves any system of value exchange (especially in the case of financial systems), substantial value is destroyed along with it.

No industry better illustrates the importance of trust than financial services. The finance sector counts on trust as its most fundamental operating requirement, and this is why trust is a critical factor in enabling the survival of established players and also in transformation at large.

In 2016, Forbes reported on a Facebook study that found that millennials did not trust anyone except their peers for financial advice.[8] It has also been pointed out that millennials do not trust banks altogether[9]. Well over two decades ago, Bill Gates already made the bold observation that 'banking is necessary, banks are not'[10]. Considering that the financial services industry used to be a bedrock of customers' trust, this matters hugely.

The rise of Fintech indicates a paradigm shift in finance similar to other industries. While financial institutions tend to be aggregators of many services, the majority of customer-facing Fintech companies specialise in delivering a single financial service. Fintech startups focus on being great at one thing. This seems to be a highly appealing proposition for an increasing share of customers. It looks like this shift will call for new trust intermediaries to emerge. The pattern we see so clearly in Fintech – simplification, specialisation in a singular value proposition and the provision of a lean, digital intermediary – points to a universal shift in the operating model of human commerce.

It goes without saying that financial institutions, just like incumbents in other industries, will see many more players entering their space, and that they will need to radically adapt. Unless they focus on building trust, however, new players will have a hard time competing. The upside is that companies who excel at building trust have tremendous opportunity in front of them.

Trusted companies become valuable assets to their users, and building and maintaining trust is a great strategy for businesses. All or most of the famous technology companies that shape our lives nowadays, from ride-hailing to search, are in the business of trust. They have created efficient digital intermediaries that users trust to get the desired job done. Not all businesses that are great at building trust necessarily believe that their value creation emanates from their trust building abilities. Instead, they may refer to it as customer-centricity, continuous improvement or being uniquely positioned in the market.

So far, trust as a concept has been very hard to operationalise because it has lacked a concise definition relating it to value creation in a business context. With the above definition, this should no longer be an issue.