



Trust in Banks

Remuneration, Personal Contact, and Government Regulation in The Dutch Banking Sector.

Report on opinion research carried out by the research consortium

“What Good Markets Are Good For”¹

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Introduction

In September 2017 a survey was conducted, as part of the research project "What Good Markets are Good For", among 24,000 Dutch people about trust in banks. 6948 people (29%) responded to the survey. This memorandum reports on the results of the study, which is representative of the Dutch population aged over 18. In addition, a survey was held among people working in the Dutch financial sector. 591 people responded to this poll.

The following topics are highlighted:

- A. Trust in banks
- B. The role of personal contact between banks and customers
- C. Expected effect of reward on customer orientation
- D. Call for government regulation in the banking sector
- E. The relationship between trust, expected customer orientation, and the call for government intervention

Trust in Banks

Table 1 presents the results for three questions about trust in banks, measured on a scale of 1 (very unreliable) to 7 (very reliable). The results for confidence in banks in general show that the average is 3.50 below the neutral result of 4. This is in line with the results of GfK's recent confidence monitor of November 2017. The question "How much confidence do you have in banks?" (in which respondents could choose between 1 and 5), measured an average of 2.9. In our survey, 50% of the respondents still give the banking system an insufficient score when it comes to trust. People working in the financial sector themselves have more confidence in banks.

For the second question regarding trustworthiness of the bank, the outcomes are on average 4.13 higher. This is in line with expectations as customers will choose a bank that is trustworthy in their perception. Trust in the own bank will therefore be higher than for banks in general. The score increases further when asked about the reliability of the bank's employees.

Table 1. Trust in Banks.

Results of opinion poll among 6948 Dutch citizens								Average score for employees in financial sector
Not at all trustworthy						Very trustworthy	Average score	
1	2	3	4	5	6	7		
<i>How much confidence do you have in banks?</i>								
6%	18%	26%	17%	25%	8%	1%	3.50	4.74
50%			17%	34%				
<i>How much confidence do you have in your own bank?</i>								
3%	10%	20%	18%	26%	18%	5%	4.13	5.14
33%			18%	49%				
<i>How much confidence do you have in the employees of your banks/your banker?</i>								
2%	5%	14%	31%	29%	16%	3%	4.34	5.05
21%			31%	48%				
<i>How much confidence do you have in general practitioners?</i>								
1%	2%	7%	11%	34%	37%	9%	5.25	5.27
10%			11%	80%				
<i>How much confidence do you have in your own general practitioner?</i>								
1%	2%	5%	8%	20%	35%	29%	5.73	5.58
8%			8%	84%				

To put the research outcomes in perspective, we also asked about the trust that people place in GPs. Here too, confidence in the general practitioner is greater than in GPs in general. But the most striking thing is that the results show that confidence in GPs is much higher than for banks or for bank employees. This shows that the banking system still has a long way to go in restoring the trust of society.

We also looked at trust in banks per individual bank. Table 2 shows that customers of ASN and Triodos have the least trust in banks in general. That also explains their choice for ASN and Triodos, because these customers are also the ones who have the most confidence in their own bank. Customers from ING, RABO, ABN AMRO and SNS have the same picture more or less: they do not consider banks in general to be reliable, but are neutral with regard to the reliability of their own bank.

Table 2. Trust in Individual Dutch Banks

Individual Dutch Bank	Results of opinion poll among 6948 Dutch citizens					
	Trust in banks in general			Trust in own bank		
	Not Trustworthy	Neutral	Trustworthy	Not Trustworthy	Neutral	Trustworthy
ING	55	13	32	41	16	43
RABO	53	15	32	39	16	45
ABN AMRO	55	13	32	43	16	41
SNS	57	11	32	40	15	44
ASN	61	12	27	32	15	54
Triodos	72	11	17	32	16	52

The role of personal contact between banks and customers

Driven by cutbacks and technological innovations, more and more bank branches are closed, reducing the personal contact between bank employees and customers. According to the bank monitor of the Dutch Banking Association, 31% of customers in 2015 had personal contact with their bank during the last three months. In 2016 this percentage had dropped to 26% and in 2017 to 22%. This raises the question of how trust that customers place in bankers and banks is affected. To this end, the survey included a question whether the respondent had personal contact with an employee of his or her bank during the past year. From correlation analysis, which controls for demographic characteristics of respondents (age, gender, income, education and religion), there appears to be a significant positive correlation. This indicates that reducing personal contact with customers slows down the recovery of confidence in banks.

Expected effect of reward on customer orientation

A crucial factor for confidence in banks concerns the perception to what extent banks place the customer at the center and do not allow too much attention to shareholders' interests. To test this, a question is included in the survey that measures the perception of customers with regard to how tenacious bankers are in prioritizing the customer's interest if they are subject to remuneration

systems where bankers' personal remuneration is positively related to their contribution to the profitability of the bank.

Table 3. Expected Effect of Bank Employees' Remuneration on Customer Orientation

Imagine that the bank employee receives higher income if he/she generates more revenues for the bank (select max. 3 responses).	6.948 Dutch citizens	Employees in financial sector
1. My bank employee will improve the service to me, because this will increase his or her benefit.	22%	26%
2. My bank employee will try to sell more products to me than I need.	65%	50%
3. My bank employee will keep me fully informed about the value added of the products of the bank.	14%	25%
4. My bank employee will take less account of possible risks for my financial situation.	46%	31%
5. My bank employee will keep providing professional advice to me.	18%	28%
6. My bank employee will give more weight to her/his own interest.	61%	46%

In answer to the question "Imagine that the bank employee gets extra income if he / she can make more income for the bank. What do you expect to happen?" Six statements were submitted (see Table 3). The respondents were able to indicate which statement they agree with and were allowed to tick multiple answers. Propositions 2, 4 and 6 indicate that doubts are made about the tenacity of bankers to keep customer interests at the center when the remuneration system exerts pressure to prioritize shareholders' interests. Propositions 1, 3 and 5 indicate that bankers remain reliable in their advice to clients and are not tempted by the incentive that emanates from the remuneration system to put the customer's interest less centrally. The results show that propositions 2,4 and 6 are considered more likely than option 1, 3 and 5. Customers expect that exorbitant reward systems will diminish the quality of services. Even people who work in the financial sector themselves tend to assume that these kinds of incentives reduce the orientation on customer interests, although they are less pessimistic than the average Dutch person.

The call for government regulation

It is known from the economic literature that low confidence in companies reinforces the call for government regulation. In the financial sector too, the past has shown that the loss of confidence in banks as a result of the economic crisis has led to more government regulation. The question is whether, now that confidence in banks is slowly recovering, the demand for government regulation also decreases and confidence in the market and the free play between supply and demand as a coordination mechanism for the banking sector are increasing again. To this end, three statements have been included in the survey (see Table 4).

Table 4 . The Call For Government Regulation

Results of opinion poll among 6948 Dutch citizens								Average score for employees in financial sector
Totally Disagree						Totally agree	Average	
1	2	3	4	5	6	7		
<i>The government must stimulate that the bank considers customer interest by providing more rules.</i>								
1%	1%	3%	7%	25%	34%	29%	5.72	5.45
5%			7%	88%				
<i>The government should control and intervene more in the behavior of banks.</i>								
0%	1%	4%	8%	23%	33%	32%	5.83	5.20
5%			8%	87%				
<i>The government should not intervene in the behavior of banks, demand and supply should be guiding the bank's behavior.</i>								
18%	23%	25%	17%	10%	4%	3%	3.02	3.66
66%			17%	17%				

The results show that the distrust of free market forces in the banking sector is still strong. On balance, 87% of the respondents believe that the government should monitor stricter and intervene on the behavior of banks. People who work in the financial sector themselves are also in majority for more government regulation, although slightly less than the average Dutch person. The latter group also has more confidence in the functioning of the free market, but the average of 3.66 is lower than 4, which reflects a neutral attitude.

The relationship between trust, expected customer orientation and the call for government intervention

In order to find out whether there is indeed a link between the trust that people have in banks and the call for government regulation, a correlation analysis has been performed (again checking for demographic characteristics of respondents such as age, gender, income, education and religion). The analysis shows that there is a strong significant relationship between the call for government regulation and the perceived reliability of banks measured with the questions from Table 1 as well as the expected consistency in prioritizing customer interests as measured by the statements in Table 3. These outcome underlines the importance of further restoring confidence in banks. In order to increase their own room for maneuver on the market, banks ultimately depend on the support that society offers for market forces in the financial sector. However, in order to obtain that support, confidence in banks will first have to increase further.