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Trust of Portuguese Customers in Banks During the Economic Crisis Period

Abstract

The analysis of bank customer behavior has been considered of great interest by international banking in the past few years and has gained greater relevance during the economic and social crisis that started between 2007 and 2008.

Portuguese retail bank customers behavior and their trust are analyzed by the comparison of data obtained prior to the economic crisis with data obtained a few years after the crisis period, using survey results with statistical relevance.

It is demonstrated that the element currently more relevant to customer satisfaction and loyalty towards their main bank in Portugal is trust. We also conclude that Portuguese customers trust in banks evolution over the last few years is not as negative as we could expect, considering all the problems that have been affecting this sector, but something new is happening because today customers satisfaction is decreasing.

Keywords

Banking, bank customer, customer satisfaction, customer loyalty, customer trust, behavioral economics, economic crisis.

1. Introduction

The history of the banking system is associated with the history of money, first used around the year 9000 BC, but the first prototypes of what we now consider banks appear around the year 2000 BC, related with the activity of lending cereal grains to farmers and merchants in ancient Babylon and Assyria (Davies, 2002).

Aristotle, in 1252 BC, considered charging interest on a loan as usury, having condemned this practice for being unethical behaviour. In ancient Greece and in the Roman Empire currency money was accepted for deposit, and there is evidence from that time that cash loans were already available in China and in India (Hoggson, 1926).

The word "bank" derives from the Latin word “banca”, which would be a table where the exchanges of money were made (Persson, 2010).

In the thirteenth century, St. Thomas Aquinas defended, based on Aristotle and texts contained in the Holy Bible, that usury was a sin against justice, because something that does not exist is sold. This vision was formed on the assumption that the function of money was the exchange through its intrinsic purchasing power and cannot be sold in its own way (Torrell, 2004).

In the Middle Ages, goldsmiths were usually given a paper receipt as a collateral for the custody of valuable artefacts. These receipts evolved to being used to make payments, circulating from hand to hand, giving rise to paper currency.

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In Europe, at the end of the middle ages, with the beginning of the Renaissance in the Italian peninsula, in the 14th century, the first banks appear in Florence, Venice and Genoa, with a conception close to what we recognize today as a bank, as a result of the growth of commercial activity. At the end of the fifteenth century, the first legal instruments appeared that defined the limits for amounts borrowed by money, thus distinguishing interest rate and usury (Hoggson, 1926). Interest rate is a fee charged within values stipulated by law and Usury is a charging of fees above the maximum limit allowed.

In the following centuries, the banking activity continued to evolve, and its processes and operating norms were perfected, in the eighteenth and nineteenth centuries strongly influenced by the industrial revolution. In the twentieth century, the evolution of telecommunications and information technology facilitated and streamlined the operation of banks at the global level, which increased their size and geographical dispersion.

The first bank appeared in Portugal on August 21st, 1822, with the name of Bank of Lisbon, which a few years later, on July 1st, 1831, assumed the functions of Central Bank in the building where today the Lisbon City Hall is located. In November 19th, 1846 Bank of Portugal was created as a result of the fusion between Bank of Lisbon with another company - National Trust Company - with headquarters in Lisbon in the same building where it is today.

2. Economic Framework

Globalization, seen as a simultaneous transformation in the economy, politics and culture, resulted in a more intense competition and companies deepen methods to improve customer acquisition and loyalty.

Scientific development, particularly in the field of behavioural economics, which includes many contributions of Psychology and Sociology, as well as in the field of Neurology that gave rise to Neuroeconomics, has allowed the adaptation and change of traditional economic theories of decision making, based only on economic rationality, in the wake of the Cartesian dualism and Newtonian atomism, allowing for a better understanding of the decision making on the part of the individuals. These scientific changes incorporate not only the aspects of the cognitive system, known as the reflexive system, but also the emotional, sentimental, biological and cultural factors that are part of the automatic system for explaining decision making in all spheres of life, which develops dynamically and always in situations of risk and uncertainty.

Expansion of scientific knowledge about the decision-making of individuals has led to the argument that levels of customer satisfaction and trust in banks are determining factors in customer acquisition and loyalty resulting from cognitive and emotional systems. Changes in factors such as satisfaction and trust are influenced by changes in the behaviour of individuals and in their decisions and the prognostications of macro-decisions are rarely achieved given the stochasticity of human behaviour, taking into consideration the lack of determinism that has typically been used as a prerequisite in studies based on historical data to predict future developments.

Keynes (1936) deepens the distinction proposed by Knight (1921) between risk and uncertainty. Risk as a situation in which the probability of future results can be obtained through the theory of probabilities and statistical inference, and uncertainty as a situation where the prediction of future results, their probabilities and economic impact are based only on subjective estimates.

Keynes (1936) further stresses the importance of uncertainty in the economic dynamics defining as uncertainty all the phenomena to which the calculation of probabilities cannot be applied, and economic agents end up following Animal Spirits.

Recent studies by several authors - such as Daniel Kahneman and Amos Tversky in the behavioural area, António Damásio and Antoine Bechara, George Loewenstein and Scott Rick in emotions in the economy, and Amartya Sen in the cultural component - allow us to state that emotional and cultural factors, in context, can structurally alter the trend of any economic variable based on human behaviour.

The economic crisis, which began in Portugal between 2007 and 2008, is strongly linked to Speculative activities developed by the bank, growing indebtedness of families and companies and high external indebtedness in Portugal, which led to a decrease in family income, also directly and through the increase and creation of taxes, originated greater concern with issues related with global banking regulation, calling into question the theory of efficient markets developed by Eugene Fama in 1970 (Donário and Santos, 2013).

Recently, during this crisis period, we have observed the fall of important Financial Institutions as the Lehman Brothers in the United Sates of America at 2008, and in Portugal as Banco Português de Negócios (BPN) in 2018, Banco Privado Português (BPP) in 2010, Banco Espírito Santo (BES) in 2014 and Banco Internacional do Funchal (BANIF) in 2015.

From an Economic perspective, we have noticed the evidence of the crisis by the GDP decreasing in Portugal and in Europe between 2008 and 2009, and in Portugal the reduction of the savings rate between 2007 and 2008, the slowdown of individual indebtedness after 2007, the increase of interest rates on deposits and loans and the increase of unemployment rate between 2008 and 2012. Moreover, the Index of Economic Feeling of the Portuguese people and in Euro Zone decreased significantly between 2007 and 2009 as we may verify in figure 1.

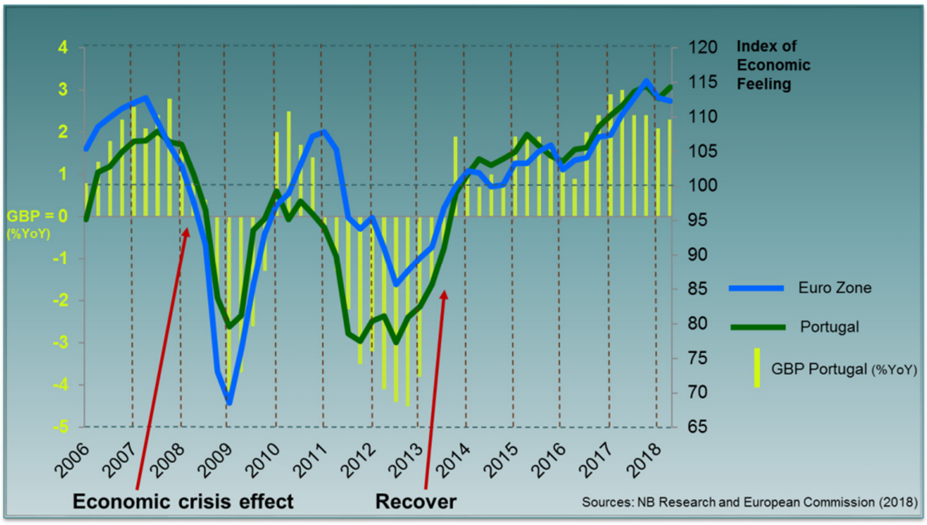

Figure 1. Index of Economic Feeling (Euro Zone and Portugal)

3. Customer Trust

Considering the two parties involved, trust represents the belief of one of the parties that, in the future, their needs will be met by actions undertaken by the other party (Anderson and Weitz, 1989) and trust exists when one party believes that the other party is whole and worthy of credibility, and lack of trust can pose a great threat to success (Bhattacherjee, 2002).

Trust is stronger when there is good communication between the parties and when partners avoid opportunistic behaviour that could harm one of the parties, especially those who share the same values (Morgan e Hunt, 1994). This is related to the perception of risk, which, in turn, is based on the greater or lesser level of optimism of individuals as to the risk involved in their decisions, depending on whether the expected results are perceived as losses or as gains (Cooper et al., 1988; Kahneman and Tversky,1979; Kahneman, 2011).

The greater the trust, the higher the probability of the client doing business with the company in the future and maintaining a long-lasting relationship (Rich 2000). Customers who develop trust in service providers, based on their experiences, have good reason to stay in these relationships (Berry, 1995). Companies invest in long-term relationships not only to attract new customers, but also to keep their current customers and earn their loyalty (Berry, 2002). To win the customer loyalty, the company needs to win their trust (Oliver, 1999).

The status quo bias, which translates into the preference of individuals for the current situation, is an explanation for maintaining loyalty to a bank, despite the existence of some dissatisfaction with the service provided (Samuelson and Zeckhauser, 1988).

Maintaining the status quo is an option in many decisions, since risk aversion induces a bias that favours maintaining the status quo (the benchmark against which change is compared) over other options (Silva, José Amado da, 1991; Lancaster and Kelvin,1966).

Trust consists in an intangible, integrating the endowment of individuals, reducing uncertainty in intersubjective relations, triggering the endowment effect, which leads individuals to value their relationships with other individuals or institutions, banks with whom they are connected being a factor of customer loyalty (Thaler, 1980; Kahneman; Knetsch; Thaler, 1991).

In the banking sector, trust is an essential factor for the development of a long-term relationship between the client and the bank (Crosby et al.,1990).

4. Study Methodology

In this study, we used consistent empirical models with economic theory, considering the most recent theoretical developments regarding the decisions of the individual in Behavioural Economics and studies related to Neuroeconomics. The use of Econometric Models, as dynamic models, allows us to avoid the bias potentially caused by the omission of relevant variables, and capturing the adjustment of the dynamic process between the balance and the imbalance that characterizes the decisions of individuals.

The techniques used were simple and multiple regression, using dummy variables to identify the period of economic crisis, descriptive statistics and statistical inference. We made tests about the regression models, such as significance tests (ANOVA), tests of validity of the parameters (t-Student), autocorrelation of residues (Durbin-Watson test), collinearity (Tolerance, VIF and Eigenvalue), homoscedasticity (White Test) and Stationary (Ljung-Box Test for chronological series). We also evaluated the used questionnaire quality using Reliability Testing (Alfa-Cronbach) and Adjustment Tests ($\chi 2$ Test).

The empirical study was carried out based on answers obtained from an online questionnaire applied to Portuguese bank customers in 2014, with primary data from 581 responses received, and 498 valid responses considered (the same issues were referred to 2007 as the time before the crisis and to 2013 as a time of crisis) using as primary data. We also used secondary data from European Customer Service Index (ECSI) 2017, Marktest - BASEF, Annual macro-economic database of the European Commission's Directorate General for Economic and Financial Affairs (AMECO), Bank of Portugal, Portuguese National Statistics Institute (INE) and PORDATA da Fundação Francisco Manuel dos Santos.

5. The Evolution of Customer Trust and Satisfaction

Considering ECSI 2017 data, we may conclude that customer trust decreased in the beginning of the economic crisis until 2009 and had a slight increase in 2012 and 2013, decreasing again in 2014, but stabilizing after that year as seen in figure 2.

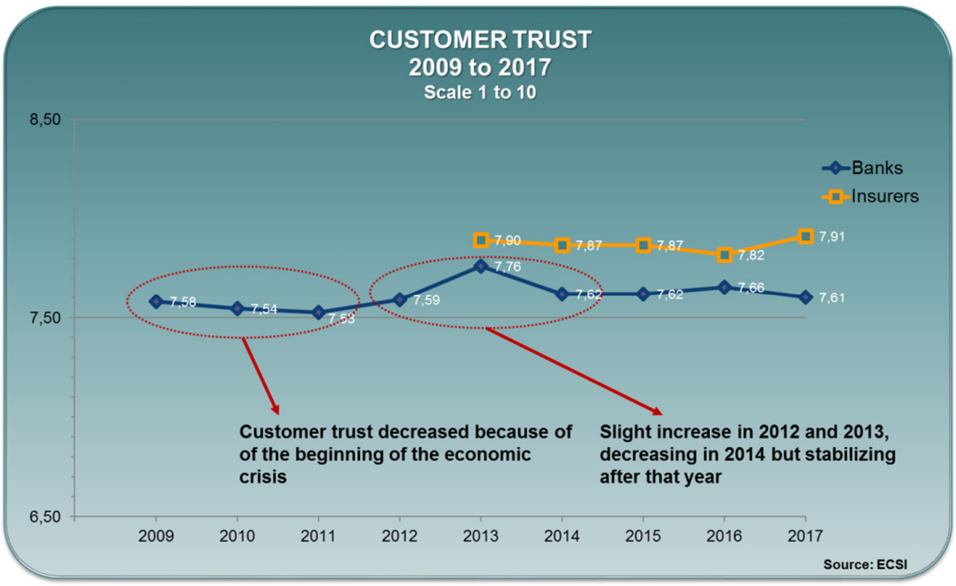

Figure 2. Customer trust evolution from 2009 to 2017 (ECSI 2017 – Global Results)

With Marktest – BASEF 2017 data we may also verify that the negative effect of the economic crisis on trust proves to be stronger in main retail banks in Portugal, except for the Portuguese public bank Caixa Geral de Depósitos (CGD) in which the beginning of the crisis had a positive effect, as we may verify in figure 3.

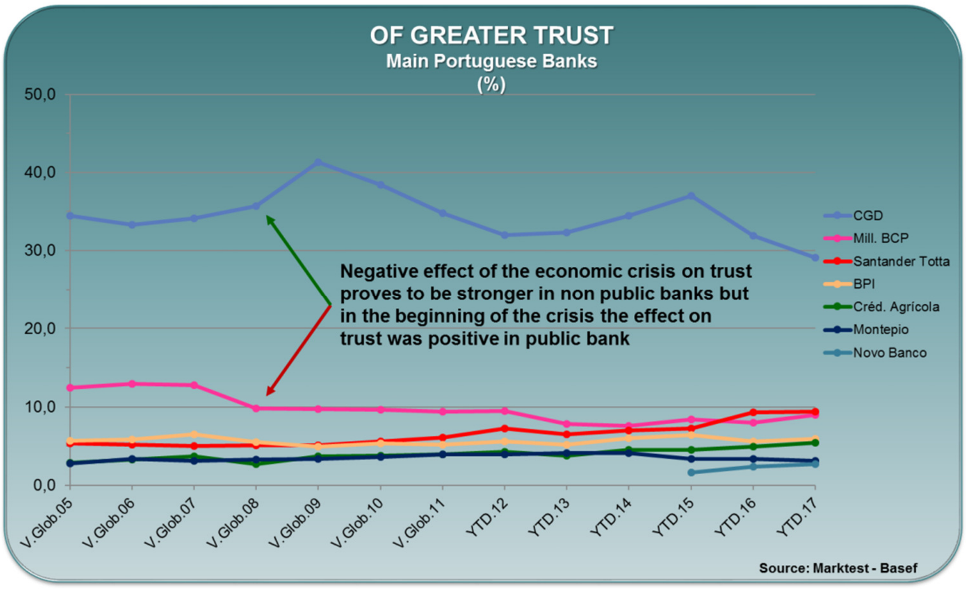

Figure 3. Customer trust evolution from 2005 to 2017 (Marktest-BASEF)

About customer satisfaction, using data form ECSI 2017, we may conclude that it continued to increase because of the improved quality of services provided by banks until 2014 and stabilized until 2016. Customer Satisfaction decreased in 2017 and the first data for 2018 confirm the downward trend observed in 2017, as we may verify in figure 4.

Figure 4. Customer Satisfaction evolution from 2008 to 2017 (ECSI 2017 – Global Results)

With Marktest – BASEF 2017 data we may conclude that despite the crisis period, customer satisfaction increased until 2014, the year of BES resolution, justified by the improvement in the quality of services provided by banks, as we may confirm in figure 5.

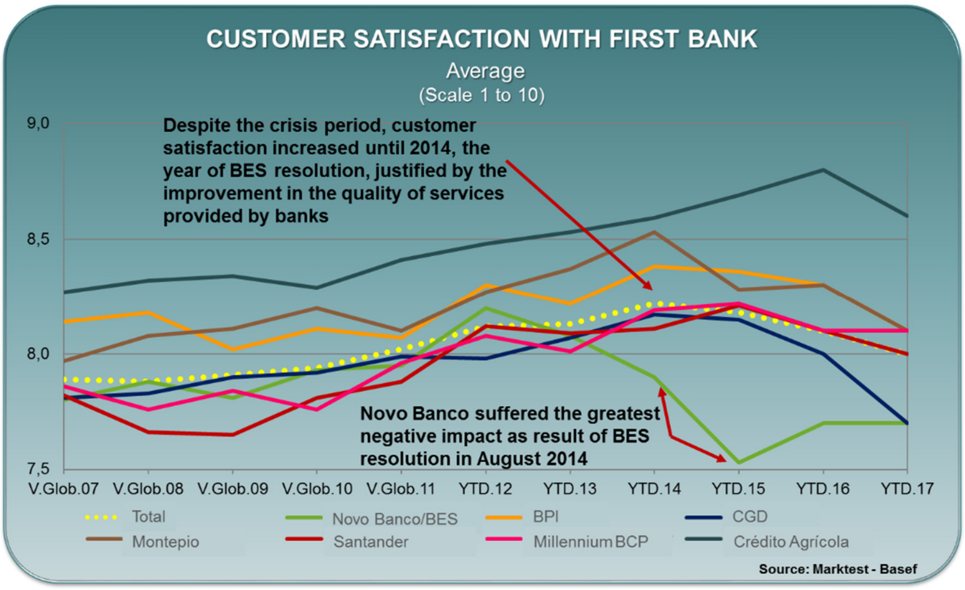

Figure 5. Customer Satisfaction evolution from 2008 to 2017 (ECSI 2017 – Global Results)

Portuguese customers' satisfaction with banks decreased slightly in ECSI 2017, from 7.51 to 7.42, on an evaluation scale from 1 to 10, but it is higher than the global average of all other economic sectors that was 7.29. The levels of satisfaction and loyalty decreased in 2017 but not significantly. We also may verify that customer satisfaction with Portuguese banks is comparable to that in other countries in Europe and other continents.

6. Conclusions

This empirical study has allowed us to conclude that the economic crisis started in Portugal between 2007 and 2008 Influenced the behaviour of Portuguese banking customers, in the reduction of the constitution of savings and in the volume of credit obtained through banks. We also confirm the decrease in customer satisfaction, level of customer loyalty and trust in the main used bank.

We also verified the decrease in the composition of savings and the volume of credit obtained through banks, and the decrease of satisfaction, loyalty, and trust benchmark assessment related with main used bank as we may confirm in figure 6.

Figure 6. Decrease of customers satisfaction, loyalty and trust in crisis period (Source: Own)

In the same study, it was confirmed that the evaluation of image and trust decreased during the period of the economic crisis, with greater emphasis on the decrease of confidence and loyalty, as did the likelihood of recommending the primary bank by customers.

At the beginning of the economic crisis, ECSI and Marktest - BASEF also showed a decrease in Portuguese customers' trust in banks, with a greater emphasis on non-public banks.

We can explain the decline of Portuguese customers' trust in banks, in the perspective of the economic crisis, related with a pessimistic behaviour. According to Perspective Theory (Kahneman and Tversky,1979) the Effect of loss expectations becomes more intense, given its value function to be convex. Humans are unpredictable and often not consistent, and they are generally averse to gain risk and risk-prone to losses and the decrease in disposable income accentuates the disutility of any costs.

The emotional component, according to António Damásio (2005) and Loewenstein and Rick (2008), and the cultural component, according to Amartya Sen (2004), influence customer satisfaction, customer loyalty level and customer trust in a period of economic crisis.

Regarding cultural aspects of Portuguese customers' behaviour, there is evidence of the influence of home regions on satisfaction assessment and customer loyalty. Satisfaction, trust and loyalty having better results in the north of Portugal compared to those in the south. Banks have invested to improve the quality of services with a positive impact on customer perception and product and service offer is homogeneous in the entire national territory. There is also evidence of the influence of the level of schooling in the evaluation of customer level of satisfaction, trust and loyalty. The overall satisfaction, trust and loyalty of clients with higher levels of schooling are lower and are more demanding in the evaluation of their main bank.

Competition can topple products and services very quickly and the cost of attracting new customers to a company could be up to five times higher than the cost of retaining current customers (Kotler, 2000). This reality shows us the importance of the focus on the relationship with existing customers, by improving the quality of products and services provided and also by clarifying correctly the risk and showing more security in the offered products.

Satisfaction is important to ensure customer loyalty, as stated by Oliver (1999), who argues that satisfaction is one of the key concepts for winning loyalty, because loyalty does not exist without satisfaction. However, satisfaction is not the only determinant of loyalty. Hennig-Thurau et al. (2002) confirmed this fact, which had been previously mentioned by Reichheld (1994), Jones and Sasser (1995).

The most relevant factors for Loyalty in a period of economic crisis, with information determined using explanatory regression models, sorted by relevance, are:

1. Customer Global Satisfaction
2. Customer Trust
3. Correct execution of orders
4. Quality of the offer
5. Meeting deadlines
6. Support to customer decision

Also using explanatory models, the most relevant factors for Global Satisfaction in a period of economic crisis, sorted by relevance, are:

7. Customer Trust
8. Correct execution of orders placed
9. Ability to solve problems
10. Support for customer decision
11. Sympathy and availability of employees
12. Price of banking products and services
13. Quality of the offer

It has been scientifically demonstrated that trust is a very important factor for satisfaction and loyalty of bank customers. We may also refer that Customers Global Satisfaction is the main factor for customer loyalty.

The results obtained allow us to state that the Portuguese customers trust in banks has decreased in recent years. However, even with the economic crisis and all the problems that occurred with some banks failing in

Portugal, customer trust level with banks is not lower than the average trust in other sectors of Portuguese economy.

Despite the decline in customer trust, the satisfaction level with the Portuguese banks is not significantly different from that in other European countries.

As trust is the main factor for satisfaction, we can infer that the good results verified for Customers Satisfaction in previous years prove that Portuguese Customers continue to trust banks. Yet, something is happening, because last year Customer Satisfaction level declined, which can be explained by the offer of unattractive fees, by the increase of commissions charged by banks, as a compensation for the decrease in the difference between active and passive interest rates. The use of new technologies also influences the decrease of direct personal contact with customers.

These facts are revealing a significant shift in the banking activity, with a rather different approach from what we had traditionally known. This means that banking activity is changing, and this new way may lead to a further decline in customer trust and, as everything in life, to ensure the future of banking, trust will be fundamental.

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