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An Approach to Customer Trust in the Portuguese Banking System

António Duarte Santos
António Cabeças

Universidade Autónoma de Lisboa
CARS – Centro de Análise Económica de Regulação Social

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1. Introduction

2. Study Methodology

3. Customers Trust and Satisfaction Results

4. Conclusions



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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)

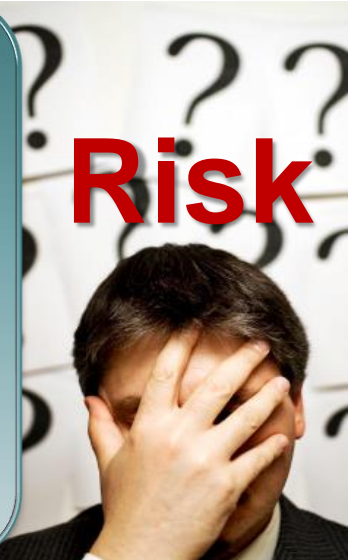
Trust exists when one party believes that the other party has integrity and is worthy of credibility, and lack of trust can pose a great threat to success
(Bhattacharjee, 2002)



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)

Trust 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 probability of the client doing business with the company in the future and maintaining a long-lasting relationship will be greater

(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)



TRUST
LOYALTY

To win the Customer Loyalty, the company needs to win his trust
(Oliver, 1999)

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Use of consistent empirical models with economic theory, considering the most recent theoretical developments regarding the decisions of the individual



**Behavioural
Economics**

+



**Studies related to
Neuroeconomics**

Econometric Models

$$Y = X\beta + \varepsilon \quad \longleftrightarrow \quad Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_k X_k + \varepsilon$$



Avoid the bias potentially caused by the omission of relevant variables

Capturing the adjustment of the dynamic process between the balance and the imbalance that characterizes the decisions of individuals



Techniques used

Regression

Descriptive
Statistics

Statistical
Inference

Simple

Multiple

- Dummy variables to identify period of economic crisis

Testing
Regression
Models

- 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)
- Stationary (Ljung-Box Test for chronological series) ...

Questionnaire
Quality Test

- Reliability Testing (Alfa-Cronbach)
- Adjustment Tests (χ^2 Test)

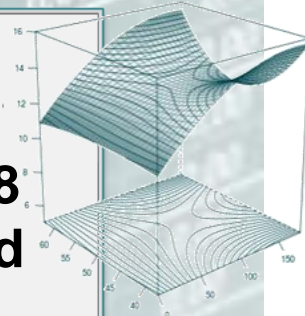
Empirical study carried out based on ...

Answers obtained from an online questionnaire applied to banks customers at 2013

Primary data

581 responses received, and 498 valid responses were considered

(The same issues were referred to 2007 as the time before the crisis and to 2013 as a time of crisis)



Public and private sources

Secondary data

**ECSI 2017,
MARKTEST - BASEF,
AMECO*,
BdP,
INE,
PORDATA,**



* Annual macro-economic database of the European Commission's Directorate General for Economic and Financial Affairs

VARIABLES OF CUSTOMER TRUST MODEL

- Sex
- Age
- Country residence
- Home regions
- Level of scholarship
- Years of relations with the main bank
- Channels used for contact with the key bank
- Classification of trust with main bank
- Probability of choose main bank for future banking products
- Probability of suggestion your main bank to others
- Importance of human contact for attendance in bank's branches
- Substitution-effect of human contact for new technologies
- Confidence evolution of new technologies in banking services
- Thought about the future of the domestic banking system
- Level of satisfaction with the main bank
- Factors that can avoid the satisfaction with the core bank

1. Introduction

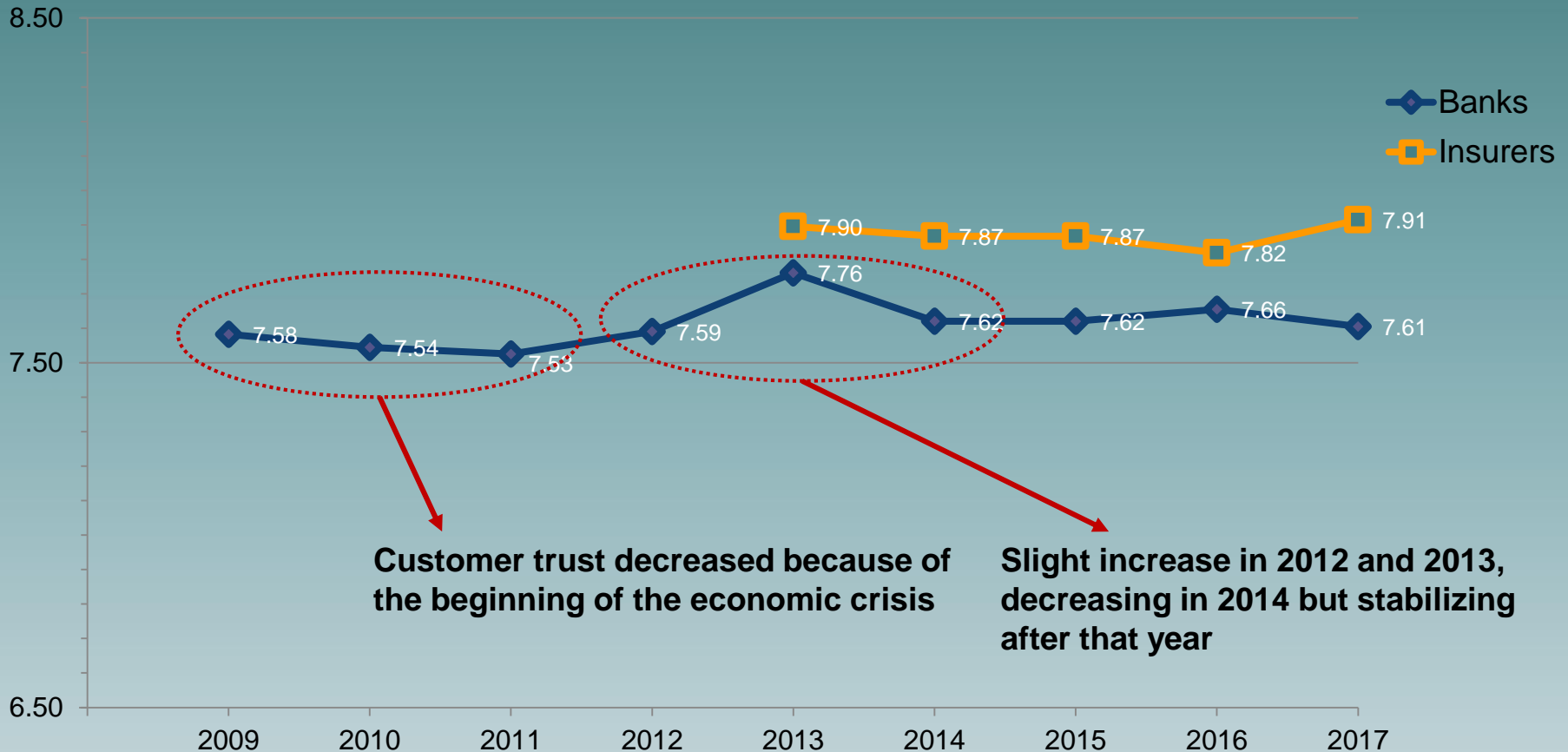
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ECSI 2017 – Global Results

CUSTOMER TRUST 2009 to 2017 Scale 1 to 10



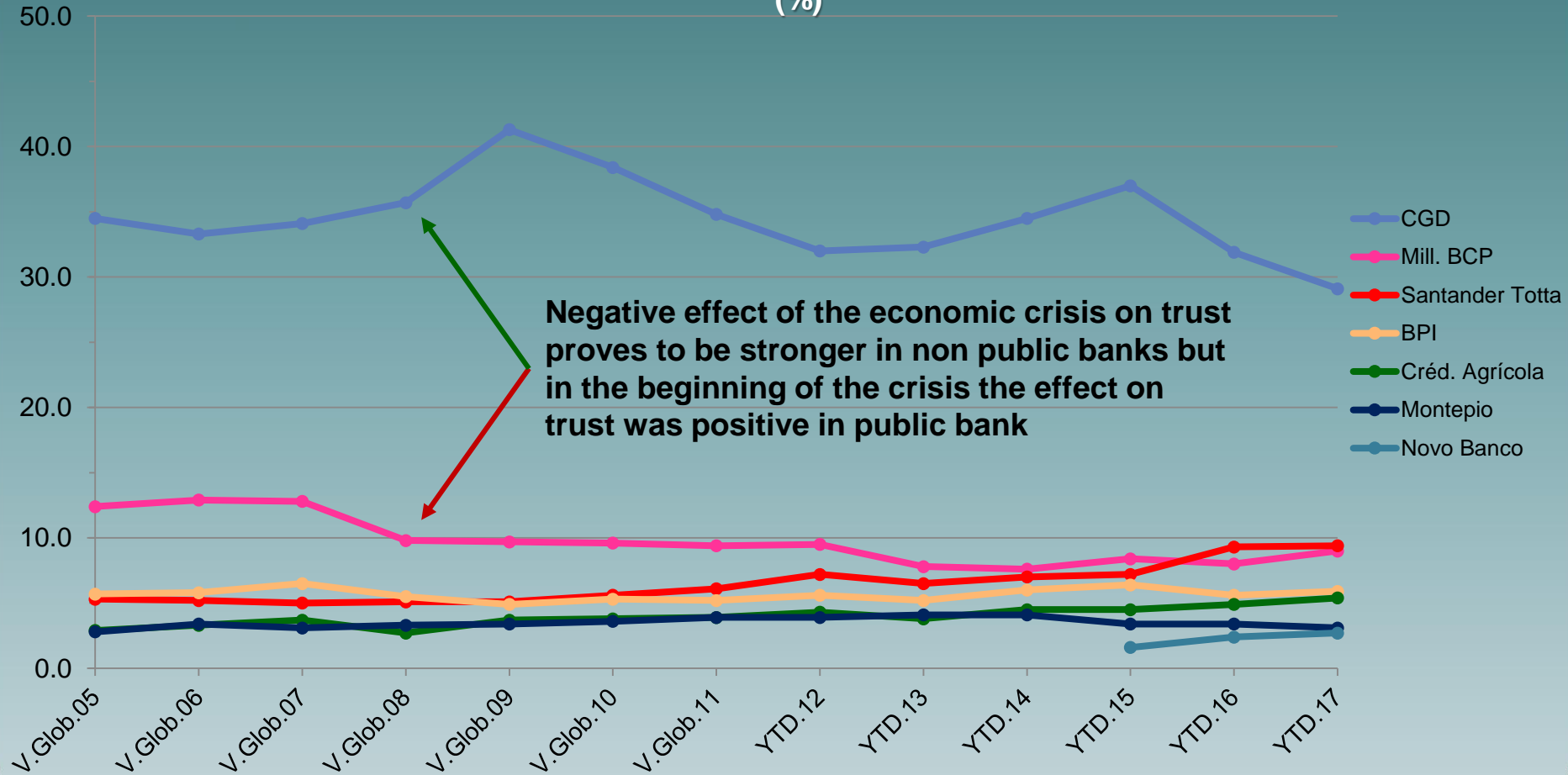
Customer trust decreased because of the beginning of the economic crisis

Slight increase in 2012 and 2013, decreasing in 2014 but stabilizing after that year

Source: ECSI

MARKTEST – BASEF – Financial Services Barometer 2005-2017

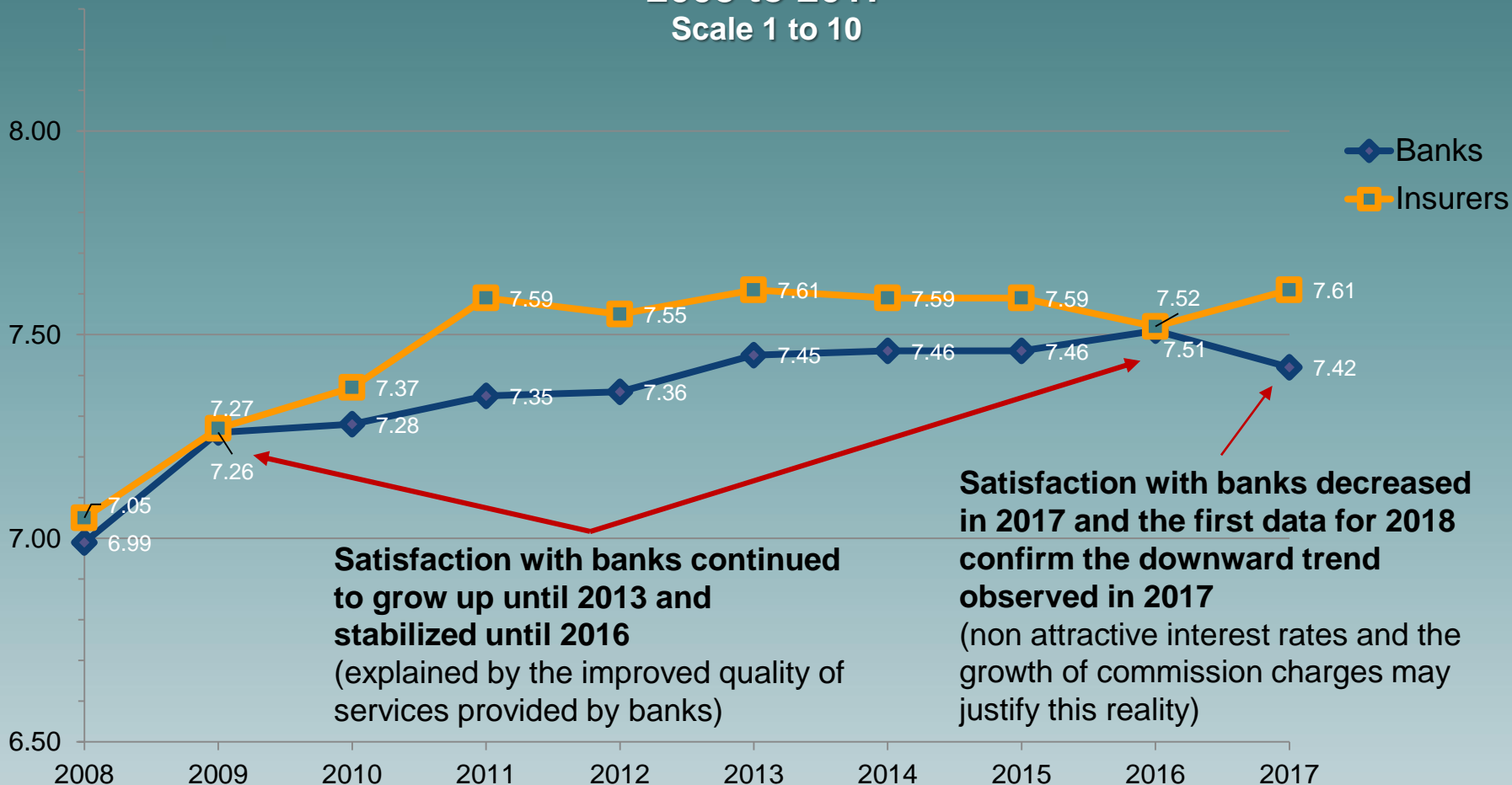
OF GREATER TRUST Main Portuguese Banks (%)



Source: Marktest - Basef

ECSI 2017 – Global Results

CUSTOMER SATISFACTION 2008 to 2017 Scale 1 to 10



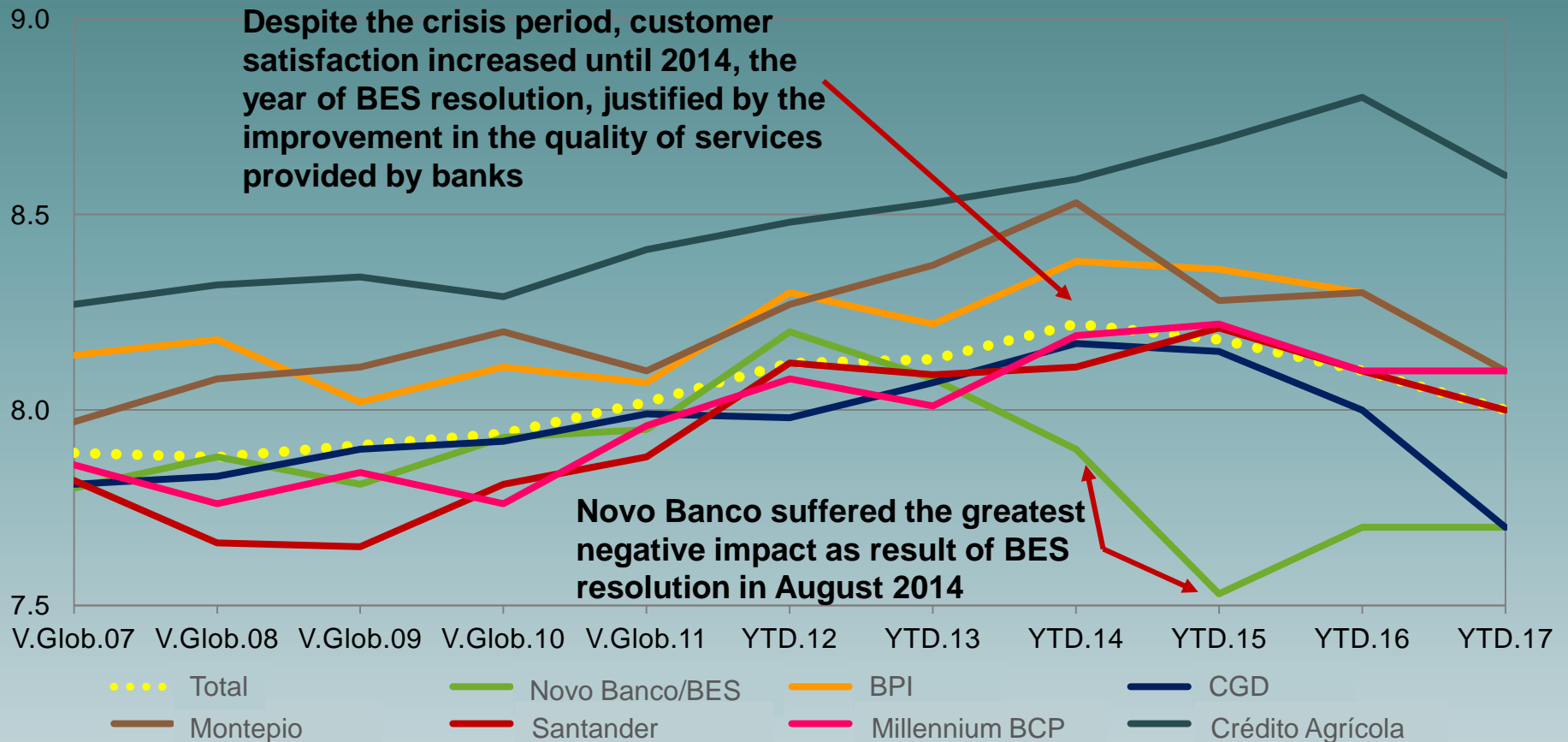
Satisfaction with banks continued to grow up until 2013 and stabilized until 2016
(explained by the improved quality of services provided by banks)

Satisfaction with banks decreased in 2017 and the first data for 2018 confirm the downward trend observed in 2017
(non attractive interest rates and the growth of commission charges may justify this reality)

MARKTEST – BASEF – Barómetro Serviços Financeiros 2005-2017

CUSTOMER SATISFACTION WITH FIRST BANK

Average
(Scale 1 to 10)

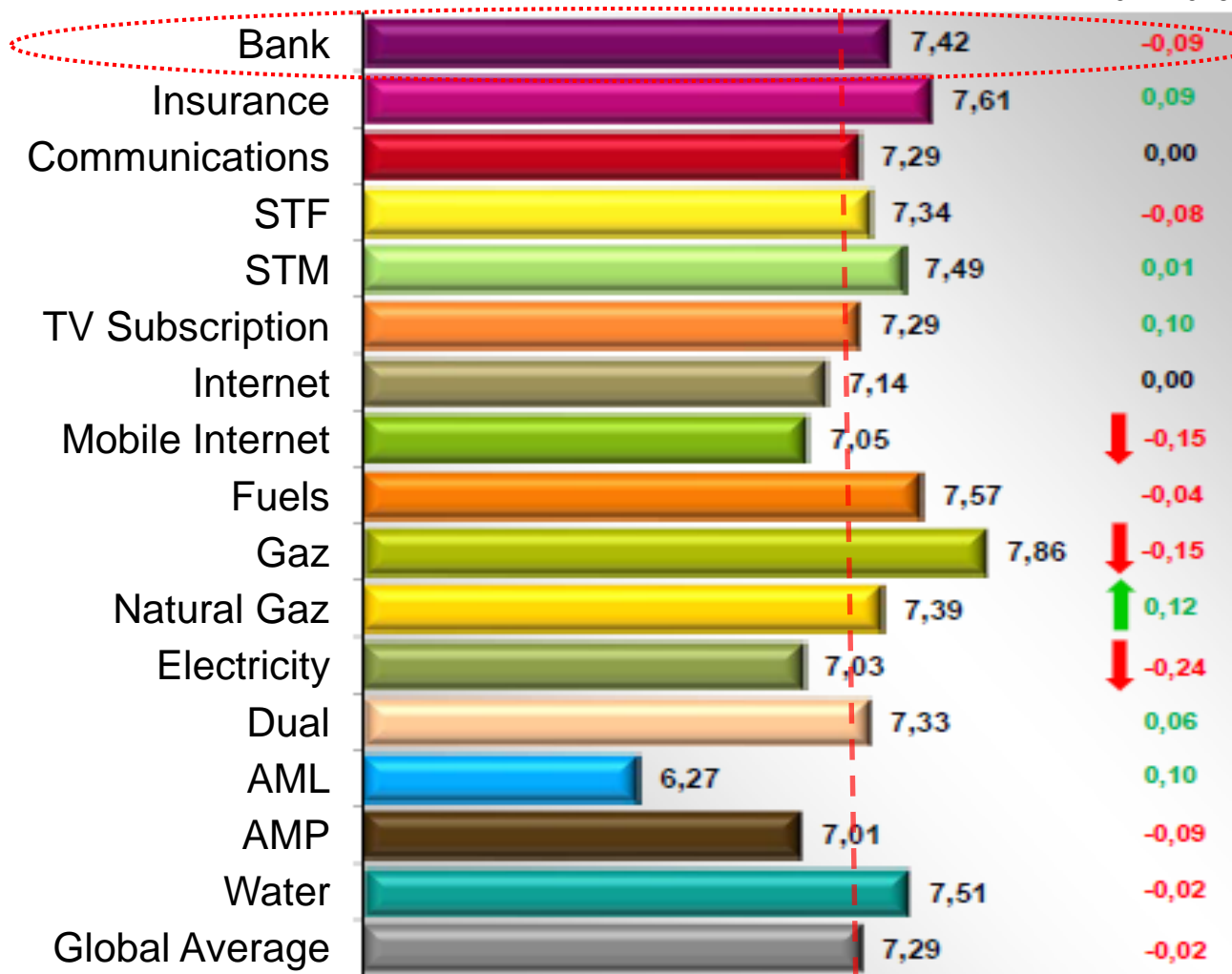


Source: Marktest - Basef

ECSI 2017 – Global Results Customer Satisfaction Index

(scale 1 to 10)

Variation
2017-2016



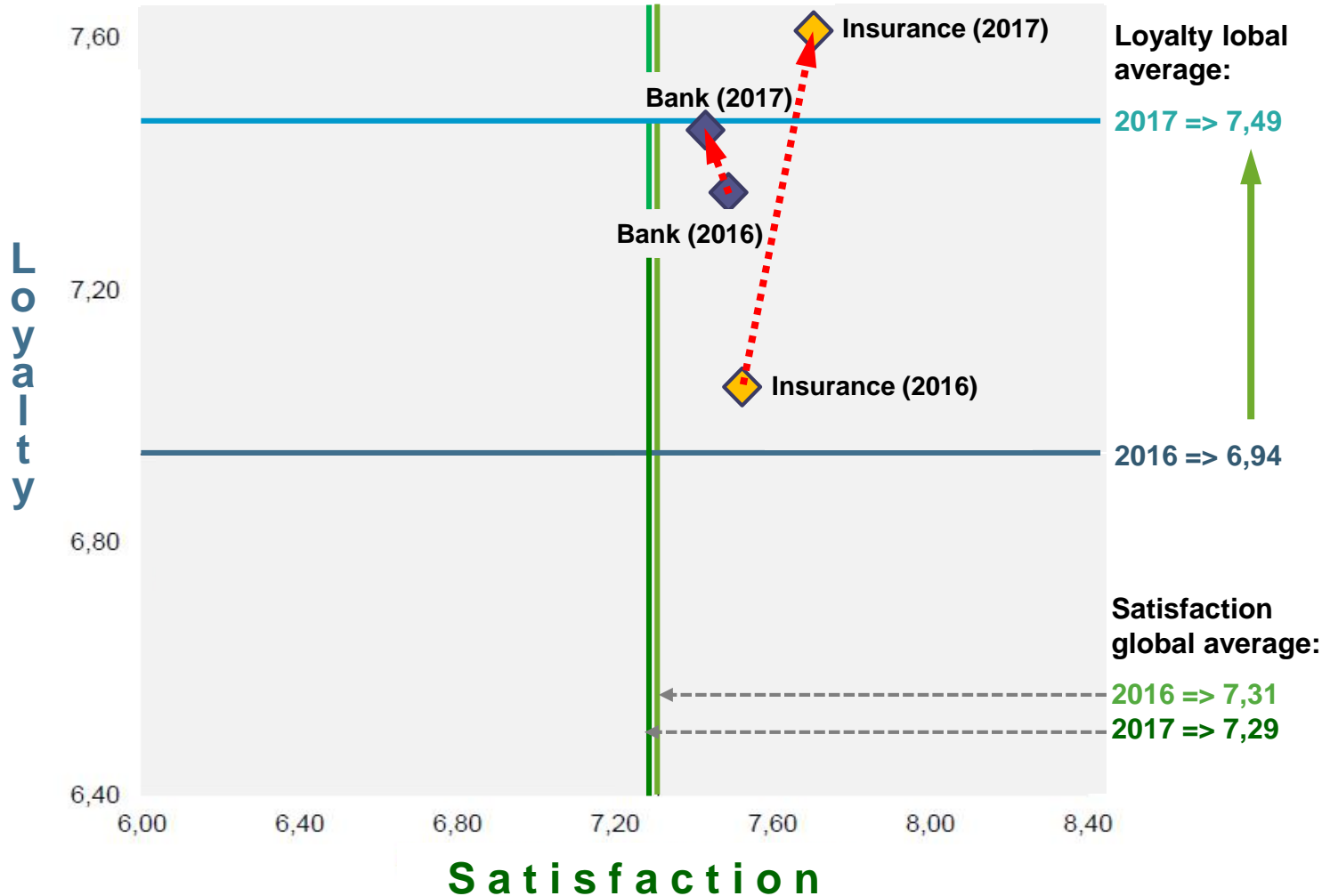
Portuguese Customers satisfaction with banks decreased slightly in ECSI 2017, but it is above the average of all sectors

Source: ECSI

ECSI 2017 – Global Results

Indexes of latent satisfaction variables (abscissa axis) and Loyalty (ordinate axis)

2016 and 2017



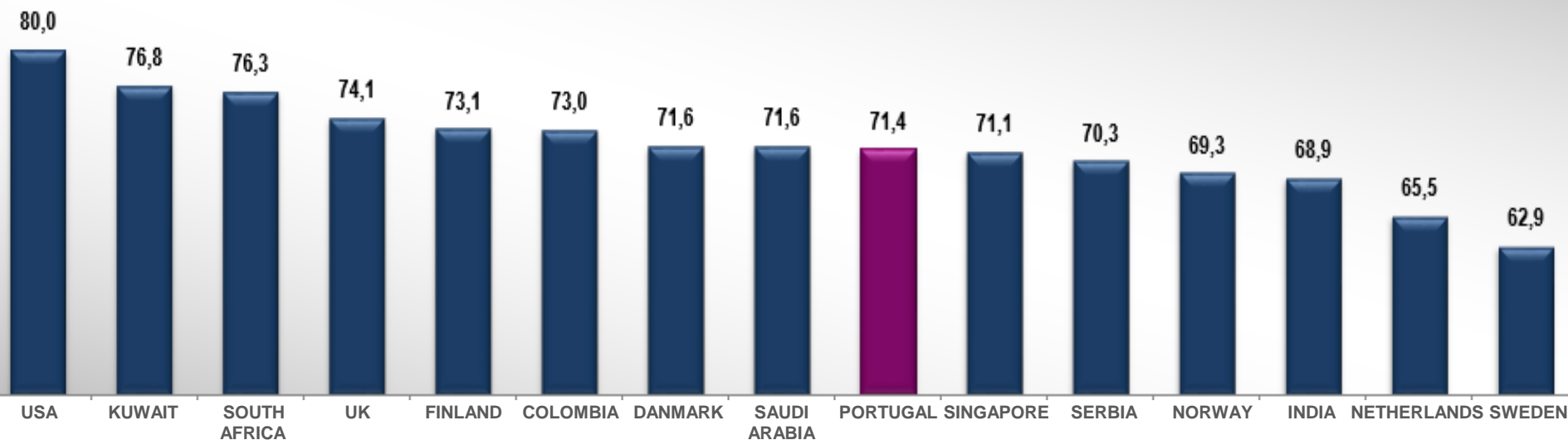
Loyalty global average with Banks grew significantly in 2017

Level of Satisfaction with Banks slightly decreased in 2017

Source: ECSI

ECSI 2017 – Global Results

International Positioning of the Banking Sector Customers Satisfaction Index



Portuguese Customers Satisfaction with banks is comparable to other countries

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This empirical study allowed to conclude that the economic crisis, started in Portugal between 2007 and 2008, had influence in the behaviour of Portuguese banking customers



**In the reduction of customers savings and
In the volume of credit obtained through banks**

**In the decrease of customers satisfaction,
level of loyalty and trust with the main used bank**



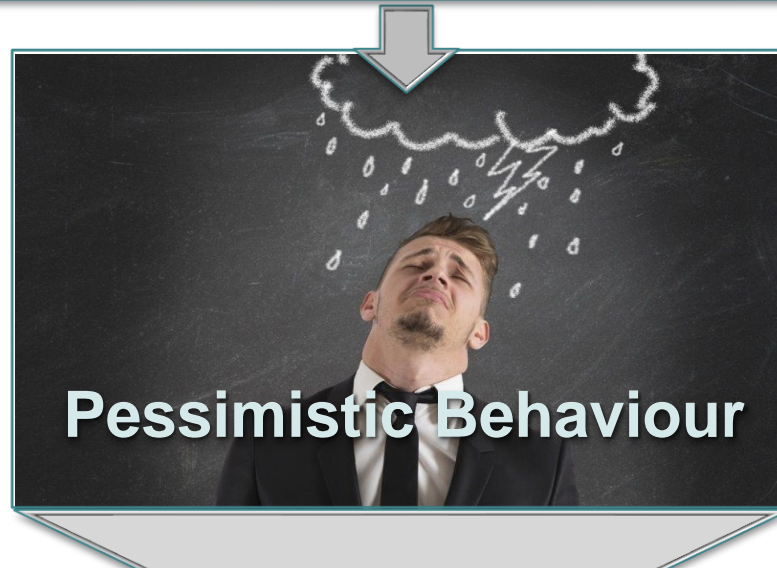
The evaluation of image and trust decreased during the period of economic crisis, with greater emphasis on the decrease of Trust



Loyalty and the probability of customers recommending the main bank also decreased



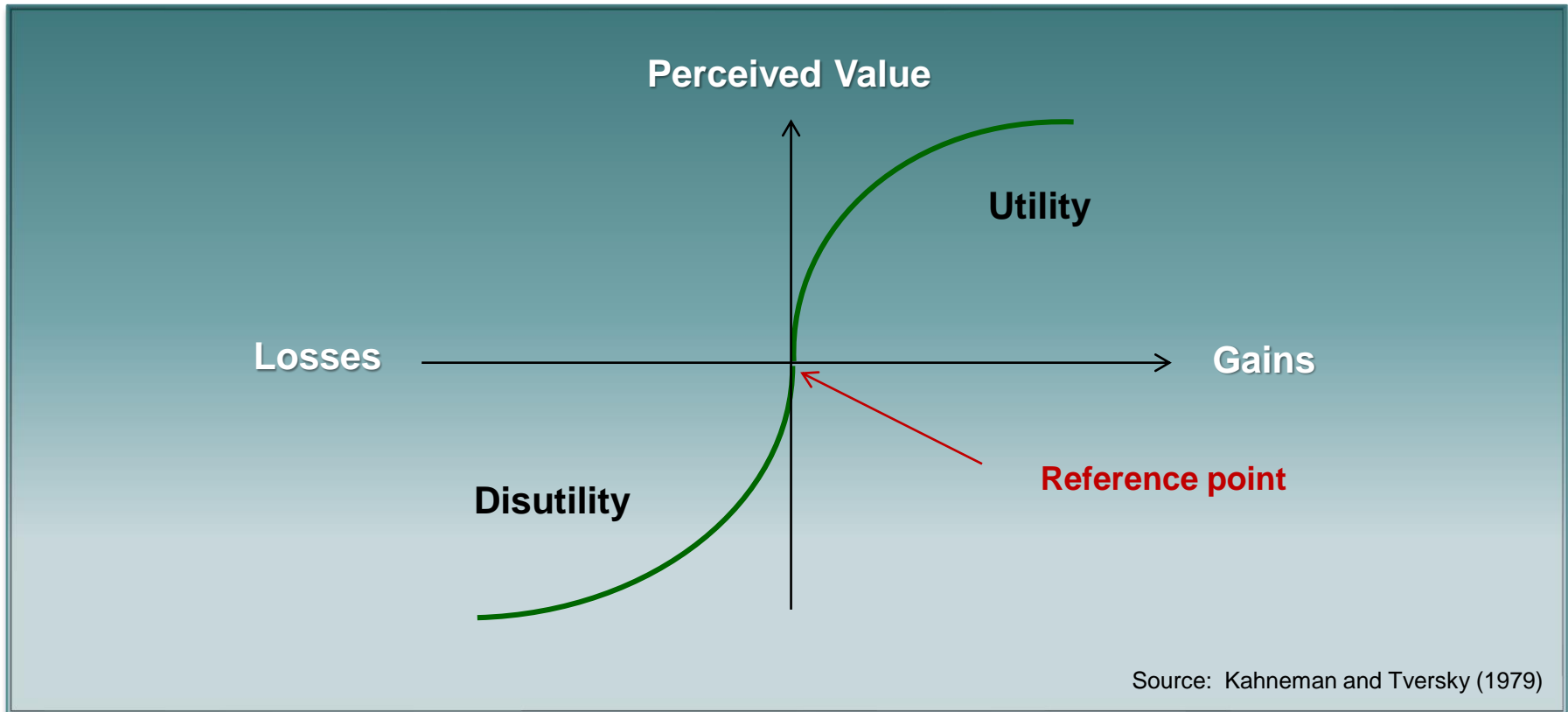
We can explain the decline of Portuguese Customers Trust on private sector banks, in the perspective of the economic crisis, as follows:



Perspective Theory
(Kahneman and Tversky, 1979)

Effect of loss expectations becomes more intense
(given its function to be convex)

Example of a Value Function



Humans are unpredictable and often are not consistent
They are generally averse to gains risk and risk-prone to losses



Emotional Component

António Damásio (2005)
Loewenstein and Rick (2008)

and

Cultural Component

Amartya Sen (2004)



during
the
period
of
economic
crisis
had
influence
on

**Customer
Satisfaction**

**Customer
Loyalty Level**

**Customer
Trust**

Cultural Aspects in Customer Behaviour

There is evidence of the influence of home regions on satisfaction assessment and customer loyalty

Satisfaction, Trust and Loyalty with better results in the north of Portugal

- **Banks have invested in improving the quality of services with a positive impact on customer perception**
- **Products and services offer are homogeneous for the entire national territory**



It has been scientifically proved that trust is the main factor for Customers Satisfaction and Satisfaction is the main factor for Customers Loyalty with the banks



TRUST
SATISFACTION
LOYALTY
CUSTOMER

The data obtained allow us to state that the Portuguese Customers Trust in private equity banks has decreased after the beginning of the economic crisis but with a slight recover few years after

The Challenge of Customers' Trust: The "Face-to-Face" Dilemma

- The human element will continue to be decisive for trust enhancement.
- Banking activity will be conducted not only by banks because of the distance between customers and banking offer.
- Bank population will become more older, and not only the Millennials.
- With the technological evolution, bank correspondents will appear as 50 years ago? There are digital clients and analogical one's.
- The banking sector is altering its structure in customers' interaction.
- The banking advisors will not be the bank's clerks: that's the face-to-face dilemma.

...and, as everything in life, to ensure the future of banking,
Customers Trust will be fundamental



G R A C I A S