What is the Effect of a Change in Customers´ Trust, Following a Banking Collapse, on Their Loyalty towards Their Own Bank?

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Abstract

*In October 2008 the three biggest retail banks in Iceland collapsed. This paper focuses on the effect of this collapse on customers' trust towards banks and the effect that a change in their level of trust has on their loyalty towards their own bank. The research question is "**Do customers trust their own bank more than others and could that explain why they do not switch banks more often than in a normal year following a reduced level of trust?**" Data sets from three surveys are used to answer the research question, the first one done in March 2008, the second one in February 2011 and the third one in February 2013. From the findings of this research it can be deduced that customers of banks trust their own bank more than they trust other banks following a banking collapse and even though the level of trust is down customers do not have a reason to switch banks if that decision is based on their level of trust. This fact may explain why customers of the Icelandic banks did not switch banks in greater numbers than was actually the case. Now customer trust towards the Icelandic banks is on the rebound and their level of trust towards their own bank remains higher than for the other banks. From the findings of this research it can also be deduced that in general customers of banks trust their own bank more than they trust other banks both when their trust towards their own bank is decreasing and then increasing again following a banking collapse.*

Keywords: Loyalty, Trust, Banks, Banking Collapse

1. Introduction

The objective of the research is to assess the effect of the banking collapse in Iceland in the fall 2008 on customers´ trust towards banks and the effect that a change in their level of trust has on their loyalty towards their own bank. Earlier research has shown that even though trust towards the banks went down considerably following the collapse of the banks (see e.g. Eysteinsson and Gudlaugsson, 2011; Friðrik Eysteinsson and Þórhallur Guðlaugsson, 2011; Gudlaugsson and Eysteinsson, 2010; Þórhallur Guðlaugsson and Friðrik Eysteinsson, 2010) their customers don´t seem to have switched banks any more than they do in a normal year. A couple of explanations have been put forth such as that customers are in some sense "stuck" with their bank and that all the major banks collapsed so that customers really did not have better alternatives. In this paper a third explanation, and perhaps the most important one, is put forth namely that the reason customers do not switch banks more than they do in a normal year is that they trust their own bank more than others. The research question is:

- Do customers trust their own bank more than others and could that explain why they do not switch banks more than in a normal year following a reduced level of trust?

Data sets from three surveys are used to answer the research question. The first survey was done in March 2008 or a few months before the banking crisis (n=512). The second survey was conducted in February 2011 (n= 533). The third survey was done in February 2013 or more than four years after the banking collapse (n= 570)

In all cases the sample consisted of students at the University of Iceland. In the third one a convenience sample among the general public was also used. It should be pointed out that the banks´ market share among students at the University of Iceland mirrors their market share among the population at large. These surveys have been conducted in the same way since 2003. Their objective is to assess the image of banks and savings & loans. In this research only part of the data is used and one image attribute, trust.

2. Trust, loyalty and their relationship

A number of papers dealing with the effect of the collapse of the Icelandic banks in the fall of 2008 on the image of the banks have been published (Eysteinsson and Gudlaugsson, 2011; Friðrik Eysteinsson and Þórhallur Guðlaugsson, 2011; Gudlaugsson and Eysteinsson, 2010; Þórhallur Guðlaugsson and Friðrik Eysteinsson, 2010). Their findings show that customer trust towards the banks has gone down considerably without a concomitant reduction in their loyalty.

Moorman, Zaltman and Despande (1992, page 315) define trust as "*a willingness to rely on an exchange partner in whom one has confidence*". Sirdeshmukh, Singh and Sabol (1992, page 17) define it as "*the expectations held by the consumer that the service provider is dependable and can be relied on to deliver on its promise*". Trust applies both to individuals and companies and is a key to building customer relationships (Jones, Wilkens, Morris and Masera, 2000).

Scholars do not agreed whether trust is a one dimensional or multidimensional construct even though in recent years the view seems to have prevailed that trust is a complex and multifaceted concept (Xie and Peng, 2009). Mayer, Davis and Shoorman (1995) for example maintain that the dimensions of trust, or its antecedents, are competence or the ability to deliver on promises, benevolence, to want to do good to the customer and integrity, while at the same time for example Kantsperger and Kunz (2010) maintain that trust has two dimensions credibility and benevolence.

Loyalty is a key concept in marketing (Helgesen and Nesset, 2007; Zeithaml, Bitner and Gremler, 2009; Zinkham, 2001). The importance of building up a group of loyal customers rests on the perspective that it is less expensive, ceteris paribus, to retain a customer than to acquire a new one (Kotler, Armstrong, Saunders and Wong, 2001; Zeithaml, Parasuraman and Berry, 1990).

Loyalty can be viewed strictly from a behavioral perspective, such as repeat purchasing (Keiningham, Aksoy, Cooil and Andreassen, 2008). The problem with that approach is first and foremost that many of those who repeat buy do so because they do not have other alternatives or because transaction costs are high (Ozimek, 2003). This for example applies to banking services for both individuals and companies. The service gap has to be big to justify incurring the switching cost or an alternative offer so good that it more than offsets it. A different perspective views loyalty as a combination of behavior, the customer repeat buys, and attitude, the customer likes the company, is willing to recommend it to others and in general has a positive attitude towards the company (Boulding, Kalra, Stealin and Zeithaml, 1993; Helgesen and Nesset, 2007). Customers might be very positive towards a certain service even though they might not be able to use it for some reason.

In general research has shown that there is a positive relationship between trust and loyalty (see for example Chaudhuri and Holbrook, 2001; Garbarino and Johnson, 1999; Hennig-Thurau, Gwinner and Gremler, 2002; Liam and Razzaque, 1997; Morgan and Hunt, 1994; Palmatier, Dant, Grewal and Evans, 2006; Rousseau, Sitkin, Burt and Camerer, 1998; Singh and Sirdesmukh, 2000; Sirdeshmukh et al., 2002). Research among customers of banks has shown the same results (see e.g. Ball, Coelho and Machás, 2004; Deb and Chavali, 2010; Hazra and Srivastava, 2009; Hoq, Sultana and Amin, 2010; Kantsperger and Kunz, 2010; Lewis and Soureli, 2006; Tariq and Moussaoui, 2009).

3. Methodology, data analysis and results

In this section the preparation and implementation of the research is discussed, how the data analysis was conducted and finally the results.

3.1 Preparation and implementation

The research is built on three surveys. The first one was conducted in March 2008 (n=512), the second one in February 2011 (n=533) and the third one in February 2013 (n=570).

All are internet based. The sample consisted of students at the University of Iceland except in the third survey were a convenience sample among the general public was also used. The surveys are a part of a research project where the objective is to assess the image of banks and savings & loans and has been conducted in the same way since 2003 (Gudlaugsson, 2008).

3.2 Data analysis

The data was imported into SPSS from the online survey software for further analysis. For all the surveys it was examined whether the level of trust was different depending on where the customers did their banking. By doing that it was possible to detect whether customers have more trust towards the bank they do their banking with than towards others. A one-way ANOVA test was conducted to find out if there were differences between groups. A 95% confidence interval was used.

3.3 Results

This section details the findings of the 2008, 2011 and 2013 surveys on customers´ trust towards banks. They are broken down according to where the customers do their banking. Only results for the three biggest banks, i.e. Arion banki, Íslandsbanki and Landsbanki will be discussed. It is not considered worthwhile to discuss the results for the other banks because of an insufficient number of answers. It should be pointed out that until the year 2008 the name of Arion banki was Kaupthing and the name of Íslandsbanki was Glitnir. When the findings are discussed the names as of February 2011 and 2013 are used, i.e. Arion banki (AB), Íslandsbanki (ÍB) and Landsbanki (LB). It should also be pointed out that these three banks held about 85% market share in the retail side of the banking business before the banking collapse in the fall of 2008 and all collapsed.

In the surveys the participants are not asked directly about their level of trust towards the banks. Instead they are asked how strongly they connect the concept to certain banks. A 9 point scale was used where 1 = applies very badly to this bank and 9 = applies very well to this bank. Table 1 shows the average level of trust towards the three banks in 2008.

Table 1: Average Level of Trust towards the Banks in 2008

One-Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Trust; average	89,132	486	,000	6,04	5,91	6,17
Trust; Landsbanki (LB)	82,063	503	,000	6,90	6,73	7,06
Trust; Glitnir/Íslandsbanki (ÍB)	69,957	500	,000	6,03	5,86	6,20
Trust; Kaupþing/Arion banki (AB)	60,143	503	,000	5,68	5,49	5,87

As can be seen from table 1 the average level of trust towards the banks in 2008 was 6.04 (+/- 0.13). Landsbanki has the highest level of trust. It gets a score of 6.9 while Íslandsbanki gets a score of 6.03 and Arion banki a score of 5.68. In 2008 only 8.4% of the participants in the survey considered it likely or very likely that they would switch banks within the next 6 months. Table 2 shows the average level of trust towards the banks in 2011.

Table 2: Average Level of Trust towards the Banks in 2011

One-Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Trust; average	37,379	508	,000	2,904	2,75	3,06
Trust; Landsbanki (LB)	29,010	524	,000	2,869	2,67	3,06
Trust; Íslandsbanki (ÍB)	31,775	520	,000	3,056	2,87	3,24
Trust; Arion banki (AB)	29,555	519	,000	2,742	2,56	2,92

As can be seen in table 2 the average level of trust has gone down considerably and is now only 2.9. The level of trust has gone down for all the three banks. The difference between them is not significant. Still only 16% of the participants in the survey considered it likely or very likely that they would switch banks within the next 6 months. In addition, only about 5% had actually switched banks within the last 6 months. Table 3 shows the average level of trust towards the banks in 2013.

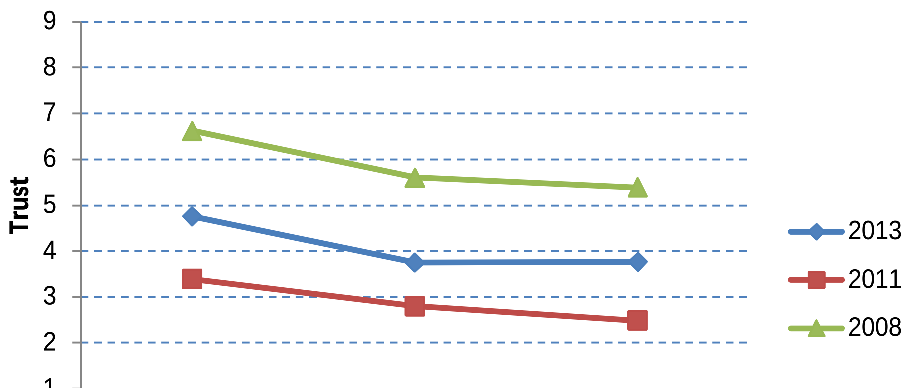
Table 3: Average Level of Trust towards the Banks in 2013

One-Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Trust; average	51,596	554	,000	4,089	3,93	4,24
Trust; Landsbanki (LB)	42,397	566	,000	4,275	4,08	4,47
Trust; Íslandsbanki (ÍB)	44,475	562	,000	4,362	4,17	4,56
Trust; Arion banki (AB)	40,243	563	,000	4,009	3,81	4,20

As can be seen in table 3 the average level of trust has increased from 2011 but is still lower than in 2008. This is the case for all the three banks. The difference between them is not significant and only 10.9% of the participants considered it likely or very likely that they would switch banks within the next 6 months. In addition, only 7.7% had actually switched banks within the last 6 months.

When looking at the level of trust towards Arion banki in particular according to where the participants in the survey did their banking it can be seen that its customers gave the bank the highest score or 6.62 in 2008 at the same time that the customers of Landsbanki gave it a score of 5.6 and the customers of Íslandsbanki a score of 5.39. In 2011 the customers of Arion banki gave it the highest score or 3.39 at the same time that the customers of Landsbanki gave it a score of 2.8 and the customers of Íslandsbanki a score of 2.49. The same results can be observed in 2013 when customers of Arion banki gave it the highest score or 4.76 at the same time that the customers of Landsbanki gave it a score of 3,75 and the customers of Íslandsbanki a score of 3,77. Figure 1 shows the results graphically.



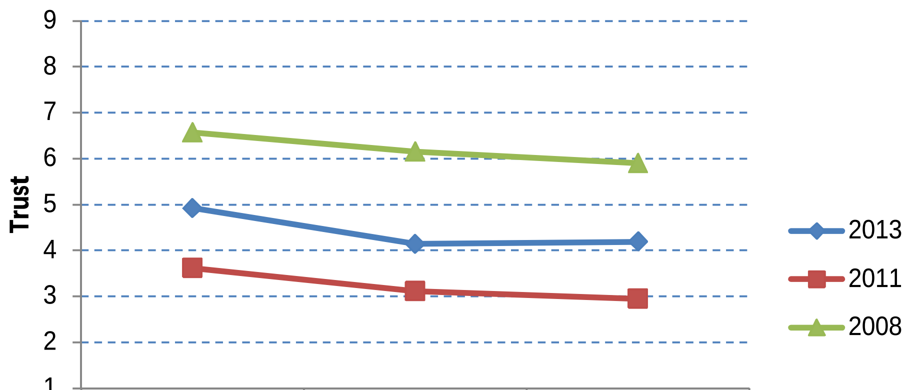
	AB customers	LB customers	ÍB customers
2013	4,76	3,75	3,77
2011	3,39	2,8	2,49
2008	6,62	5,6	5,39

Figure 1: A Comparison of the Level of Trust towards Arion Banki.

The results of a ANOVA test for the year 2008 showed a difference between groups ($p<0.05$) with regard to how strongly the survey participants connected trust to Arion banki [$F(5, 489)=7,698$, $p=0,000$]. A post-hoc test (Tukey) showed that the difference was between the customers of Arion banki (M=6.62, SD=1.9) on the one hand and the customers of Íslandsbanki (M=5.39, SD=2.059) and Landsbanki (M=5.6, SD=2.116) on the other. Calculated eta squared (0,073) indicates that the effect size is moderate (Cohen, 1988).

According to the eta squared 7.3% of the variability in the level of trust towards Arion banki can be attributed to where the participants in the survey do their banking. The results of a ANOVA test for the year 2011 showed a difference between groups (*p*<0.05) with regard to how strongly the survey participants connected trust to Arion banki [*F*(5, 500)=5,161, *p*=0,000]. A post-hoc test (Tukey) showed that the difference was between the customers of Arion banki (M=3.39, SD=2.36) on the one hand and the customers of Íslandsbanki (M=2.49, SD=2) on the other. Calculated eta squared (0,049) indicated that the effect size is small. The results of a ANOVA test for the year 2013 also showed a difference between groups (<0.05) with regard to how the survey participants connected trust to Arion banki [*F*(4, 541)=5,994, *p*=0,000]. A post-hoc test (Tukey) showed that the difference was between the customers of Arion banki (M=4.76, SD=2.59) on the one hand and the customers of Landsbanki (M=3,75, SD=2.28) and Íslandsbanki (M=3.77, SD=2.17) on the other. Calculated eta squared (0,042) indicated that the effect size is small.

When looking at the level of trust towards Íslandsbanki in particular according to where the participants in the survey did their banking it can be seen that its customers gave the bank the highest score or 6.57 in 2008 at the same time that the customers of Landsbanki gave it a score of 6.15 and the customers of Arion banki a score of 5.9. In 2011 the customers of Íslandsbanki give it the highest score or 3.62 at the same time that the customers of Landsbanki gave it a score of 3.11 and the customers of Arion banki a score of 2.95. The same result can be observed in 2013 when the customers of Íslandsbanki give it the highest score or 4,92 at the same time that the customers of Landsbanki gave it a score of 4,14 and the cutomers of Arion banki a scored of 4.19. Figure 2 shows the results graphically.



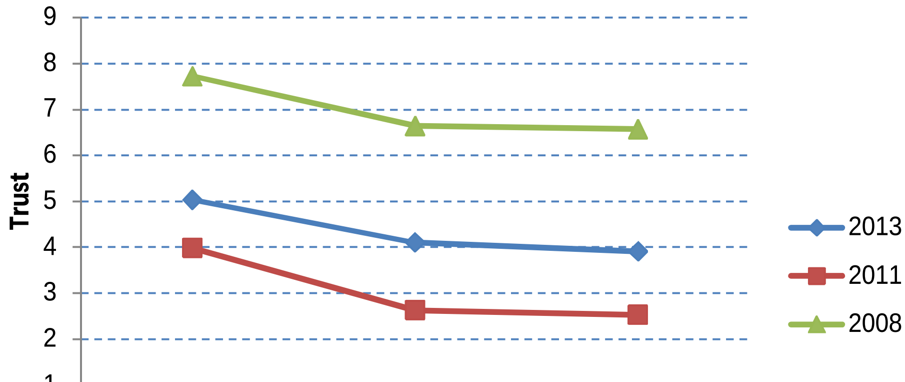
	ÍB customers	LB customers	AB customers
2013	4,92	4,14	4,19
2011	3,62	3,11	2,95
2008	6,57	6,15	5,9

Figure 2: A Comparison of the Level of Trust towards Íslandsbanki

The results of a ANOVA test for the year 2008 showed a difference between groups (*p*<0.05) in regard to how strongly the survey participants connected trust to Íslandsbanki [*F*(5, 486)=3,551, *p*=0,004]. A post-hoc test (Tukey) showed that the difference was not between the three banks that are the subjects of this research. The results of a ANOVA test for the year 2011 also showed a difference between groups (*p*<0.05) with regard to how strongly participants connected trust to Íslandsbanki [*F*(5, 502)=3,857, *p*=0,002]. Just like in 2008 the post-hoc test (Tukey) showed that the difference was not between the three banks that are the subjects of this research. The results of a ANOVA test for the year 2013 also showed a difference between groups (*p*<0.05) with regard to how strongly participants connected trust to Íslandsbanki [*F*(4, 540)=3.719, *p*=0.005]. A post-hoc test (Tukey) showed that the difference was between the customers of Íslandsbanki (M=4.92, SD=2.45) on the one hand and the customers of Landsbank (M=4.14, SD=2.28) and Arion banki (M=4.19, SD=2.17) on the other. Calculated eta squared (0.027) indicated that the effect size is small.

When looking at the level of trust towards Landsbanki in particular according to where the participants in the survey did their banking it can be seen that its customers gave it the highest score or 7.72 in 2008 at the same time that the customers of Arion banki gave it a score of 6.64 and the customers of Íslandsbanki a score of 6.57.

In 2011 the customers of Landsbanki gave it the highest score or 3.98 while the customers of Arion banki gave it a score of 2.63 and the customers of Íslandsbanki a score of 2.53. The same result can be observed in 2013 when the customers of Landsbanki gave it the highest score or 5.03 while the customers of Arion banki gave it a score of 4.1 and the customers of Íslandsbanki a score of 3.91. Figure 3 shows the results graphically.



	LB customers	AB customers	ÍB customers
2013	5,03	4,1	3,91
2011	3,98	2,63	2,53
2008	7,72	6,64	6,57

Figure 3: A Comparison of the Level of Trust towards Landsbanki

The results of a ANOVA test for the year 2008 showed a difference between groups ($p<0.05$) with regard to how strongly the survey participants connected trust to Landsbanki [$F(5, 489)=8.753$, $p=0.000$]. A post-hoc test (Tukey) showed that the difference was between the customers of Landsbanki (M=7.72, SD=1.55) on the one hand and the customers of Arion banki (M=6.64, SD=1.96) and Íslandsbanki (M=6.57, SD=1.85) on the other. Calculated eta-squared (0.082) indicates that the effect size is moderate. The results of a ANOVA test for the year 2011 showed a difference between groups ($p<0.05$) in regard to how strongly the survey participants connected trust to Landsbanki [$F(5, 505)=9.730$, $p=0.000$]. A post-hoc test (Tukey) showed that both the customers of Arion banki (M=2.63, SD=1.87) and Íslandsbanki (M=2.53, SD=2.12) gave Landsbanki a lower score than the customers of Landsbanki gave their bank. Calculated eta squared (0,088) indicates that the effect size is moderate. The results of a ANOVA test for the year 2013 also showed a difference between groups (p<0.05) in regard to how strongly the survey participants connected trust to Landsbanki [$F(4, 544)=5.978$, $p=0.000$]. A post-hoc test (Tukey) showed that the difference was between the customers of Landsbanki (M=5.03, SD=2.58) on the one hand and the customers of Arion banki (M=4.1, SD=2.21) and Íslandsbanki (M=3.91, SD=2.29) on the other. Calculated eta-squared (0,041) indicates that the effect size is moderate.

4. Discussion

The research results highlight the fact that even though customer trust towards the Icelandic banks went down considerably following the collapse of the banks customers do not seem to switch banks to a larger degree than they did before the collapse and can be attributed to a natural rate of switching in the banking industry (< 5%). A couple of explanations have been put forth. The ones most often given are, on the one hand, that customers are “stuck” with their bank because of their business with it and obligations towards it and, on the other hand, that all the major banks collapsed and therefore it is not obvious that customers had better alternatives to choose from. . This paper puts forth a third explanation namely that the reason customers of banks did not switch banks could be that they simply trust their bank more than other banks. In other words the reason for not switching banks may not necessarily be some kind of forced choice like the first two explanations would suggest. The research question was:

- Do customers of banks trust their own bank more than others and could that explain why they do not switch banks more than in a normal year following a reduced level of trust?

The findings showed that a bank´s own customers are more likely to connect trust to their bank than are the customers of other banks.

The customers of Arion banki, for example, give it a score of 6.62 in 2008, 3.39 in 2011 and 4.76 in 2013 at the same time that the customers of Landsbanki gave it a score of 5.6 in 2008, 2.8 in 2011 and 3.75 in 2013 and the customers of Íslandsbanki a score of 5.39 in 2008, 2.49 in 2011 and 3.77 in 2013. The customers of Íslandsbanki gave it a score of 6.57 in 2008, 3.62 in 2011 and 4.92 in 2013 at the same time that the customers of Landsbanki gave it a score of 6.15 in 2008, 3.11 in 2011 and 4.14 in 2013 and customers of Arion banki a score of 5.9 in 2008, 2.95 in 2011 and 4.19 in 2013. The same applied to Landsbanki. Its customers gave it a score of 7.72 in 2008, 3.98 in 2011 and 5.03 in 2013 while at the same time the customers of Arion banki gave it a score of 6.64 in 2008, 2.63 in 2011 and 4.1 in 2013 and the customers of Íslandsbanki a score of 6.57 in 2008, 2.53 in 2011 and 3.91 in 2013.

From the authors´ findings it can be deduced that in general customers of banks trust their bank more than they trust other banks both when their trust towards their own bank is decreasing and increasing again following a banking collapse. This fact may explain why customers of the Icelandic banks did not switch banks in greater numbers following their collapse than was actually the case.

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