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in financial institutions in financial
decision-making process of
households**

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The importance of trust and loyalty in financial institutions in financial decision-making process of households

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Abstract. The purpose of this article is to show the importance of some behavioral factors, namely trust and loyalty in the process of financial decision-making of households. The article defines the important concepts, such as: financial decisions, loyalty, and trust. Furthermore, it describes the methodology and results of primary research conducted in Poland among 622 respondents for their loyalty to the financial institutions, and the impact of loyalty to the choice of the bank and its offer. In addition, the results of primary research are compared with secondary research conducted by Ernst & Young.

Introduction

Households make financial decisions that are influenced by many factors. These factors include, among others, trust and loyalty to financial institutions. In the era of constant change and an uncertain macroeconomic environment, the importance of these factors increases when it comes to decisions concerning savings, investment, or credit. The aim of the article is to show the importance of some behavioral factors, namely trust and loyalty, in the process of financial decision-making by households. The article contains both the results of primary research conducted

in Poland among 622 respondents for their loyalty to the financial institutions, and the impact of loyalty to the choice of the bank and its offer. In addition, the results of primary research were compared with secondary studies conducted by Ernst & Young (2014).

Theory

Speaking about decision making, one should always be aware of the entity that makes decisions, the very act of making a choice, and the decision's subject, that is the task of decision making, a decision-making situation. The entity that makes decisions is called a decision maker. He or she makes a choice of future behavior (out of possible behaviors) and is responsible for his or her decision. In practice, this means being aware of the consequences of their choices (favorable or unfavorable for them) since by taking a certain decision one agrees at the same time to its effects and the results of this choice (Markowski, 2000, pp. 379–402). A decision maker, to which the article is dedicated, is the household. Household can consist of single or multiple persons, and those belonging to it do not have to be family relatives. In the literature, there are many definitions of the concept of household which draw attention to its various features and functions (Pałaszewska-Reindl, Michna, 1986, p. 34; Świecka, 2008; Byłok, 2005, p. 123; Holody, 1971, p. 20).

In the vast majority of decision-making situations, there are no clearly defined procedures and practices leading a decision maker from the beginning of the problem towards the final decision. In literature, one can find different number of presented steps taken before making a decision (Drucker, 1994, pp. 376–394; Samuelson, Marks, 1998, p. 28; Koziński, 1986, p. 290). These steps include for example: identification of the decision situation, identification and design of variants of the decision, evaluation and selection of rational variant, creation of conditions for implementation of the decision, and controlling the effects of the decision (Wawrzyniak, 1980, p. 34).

Households undertake many financial decisions, including:

- “management of liquidity – short-term investment decisions and short-term financial decisions,
- long-term financial decisions – housing loans and mortgages, as well as long-term consumer loans,
- long-term investment decisions – classic individual financial investment (stocks, bonds, mutual funds) and non-classic investments (real estate, works of art, derivatives),
- decisions in securing capital – life insurance, health insurance, property insurance and personal insurance,

- retirement decisions – decisions regarding capital formation and retirement decisions regarding the transfer of assets to the immediate family through donations” (Jajuga, 2008).

Factors affecting a financial decision-making process can be analyzed according to various criteria based on the classification of factors influencing the needs and behavior of households. Analyzing the academic achievements (Zalega, 2012; Żelazna (ed.), 2002; Mynarski, 1990; Zalega, 2007; Gajewski, 1992) in terms of the factors influencing the needs and behavior of households which affect a financial decision-making process, internal (psychological, demographic, socio-professional, economic) and external (economic, demographic, socio-cultural, technological) factors can be distinguished (Musiał, 2014, pp. 33–58).

Trust and loyalty are two important psychological factors affecting a financial decision-making process. Gambetta (1988, p. 216) defines trust as “(...) the subjective probability with which an agent assesses that another agent or group of agents will perform a particular action that is beneficial or at least not detrimental to consider engaging in some form of cooperation with him.”

In the literature, there are examples that a higher level of trust has a positive impact on transactions between consumers and banks (Filipiak, 2013). The second psychological factor which is the subject of the article is loyalty. Defining loyalty requires its presentation in three dimensions: behavioral, cognitive, and emotional (Bednarska-Olejniczak, 2010, pp. 123–124). In terms of the behavioral dimension, a loyal customer is one who is willing to systematically and frequently use the services of a particular institution in a long time. The cognitive approach is characterized by the client as the one who examines and evaluates the characteristics of the offer, considering that it provides him with more value than the offer of other institutions, and on this basis a customer repeats the purchase. In contrast, the emotional approach defines a loyal customer as the one who pays, for example, his advisor to such an extent that in the event of changing a workplace by the advisor, the customer follows him or her too. Based on the above definitions, it can be concluded that loyalty is very complex and it consists of two elements: behavioral (related behavior) and emotional aspect (associated with feelings). On the basis of the main motivations and patterns of behavior, Pietrzak identified six profiles of customers loyalty in financial institutions: loyal because of emotional reasons, because of inertia reasons, loyal because of rational reasons, disloyal because of lifestyle changes, disloyal for rational reasons, and disloyal for the emotional reasons (Pietrzak, 2004; Bednarska-Olejniczak, 2010, pp. 123–124). Identification of individual customers groups from the point of view of their motives and loyalty is crucial to the process of controlling the profitability of relationships with customers for the financial institutions.

Consumer confidence in the institution is one of the factors contributing to building a positive relationship with customers, thus increasing their loyalty to the institution. Satisfied customers recommend the service of the institution to their friends, contributing to the acquisition of its new customers.

Methodology of research

In terms of empirical study, in the period from February to April 2015, the Authors conducted a survey among 622 clients of commercial banks in Poland, using an electronic questionnaire (CAWI) and a paper questionnaire (PAPI). Assuming a permissible error of 4%, 600 respondents should be examined (Kaczmarczyk, 2011, p. 87). In order to obtain the required number of correctly completed questionnaires, 1154 respondents have been reached, however, correctly completed surveys came only from 622 respondents, and only the results of the correctly filled questionnaires were analyzed.

Among the respondents, 71.06% were women (442 persons), while 28.94% – males (180 persons). The vast majority of the respondents (72.2%) were clients of banks aged from 18 to 34 years. The second largest group of the respondents were aged between 35 to 49 years, while the least numerous group consisted of the respondents over the age of 50 years. In terms of education, by far the largest group consisted of the respondents with higher education (70.58%).

The questionnaire consisted of 15 questions, and 3 questions characterizing the respondents (age, sex, and education). The selected results of the survey will be presented further on in this article, and will be compared with the results of other authors.

Findings

Bank customers have been asked to indicate the factors which they consider to be the most important in banking services. The respondents could indicate minimum 1 answer and up to 3 answers. More than a half of the respondents (56.43%) indicated the price of products and services as the most important factor in banking services. For 38.59% of the respondents, the quality of banking products and services is the most important factor. 33.60% of the respondents indicated a rate of customer service. 31.99% of the respondents indicated the availability of many products in one place. For 29.42% of the surveyed customers, a professional adviser who can answer questions is the most important factor in banking services.

In the study, the customers were asked to indicate the factors which guided them in choosing a bank. The respondents could indicate minimum 1 and maximum 3 answers. 42.44% of the respondents indicated the price of banking products

and services as the factor which guided them in choosing a bank. The location of a bank in close proximity to the place of residence or work is an important factor for 33.28% of the respondents. 31.51% of the respondents indicated a number of free ATMs at the disposal of a bank, while for 31.35% of the respondents, an opinion of family and friends was the decisive factor in choosing a bank.

In the study, the respondents were asked to specify their level of satisfaction with banking services offered by their bank. 48.55% of the respondents declared that they are satisfied with most of the services offered by the bank, but there are some services that need improvement. 41.64% of the respondents declared their satisfaction with the services offered by the bank. Definitely a smaller group of the respondents are the clients who declared their lack of satisfaction with banking services (9.81%). 5.95% of those customers declared that they would remain its customers despite the lack of satisfaction with the services offered by the bank, and 3.86% of the respondents declared that they would be searching for a new bank.

The next question was to determine the level of customer loyalty to the bank. The respondents could assess their loyalty on a scale from 0 to 10, assuming that 0 means no loyalty, and 10 – a very high level of loyalty to the bank. The average level of loyalty declared by customers amounts to 8.20%. The frequently appearing assessments include: 8 (25.08% of the responses), 10 (20.74% of the responses), 7 (15.92% of the responses), and 9 (12.86% of the responses). Definitely less respondents evaluated their loyalty to banks: 6 (5.63% of the responses), 5 (8.20% of the responses), 4 and 3 (each with 3.22% of the responses), 2 and 0 (1.61% of the responses), and 1 (1.93% of the responses).

In the next question, the respondents were asked to indicate the reason for which they are still clients of the bank. The vast majority of the clients (38.10% of the responses) declared as the reason a high level of satisfaction with the services offered by the bank. 17.36% of the respondents declared their unwillingness to deal with the formalities associated with the process of changing a bank. 17.20% of the respondents, as a reason to remain a customer of the bank, indicated similar offers in all banks, and, therefore, a change in the opinion of the customers is unfounded. 7.40% of the respondents indicated as a reason the location of the bank branch near their workplace. 7.23% of the respondents is related to the bank because of good reviews of the bank and the belief that they guarantee a high quality of services. 6.27% of the respondents declared their loyalty to the bank and the people working in it.

The next question was to identify the motives by which the respondents would be guided, if they decided to change the bank. For 60.13% of the respondents, obtaining information about lower costs and a more favorable offer in the other bank would be the reason for changing the bank. 14.47% of the respondents, as the reason

for changing the bank, pointed to obtaining information about a higher quality of services offered in another bank. 12.86% of the respondents said they would have to change the bank if the actual bank's offer did not coincide with the declarations in the ads. 8.04% of the respondents, as the reason for changing the bank, pointed to improper treatment by a bank of family members or friends.

The next question was to identify the customers' feedback regarding the possibility of including in the bank offer a component aiming to increase loyalty among the customers of the bank. For 52.57% of the respondents, such element is reducing the costs of maintaining the account and performing transactions for new clients. 20.26% of the respondents indicated the introduction of loyalty programs with rewards for regular customers as potentially increasing customer loyalty to the bank. For 9.97% of the respondents, additional services offered, such as a personal adviser, could be a factor in increasing customer loyalty to the bank.

The analysis of the results is optimistic for the banking business in Poland. 90.19% of the surveyed customers are satisfied with the cooperation with their bank. The average subjective assessment of loyalty to banks is 8.20 (on a scale from 0 to 10), which is also a very high score. Every fourth customer of bank services in Poland feels connected with their bank on the level that they do not intend to resign from its services, and only less than 2% of the customers say they often change banks because they are looking for the best deals (Pettersen-Sobczyk, 2015).

Discussion

From July to October 2013, a consulting enterprise Ernst & Young conducted a third survey of retail banks customers in 43 countries around the world. The study involved 32,642 bank customers, including 508 from Poland. In Ernst & Young's study, most questions referred to the level of customer confidence in banking institutions, therefore it is a supplement for the research conducted by the authors. The questions were similar in some areas, so it was possible to compare the results with the results of Global Consumer Banking Survey from 2014.

In Ernst & Young's study, the respondents were asked to declare their level of confidence in banks in the preceding 12 months. The collected responses indicate that Poles trust banks more than people in Western European countries. Undoubtedly, the reason for this situation is the stable situation of the Polish banking sector, in the context of the financial crisis of the recent years. The increased by 14% confidence, as compared to the year before the study, is a good forecast for the banks in Poland.

In Ernst & Young's study the respondents were asked to declare their level of trust in their main bank. The vast majority of Poles have confidence in their main bank, but it is at a moderate level. A small percentage of Poles, only 6%, declare a minimum

level of trust, or the lack of it. The answers to this question overlap with the replies of the respondents in the authors' study, in which the customers declared their loyalty to the main bank (customer loyalty is the result of confidence in the bank and satisfaction with banking services). An interesting issue is the reason why customers declared high confidence in the banks. 65% of Polish customers, as the reason for a high level of confidence in the main bank stated the possibility of withdrawing funds, 60% – financial stability, 48% – the way of communication with customers, 48% – the way the customer is treated, while 42% – security procedures in the bank. Among the reasons why customers declared a low level of confidence in banks, the largest proportion accounted for the customers indicating the level of charges (65%), followed by the level of interest rates on deposit products (50%), the way the customer is treated (42%), the level of interest rates on loans (40%), and the quality of advice obtained (28%).

Despite the relatively high level of customer confidence in banks in Poland (in comparison to Western European countries), only every third customer would recommend their bank to others. However, the differences in the answers of the respondents in Poland, Germany, and Western Europe are insignificant.

The most interesting is the comparison of the answers of the respondents surveyed by Ernst & Young (2014) with the answers of the respondents surveyed by the authors of the study, concerning the reasons why the customers decided to start cooperation with their bank (open an account). The results of both studies are similar in this regard. The most important factor influencing the decision to cooperate with the bank is the price of banking services and products. The answer was given by 44% of the respondents in the Ernst & Young's survey, and by nearly 43% of the respondents in the authors' study. In Ernst & Young's study, the respondents were also asked to identify the reasons why they decided to close their accounts in one bank and start cooperating with another. For 27% of the Polish respondents, the costs and charges associated with running an account were the factor influencing their decision to end cooperation with the bank.

Conclusions

To sum up, it can be said that:

- Poles have more confidence in banks than customers in Western Europe,
- every third Pole would willingly recommend their bank, and almost every second Pole had previously a problem and the solution provided by the bank was satisfying,
- the most important issue influencing customer decisions about opening accounts and the purchase of new financial products is their price.
- Moreover, the analysis of the research shows that:

- despite the outgoing uncertainty in the markets, banks should continue to invest in the quality of customer contact and image activities,
- banks should use their satisfied customers as their ‘lawyers’ on the market, and should minimize the percentage of unsatisfied customers. It seems to be crucial for customer acquisition,
- banks should pay special attention to the pricing of its products and services, in the context of the perception of the market,
- building loyalty among the ‘self-sufficient’ customers will be a challenge for banks. The key factor seems to be improving communication in terms of the product range and development of new tools for self-management.

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Rola zaufania i lojalności do instytucji finansowych w procesie podejmowania decyzji finansowych gospodarstw domowych

Słowa kluczowe: zaufanie, lojalność, konsument, decyzje finansowe

Streszczenie. Celem niniejszego artykułu jest podkreślenia znaczenia wybranych czynników behawioralnych, czyli zaufania i lojalności w procesie podejmowania decyzji finansowych przez gospodarstwa domowe. W artykule zdefiniowano istotne pojęcia, takie jak: decyzje finansowe, lojalność i zaufanie. Ponadto opisano metodykę oraz wyniki badań pierwotnych przeprowadzonych w Polsce wśród 622 respondentów dotyczące ich lojalności wobec instytucji finansowych oraz wpływu tej lojalności na wybór banku i jego oferty. Wyniki badań pierwotnych zostały porównane z badaniami wtórnymi przeprowadzonymi przez Ernst & Young.

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