Is there a deficit of consumer confidence in the financial sector?

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Background

- Client and community based confidence in banks is of concern following the GFC and the recent Royal Commission.

- The Edelman Trust Barometer: less than 50% of survey populations typically reporting that they trust the sector in Australia.

- Univariate analysis is problematic as it offers little explanation as to the drivers and correlates of trust.

- Here we will conduct a multivariate investigation to get a deeper understanding of consumer confidence in banks

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Why does consumer confidence matter?

When trust is present:

- transaction costs are lower,

- organisations function better,

- financial development is faster,

- more effective and more efficient.

When trust in institutions fails, civil unrest and economic instability can result.

— Knack and Keefer (1997) Guiso, Sapienza and Zingales (2004) Institutional trust is important to the functioning of our political and economic systems.

— Wälti (2012) investigated aggregate public trust in the European Central Bank (ECB) shows that trust in the ECB has declined since the GFC.

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Literature

(Uslaner, 2010).

Studies on trust can be broadly divided according to two types of trust:

— i) interpersonal/generalised trust

       formed through interpersonal expectations and experience

— ii) institutional/systemic trust

       based on their performance and reputation

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Interpersonal/generalised trust

The factors impacting interpersonal trust relate to:

socioeconomic characteristics

> i.e. belonging to **minority groups** that are often discriminated against (i.e. racial and gender factors),
>
> or being on a **low income** (and income inequality)
>
> or having a **low level** of education.

Shim, Serido and Tang (2013) **young adults'** trust in banks and financial institutions in the US, around the time of financial market collapse.

Institutional/systemic trust

Institutional trust has been found to be correlated with:

- **alignment to the political parties in power** (Anderson et al., 2005).
- **political persuasion** looking at political beliefs in terms of the right–left spectrum, left =tend to be less trusting of institutions than those on the right.

(Knell and Stix, 2015). Mishler and Rose (2001) examined institutional trust in Central and Eastern Europe and found factors such as perceptions of **corruption** and **economic performance** to be significant predictors of trust.

Religiosity has also been found to be important, with religious people being found to be more trusting see, for example, Alesina and La Ferrara, 2002; Bjornskov, 2007)

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Bank related trust

Carbo-Valverde, Maqui-Lopez and Rodriguez-Fernandez (2013)

- negative bank related news, large CEO bonuses and confusing product descriptions **all** result in lower levels of trust for banks.

Jansen, Mosch and van der Cruijsen (2015) Dutch survey data (scenarios)

- trust was mostly affected by executive remuneration (large bonuses) if respondents had experienced bankruptcy.

- respondents whose bank had been bailed out were less likely to lose trust if there was government support or nationalisation, but more likely to lose trust if the bank had a dominant leader.

- Järvinen (2014) bank trust is not a single construct and varies according to the bank service being offered i.e. daily banking v investment planning.

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Our study

The relative importance of interpersonal/generalised trust institutional/systemic trust in Australia 2003- 2011.

Using the Australian Survey of Social Attitudes https://www.acspri.org.au/aussa

> pooled cross-sections 2003, 5, 9, 11, 14
>
> random sample of adults aged 17+
>
> estimation sample of 7347 .

The survey asks….

How much confidence do you have in the following organisations?

- Banks and financial institutions
- Major Australian companies
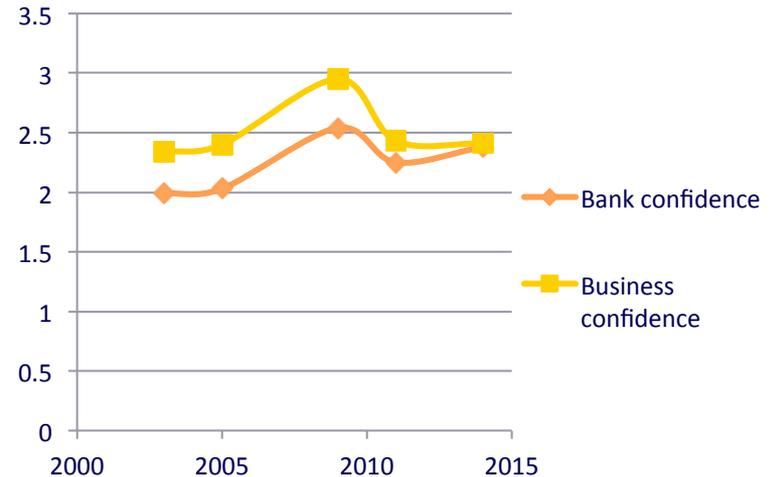
Responses on a 4 point scale: Not confident, Not very confident, Quiet a lot of confidence, A great deal of confidence.

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Descriptive Statistics

Percentage mean response rates 2003-14
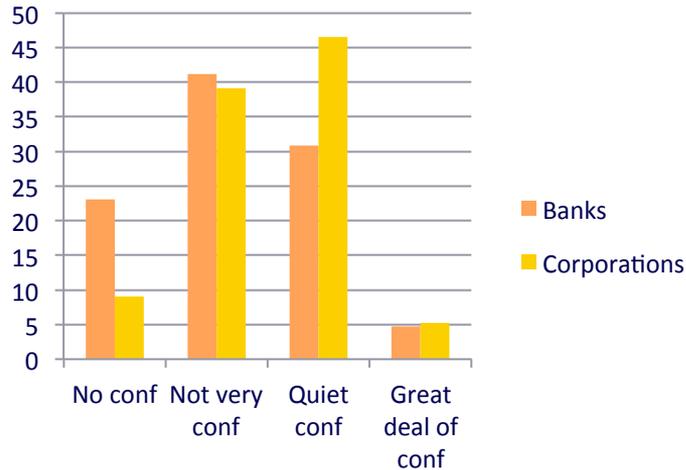
Mean response by year 2003-14

The econometric model

Joint modelling of bank confidence and major company confidence.

- Seemingly unrelated **bivariate ordered probit model** (a two-equation ordered probit model).

$$y_1^* = X'_{1i}\beta_1 + \varepsilon_{1i}$$

$$y_2^* = X'_{2i}\beta_2 + \varepsilon_{2i}$$

- X is the set of variables thought to determine trust

    gender, age, age squared, marital status, Australian born, income, education, employment status, hours of work, union membership, religion, religious frequency, political party, interpersonal trust, year, state

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Results

Diagnostics

```
LR test of indep. eqns. :          chi2(1) =  1794.43   Prob > chi2 = 0.0000
athrho           |
         _cons |   .6384439 36.99   0.000
```

- Shows that joint modeling is appropriate and improves the precision of the parameter estimates.
- Consumers think of banks and financial institutions in much the same way as they think about major companies in Australia.
- Suggests they see them predominantly as retail outlets.

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Results

variable	Bank Confidence		Company Confidence	
	dy/dx	z	dy/dx	z
female	0.011	0.39	**-0.063**	**-2.22**
age	**-0.040**	**-7.47**	**-0.030**	**-5.53**
age2	**0.000**	**7.76**	**0.000**	**4.54**
uiversity	**0.076**	**2.5**	-0.015	-0.48
umepolyed	-0.060	-0.56	-0.141	-1.15
NILF	0.018	0.48	0.028	0.73
hrswk	**-0.003**	**-3.17**	0.000	0.01
separated/divorc	-0.068	-1.54	-0.054	-1.19
widowed	-0.096	-1.45	-0.134	-1.87
never married	0.004	0.1	**-0.115**	**-2.69**
union member	**-0.075**	**-1.99**	**-0.133**	**-3.37**
non-christian	-0.028	-0.55	**-0.193**	**-3.71**
no religion	**-0.093**	**-2.79**	**-0.070**	**-2.09**
religious frequer	**0.026**	**2.64**	0.019	1.91
Lib/Nat	**0.291**	**9.02**	**0.430**	**12.9**
Democrat/Green	**-0.219**	**-3.95**	**-0.291**	**-5.15**
Other party	-0.101	-1.15	**-0.179**	**-2.03**
No party	0.027	0.73	0.039	1.03
annual income	**0.024**	**4.9**	**0.022**	**4.45**
can trust people	**0.262**	**9.8**	**0.291**	**10.6**
Australian born	-0.055	-1.74	**0.117**	**3.58**
Omitted: employed, married, Labour party,				

Older less conf
Education matters for bank conf

Longer hours of work= less bank conf

Union members =less conf

No religion =less conf
Increasing church frequency=more conf
Political alignment matters

More income= more trust
Interpersonal trust= bank/comp conf

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Predicted Probabilities

	Bank Confidence				
Company Confidence	No conf	Not very conf	Quiet conf	Great deal of conf	Total
No conf	0.060	0.027	0.004	0.000	0.091
Not very conf	0.129	**0.190**	0.070	0.003	0.392
Quiet conf	0.043	0.187	0.206	0.029	0.464
Great deal of conf	0.000	0.007	0.029	0.016	0.053
Total	0.23	0.41	0.31	0.05	1.00

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Highlights

- The Australian population lacks confidence in banks and financial institutions and major companies.

- While confidence fell after the GFC it is still higher (in 2014) than it was prior to the GFC.

- High correlation between consumer confidence in major companies and confidence in the banking and finance sectors.

- Interpersonal/ generalised trust and Institutional/Systemic trust are positively correlated with confidence in the Banking and finance sector.

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Thank you!
&
Over to you!