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## Post – Crisis Changes of Trust in Poland and in the World

### Opening remarks

Trust worthiness in business is today's basis for many transactions, both on the B2B and B2C markets. Public confidence is an underlying principle of any financial institution, and bank in particular. At the same time the category of public trust is an important component of the intangible value of the bank. Especially in times of crisis sustaining and building up trust is imperative to the survival of the bank, and the level of public trust should be monitored and measured.<sup>1</sup>

The aim of this article is to analyze changes in customer's reliance towards companies and banks during the international financial subprime crisis.

### 1. Changes in business trust

Significant and in some countries deep decline in consumer trust in financial markets is indisputable. Falling is also trust in the companies selling products and services. This is confirmed by studies conducted during the recent financial subprime crisis.<sup>2</sup>

The effects of the crisis which influence the whole economy had an impact on the drop in corporate consumers' and retailers trust. Moreover some customers suffered heavy losses.

Among other things the following effects can be mentioned:

- bankruptcies and acquisitions (*bailout*) of financial institutions and the related high losses for customers and investors, which is followed by a domino effect bankruptcies,
- unreliable ratings for financial institutions and securities issued by the ratings companies in the world, which endangered costumers losses,
- limitations in banks' lendings strike mainly corporate clients,

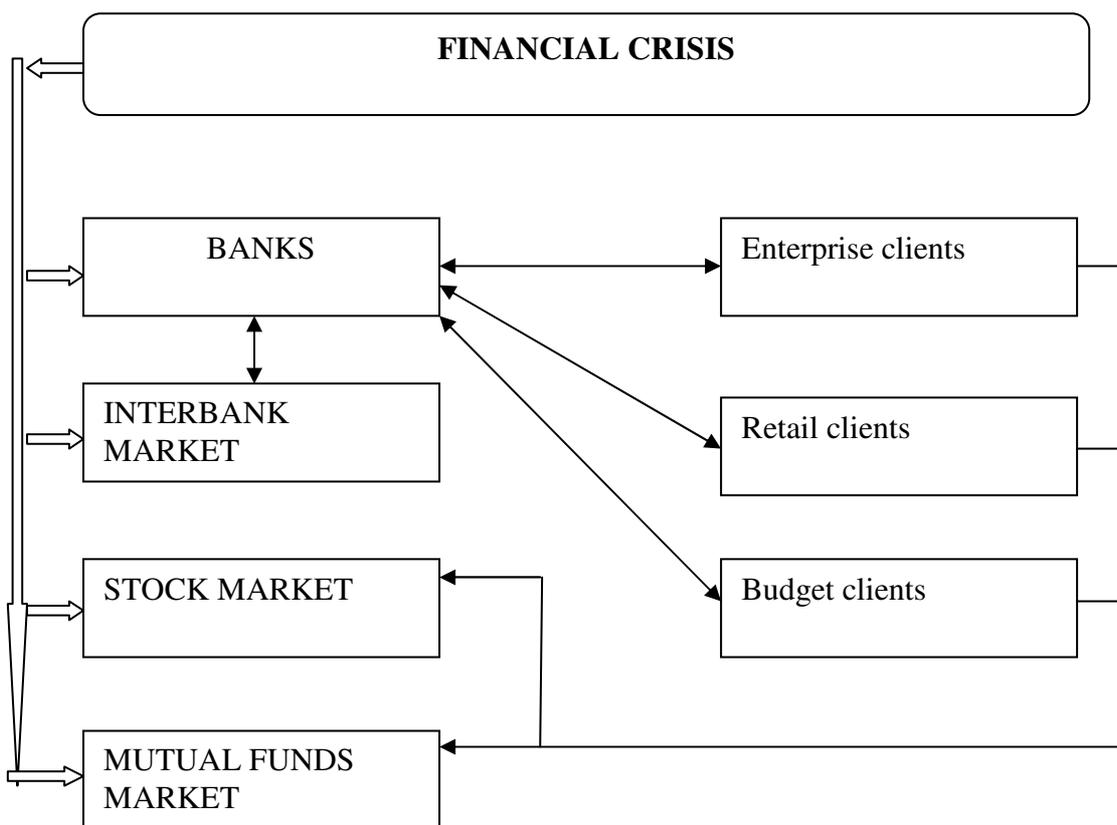
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<sup>1</sup> Masiukiewicz P. *Zaufanie publiczne jako imperatyw działania w instytucjach finansowych*, w: „Myśl T. Kotarbińskiego i jej współczesna recepcja”, pod red. R. Banajskiego, W. Gasparskiego, A. Lewickiej-Strzałeckiej, Wydawnictwo PAN i TNP, Warszawa, 2006

<sup>2</sup> Gill C. *Restoring Consumer Confidence in Financial Services*, International Journal of Bank Marketing, no. 2/2008 and Recklies O. *Developing and Maintaining Trust in Retail Banking*, Warsaw School of Economics, Warszawa, 2009

- difficulties in repayment of loans by customers resulting from crisis conditions,
- disclosed cases of very high salaries and compensation for presidents (CEO) of bankrupt financial institutions, which caused public outrage,
- non-transparent state aid rules for bankrupts who are large financial entities,
- sudden loss of credibility for many companies.

**Figure 1. Two-way fated trust in post crisis financial market**



**Sign:**  

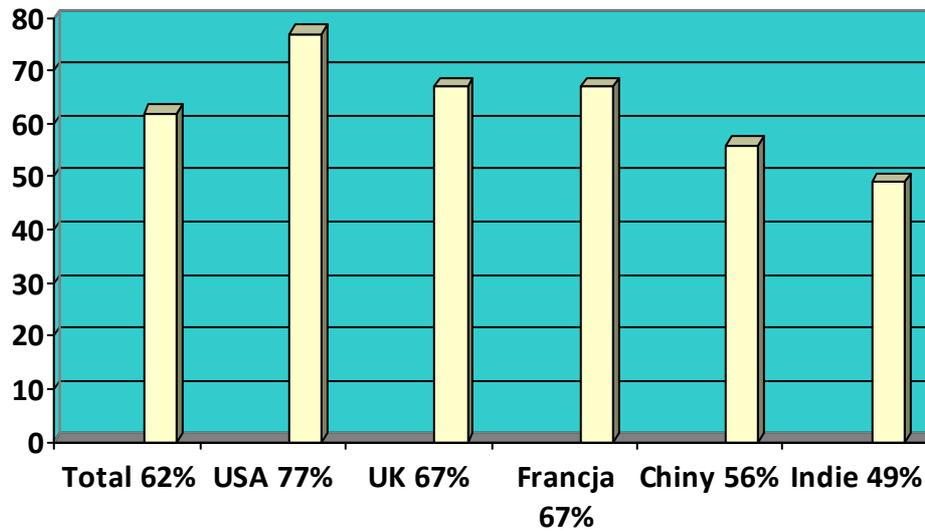
- crisis influence on markets
- two-way fated trust
- one-way fated trust

**Source: author**

Basic markets, which clients trust because of the last financial crises are presented in figure 1.

Subprime crisis has its significant rebound on customers' confidence in the manufacturing and service companies in many countries, as evidenced f.e. by the results of a study conducted by an international agency, Edelman Co. in December 2008.

**Figure 2. The % of clients, which diminished the level of trust to enterprises in choose countries (December 2008)**



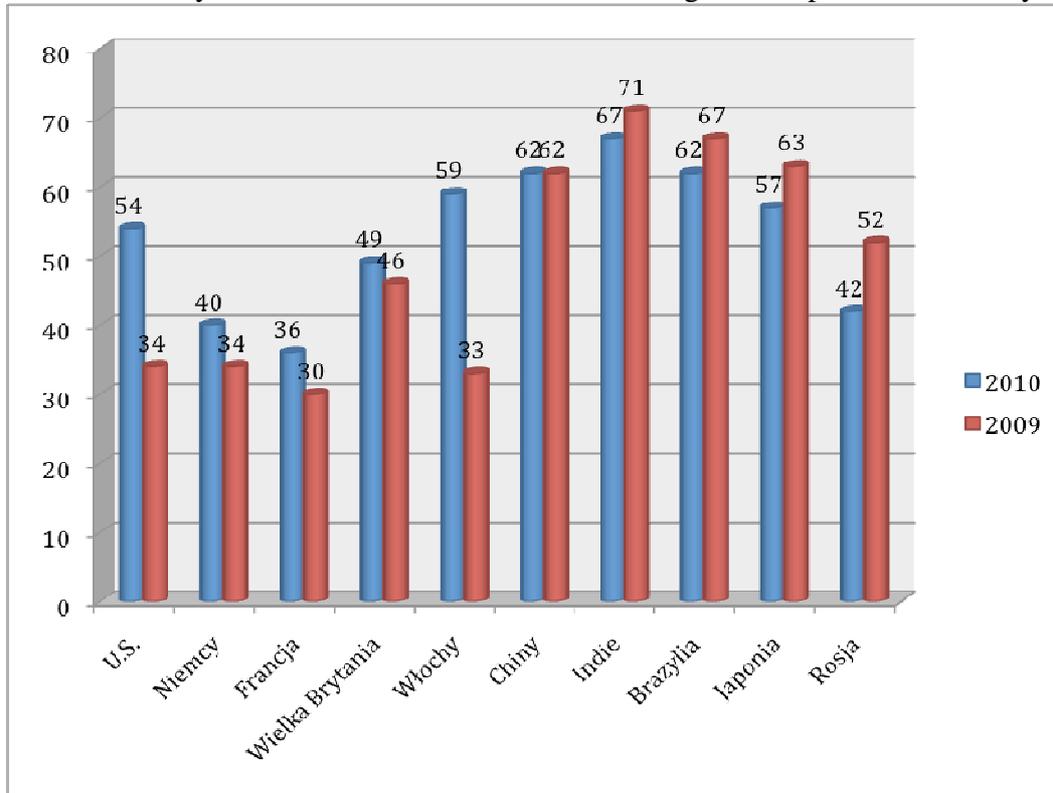
Source: *Edelman Trust Barometr, 2009*, s. 1: [www.edelman.pl/trust/ogolnoswiatowy\\_kryzys\\_zaufania/](http://www.edelman.pl/trust/ogolnoswiatowy_kryzys_zaufania/), 15.11.2009

Almost two thirds of respondents said that their trust is diminished comparing with last year (figure no. 2). This indicates the weight of the problem of rebuilding consumer confidence in order to maintain the level of competitiveness of enterprises and simply downright survival on the market. The second area of the problem is the trust relationship between banks and companies. Enterprises were thus in grip of a confidence drop on both sides. This is reflected by the increase of security requirements for credit and an increase in the criteria for granting. The third area is trust that banks are endowed by company. Downward trust trend can be reflected in fall of corporate deposits number in the banking system, which results in worsening of financial standing of banks. General decline in business confidence in 2010 in countries outside the EU and increase of confidence after the crisis in the EU is shown by the study conducted by Edelman Co. (figure no. 2)

The clients opinion about the trust recovery to the American companies with USA based headquarters is shown in figure 3.

**Figure 2: Global business trust rise driven by gains in a few countries; remains high in three of four BRIC countries**

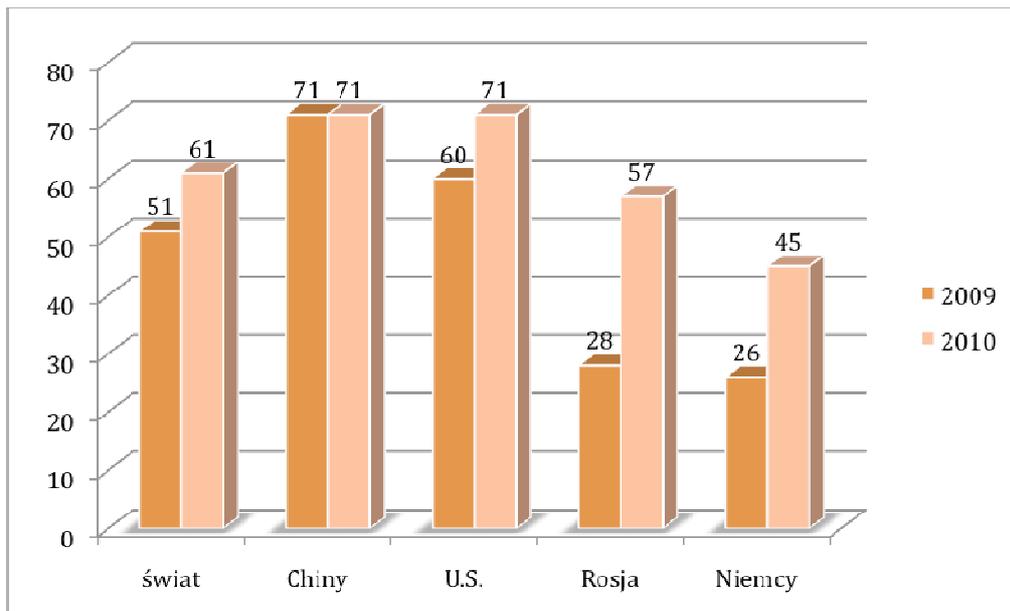
How much do you trust business that it do what is right? Top 10 Countries by GDP



Responses 6-9 only on 1-9 scale; 9=highest. Informed publics ages 25 to 64 in 20 countries  
**Source:** Trust Edelman Barometr Report 2010, www.edelmantrust, 15.10.2010

**Figure 3: U.S. surges as trusted site for global headquarters (2010)**

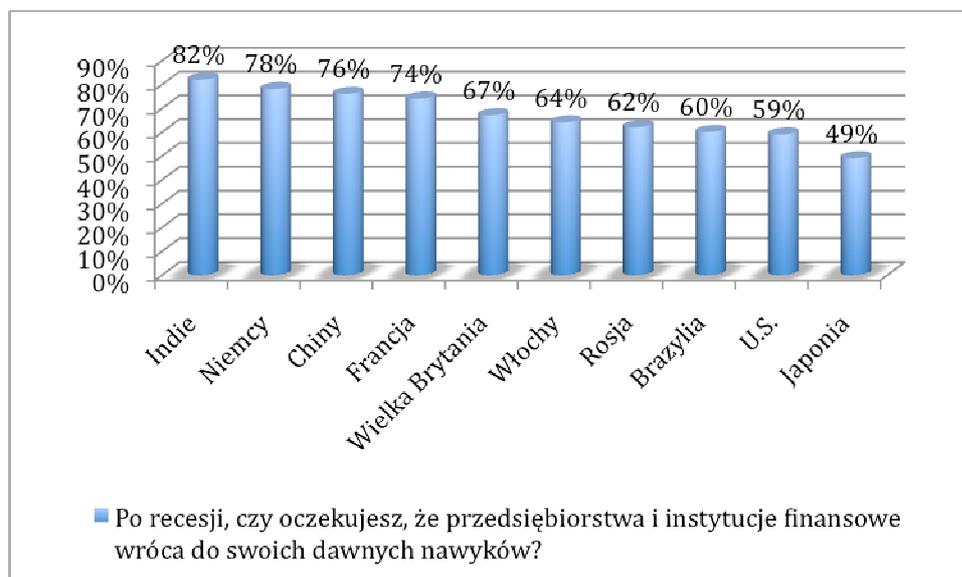
How much do you trust global companies headquartered in the U.S. to do what is right?



**Source:** Trust Edelman Barometr Report 2010, www.edelmantrust, 15.10.2010

#### Figure 4: Most expect business and financial companies to return to old habits

After the recession is over, do you expect business and financial companies to return to “business as usual”? Top 10 Countries by GDP



Informed publics ages 25 to 64.

Source: *Trust Edelman Barometr Report 2010*, [www.edelmantrust.com](http://www.edelmantrust.com), 15.10.2010

Customers surveyed by Edelman Co. in 2010 (in selected countries in the world) considered in majority that the companies and financial institutions after a recession will return to their old habits (figure no 4). As many as 70% of respondents surveyed by Edelman Co. argue that banks will return to their old practices after the crisis.

In the published studies and opinions about the subprime crisis, there is often possible to find a statement that it was a crisis characterized by widespread loss of confidence - customers to banks, banks to each other, regulators and supervisory authorities to financial institutions and rating companies, the general public to the central banks and governments. Fluctuations in the stock market and increased demand for gold indicate that the rebuilding of confidence in 2010 has not yet occurred.

#### 2. Trustworthiness in banks in crisis conditions

Factors affecting public trust in the broad sense are the mentality of the social, historical traditions, self-experience of an individual, family and school education, attitudes and beliefs about the institution passed on by in mass media. The collective mentality is a foundation for the public trust but it has a passive nature. Only in case of emergency, for example (bank

insolvency) becomes an active mentality.<sup>3</sup> Strengthening trustworthiness in banks can be done by observance of banking secrecy and the good functioning of the state banking supervision. Significant impact on the level of trust have situational factors, including the current experience of cooperation with the bank received by customers.

Factors that lead to loss of trust in a bank are diverse. They result either from persistently repeated activities with negative consequences for individual customers which are cumulative or the crisis. A specific accelerator of a loss in trust is customer panicking. In the crisis conditions loss of public trust results in the outflow of deposits, change of a bank by a customer and in extreme cases the bankruptcy of the bank with all the social costs of this process.<sup>4</sup>

Studies on the loss of liquidity of banks due to the declining trust of depositors were conducted by A.M. Santomero.<sup>5</sup> According to the author there are four possible paths of contagion effect in liquidity in the banking sector:

- banks in crisis may lose funds for the healthy banks, and these banks are not willing to grant interbank loans to banks in crisis (the principle of limited trust),
- banks generally lose their deposits since withdrawals from one bank do not go to another (the loss of trust in the sector),
- according to the domino effect the institutions which have deposits with failing banks become victims of the crisis in the next step (domino effect),
- loss of trust in the sector means that depositors can withdraw the savings from institutions not directly connected with the crisis (a general crisis of trust appeared in the most recent international subprime crisis).

A characteristic feature of trust in banks is higher trust declared by companies than by retail customers. During the subprime crisis, confidence in banks in Poland on customers' side has clearly slowed down. This was to some extent the result of a crisis mood transmission in Europe and the USA.<sup>6</sup>

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<sup>3</sup> *Słownik pojęć filozoficznych*, pr. zbior. pod red. W. Krajewskiego i R. Banajskiego, Wydawnictwo Naukowe Scholar, Warszawa, 1996, s. 194

<sup>4</sup> Masiukiewicz P. *Panika jako przyczyna migracji klientów w kryzysie finansowym*, w: *Migracja klientów a migracja kapitału*, pod red. B. Dobiegały-Korony, Wydawnictwo Naukowe PWN, Warszawa, 2009

<sup>5</sup> Santomero A. M. *Deposit Insurance: Do We Need It and Why*, The Wharton School, University of Pennsylvania, 1997, s. 2; cyt. za: Zdanowicz B. *Podstawowe dylematy i kryteria wyboru formuły systemu gwarantowania depozytów w świetle teorii i doświadczeń międzynarodowych*, *Bezpieczny Bank* nr 1/2007

<sup>6</sup> Pogorzelski K.L. *Kryzys zaufania*, Instytut Ludwiga von Misesa, <http://www.mises.pl/838>, 20.05.2010

**Tab. 1. Trust for banks 2007 - 2010 (in %)**

Lp.	Banks in Poland are worthy trust / year of research	Public opinion		Company opinion	
		yes	no	yes	no
1	2007	56	13	68	9
2	2008	50	17	70	5
3	2009	20	33	-	-
4	2010	37	18	47	18

**Uwaga:** liczebność próby: a/ opinia publiczna: 2007 – N=1006, 2008 – N=944, 2010 N= 1007, b/ przedsiębiorcy: 2007- N=500, 2008 – N=300, 2010 –N=300.

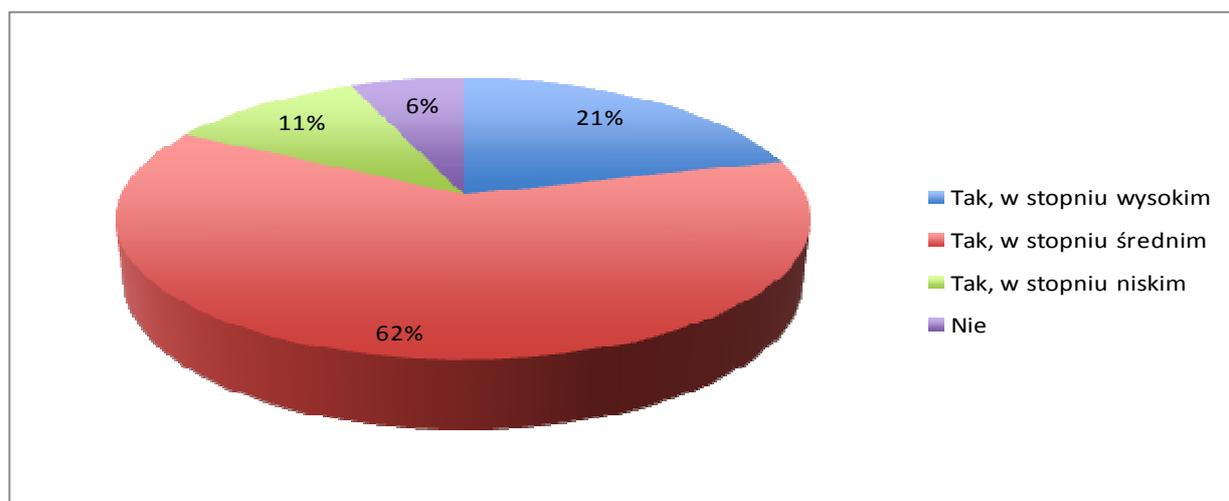
**Source:** *Wizerunek polskiego sektora bankowego. Edycja 2010*, ZBP, BFG, BIK, Warszawa, kwiecień, 2010, s. 44

In the light of the Pentor study (tab. no 1), the level of trust in banks in Poland is still high. Despite the crisis banks attracted the highest trust among all financial institutions, although both business and retail customers pointed to the reduction of trust in banks in 2008-2009, during the subprime crisis (tab. no 2).

**Tabl. nr 2. Change of trust in period 2008 -2010 (in %)**

Lp.	In the last 3 months trust for polish banking sector was:	Company opinion	Public opinion				
			IV' 2010 N=300	VIII'2008 N=1042	X' 2008 N= 1019	II'2009 N=1064	IV'2009 N=1046
1	Higher	9	35	4	2	5	5
2	Lower	13	3	16	29	24	9

**Source:** *Wizerunek polskiego sektora bankowego. Edycja 2010*, ZBP, BFG, BIK, Warszawa, kwiecień, 2010, s. 33

**Figure 5. Reaction of polish respondents to question: “I have trust for banking sector”**

**Answers: 21% yes, high, 62% yes, middle, 11% yes low, 6% not**

**Source:** research in Internet, author: M. Nowak (work for diploma dissertation; leader P. Masiukiewicz). Panel 129 retail clients, paper, Warsaw School of Economics, Warsaw, 2010

In the study among internet users in 2010, to the question as to the level of confidence in the banking sector (figure no 5), respondents most often positioned themselves as relying in moderation on the banking sector (62%). At the same time it should be noted that only 6% of respondents said they did not trust the industry and everyone else has admitted that they trust banks but their trust levels were varied.

**Tabl. 3. Trust for financial institutions 2010 (in %)**

P.	Type of financial institution	Public opinion N = 1007	Company opinion N = 300
1	National Bank of Poland	55	84
2	Banks	54	78
3	Tax office	38	60
4	Insurance company for life	36	41
5	Insurance company for property	32	44
6	Social a. Pension Office	31	35
7	Security Exchange in Warsaw	26	42
8	Pension private fund	26	23
9	Cooperative savings and loan association	24	12
10	Mutual funds	21	25

**Source:** *Wizerunek polskiego sektora bankowego. Edycja 2010*, raport z badań Pentora, ZBP, BFG, BIK, Warszawa, kwiecień, 2010

Sense of security and reliability of the financial sector is increasing in Poland after the collapse in 2008. Over the last year the results of the assessment have improved: perceived safety of banks increased say 17% of respondents surveyed by the Pentor (2009 - 6%) and the reliability of the banks also increased by 17% (a year before it was only 6%). In 2010 banks and the National Bank of Poland had the highest confidence among customers as in comparison with other financial institutions (tab. 3).

### 3. Closing remarks

Subprime financial crisis caused a clear decline of confidence in the providers of products and services including financial ones. Attitudes (beliefs, opinions) of customers towards suppliers under the crisis worsened and their reversal will probably be a lengthy process.

These studies suggest that changes in customers' beliefs were as follows:

- decline in business confidence in the real economy,
- decline in public confidence in credit institutions,
- deterioration of financial sector assessments,
- increase in negative stereotypes and perceptions banks activities,
- disbelief in the positive changes after the crisis.

Banks felt especially hard hit by decline in public confidence, which resulted in decline in the value of shares, reduction of transactions both on the interbank market as well as with corporate clients. Also in Poland, although not directly affected by the crisis in our country, transactions in the interbank market froze periodically, and access to loans has been temporarily restricted.

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