

Developing and maintaining trust in retail banking

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1 Abstract

The paper analyses conditions and options for retail banks to develop and to maintain trust. For this purpose it provides an overview of the nature and concepts of trust as well as of criteria of retail banking. The paper also reviews studies that investigate the recent development of trust in banks. In the first section trust management aspects in the context of financial services are discussed. This section is an attempt of how trust can be changed over time. This approach is in line with the view of others as KOZA and LEWIN (1998), who have discussed that trust should not be viewed as a static concept. In the following section characteristics of retail banking business are outlined briefly. Some conclusions and recommendations for developing and maintaining trust are discussed in the last section. Recommendations consider a trust report, an improved communication for the deposit protection and the introduction of a Standardized Product Signing (SPS).

Developing and maintaining trust in retail banking

2 Trust management

In the past the meaning of trust had primarily gained attention from philosophers, sociologists and psychologists at institutional level. Despite this attention, “trust remains an under-theorized, under-researched, and therefore, poorly understood phenomenon”¹. WANG and EMURIAN (2004) summarize that numerous researchers have evidenced the difficulty to defining trust. Opposite to this FUKUYAMA (1995) sees the community aspect and defines trust as “the expectation that arises within a community of regular, honest, and cooperative behaviour, based on common shared norms, on the part of other members of the community”². ROUSSEAU et al (1998) summarizes that the two components “confident expectations” and “a willingness to be vulnerable” are common in trust definitions within the literature. SCHOORMANN et al (2007) sees trust as an aspect of relationships with dispositional characters.

In terms of social phenomena trust is a conception with many meanings. Due to the results from early research trust was specified as expressions of confidence in intentions and motives of the opponent (DEUTSCH, 1960). More recently trust researchers focus more on behaviour. Trust in this context focus on one party’s expectation of the behavior of the counterpart. In the last decade business managers, economists and management researchers appear to have increased in the study and management of trust (GIRMSCHIED and BROCKMANN, 2005). Trust has been subject of study across numerous different disciplines, i.e. psychology, sociology, business. From a perspective of social relationships, social research argues that trust can be held by individuals, social relationships, and social systems. Furthermore it is stated that modern society would not be possible without trust (LUMSDEN and MacKAY, 2006). The psychological trust research puts an emphasis on individual personality and interpersonal relationships. Business studies of trust have identified benevolence and credibility³ as essential factors for trust building⁴.

¹ Child (2001), page 274

² Fukuyama (1995), page 27

³ Note: Benevolence can be defined as the belief that the vendor has good intentions and will behave in good manner, also in the absence of existing commitment. Credibility can be defined as the belief that the vendor has the required capacities to complete the task.

⁴ Note: GANESAN and HESS (1997) argue that the credibility of the salesperson has an impact on the long-term in inter-organizational relationships while individual salesperson benevolence does not. Opposite to this organizational benevolence causes long-term customer commitment and not organizational credibility.

2.1 Definition, functions and benefits of trust

For the purpose of this paper the trust definition of CURALL and INKPEN (2006) will be employed: Trust is the decision to rely on another party (i.e. person, group, or organization) under a condition of risk. This definition can be applied to persons, groups as well as organizations. These three different types of entities are capable of making trust decisions; furthermore they exhibit the measurable actions that follow from such decisions. This definition sees different layers for trust: an inter-personal level, an intergroup level, and an inter-organizational level. Furthermore these levels are essential to understand trust development in retail banking, when customers rely on the recommendations and competence of their bank consultants.

Trust offers a mechanism to reduce complexity (PARSON, 1962). LUHMANN (1968) describes the function of trust as “trust in the broadest sense of confidence in one’s own expectations is an elementary fact of social life”. MOORMAN et al (1993) see an essential role of trust in establishing and maintaining a long-term relationship between sellers and their customers. MAYER et al (1995) as well as WANG and EMURIAN (2005) recommend making a distinction between the terms “trustor” and “trustee” to avoid confusion. Designation of the trustor replies to the question “who trusts?”; designation of the trustee replies to the question “who is trusted?”.

The importance of establishing trust in promoting adaptive organizational forms, coping with complexity and uncertainty (LUHMANN, 1979; LANE, 1998), reducing costs of transaction (COLEMANN, 1994; UZZI, 1997), enhancing competitive advantages (BARNEY and HANSEN, 1994), offering true economic value (GRUDZEWSKI et al, 2008), and characterizing and sustaining truly effective personal and organizational performance (LEE, 2009) has been broadly recognized as benefits of trust.

2.2 Trust development

GRANOVETTER (1985) highlights social relations are mainly responsible for the generation of trust in economic life. GIRMSCHIED and BROCKMANN (2005) see the development of trust takes place differently in various contexts; furthermore the functions and roles it plays differ as well. Trust will move, or fail to move from different levels to another trust level based on evidence regarding the trustworthiness of a trustee person, trustee group or trustee organization. There is a steady flow of trust relevant evidence based on a counterpart’s person or organization’s behavior and measures. Therefore trust is not a stable condi-

tion; instead it is a dynamic construct⁵. People and therefore customers develop trust through the summation of all their pre-existing relationships with a sector or an organization (LEE, 2009). Furthermore they estimate the level of belief⁶ that they have in this being, maintained or further improved in the measures of the particular sector. CURALL and EPSTEIN (2003) propose a model that consists of three different and evolutionary stages (compare figure 1); the development of trust is shown as time-dependent⁷.

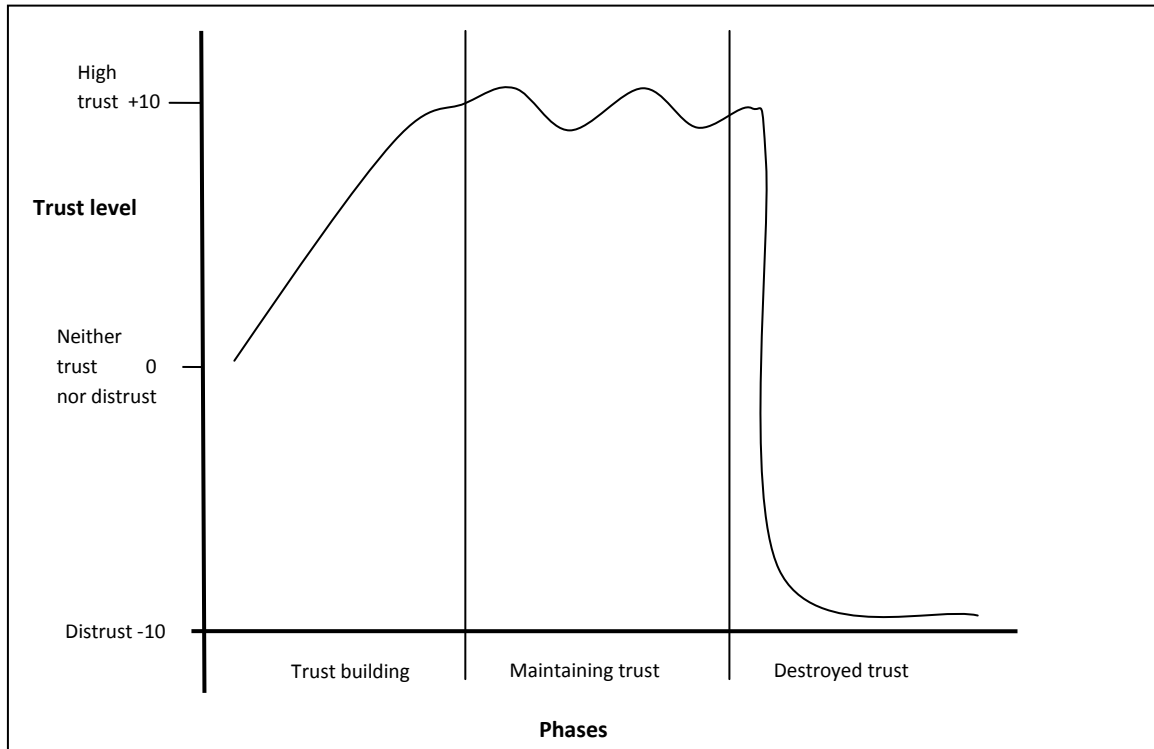


Figure 1: Trust process

The figure expresses that in the beginning of a relationship trust starts around zero point of neither distrust nor trust because trustor and trustee lack information about the trustworthiness of their counterpart. In terms of retail banking it can be argued that a customer with distrust would not do business with a particular bank. In the phase of “building trust” the development of trust takes place slow and incremental. Trustor and trustee tend to be reticent about trust in. The incremental pattern is linked with observation: parties may trust in small ways first, then observe whether trust is proofed or violated; and then go on with caution in trusting one single step at a time. During the next period of time, trust-establishing measures are un-

⁵ Compare Curral and Inkpen (2006), p. 242

⁶ Note: Belief in the context of trust can be defined as an assumption about the extent to which a trustee is likely to behave in a competent, honest and benevolent way. McKnight et al (1998) separates trusting beliefs from trusting intentions, which can be defined as the extent to which a trustor is willing to make himself vulnerable to a trustee’s measures.

⁷ Note: The time-dependent development of trust is in line with the model by LUHMANN (1968).

derway; the level of trust will increase. Here the bank customer may test whether his bank will perform all transactions in an appropriate, error-free way, or whether all recommendations were successful. After this the level of trust begins to level off in a so called “maintaining trust” phase. In this phase the level of trust will be more or less constant, if neither counterpart starts measures which will attack trust. In the case of trust-violating events the overall level of trust will implode into a phase of “destroyed trust”. In terms of retail banking this situation can be reached when the bank violates fundamentals of the relationship, i.e. by violation of banking confidentiality. The trust level in this phase is lower compared to the start situation. Hence major trust re-building efforts have to be initiated to return to the zero-point. After this further major efforts are needed to move back into the area of positive trust.

2.3 Relationships between trust, risk and retail banking

As mentioned before, trust involves two principal concepts: reliance and risk⁸ (FU, 2004; CURALL and INKPEN, 2006). Reliance can be defined as action through which one party permits its fortune to be decided by another party. Reliance has its fundament on positive expectations of another party’s trustworthiness⁹ (ROUSSEAU et al, 1998). They also imply a reciprocal relationship without implying causality and argue that risk creates the opportunity for trust, which would lead to risk taking. MAYER et al (1995) on the other hand imply a causality without being clear about the direction of the causality and argue that “it is unclear whether risk is an antecedent to trust, is trust, or is an outcome of trust”¹⁰. Risk can be defined as the potential that the trusting party will face negative outcomes, which might include loss or injury, in the case that the other party is untrustworthy (LUHMANN, 1988; SITKIN and PABLO, 1992).

In order to discuss trust in the customer-bank-relationship it is also essential to think about trustors and trustees at different levels. Since trust can refer to the individual’s expectations towards others, it can be seen as a personal trait. In the context of retail banking trust is presumed to reflect the customer’s experience in dealing with his bank consultant, i.e. “my bank consultant is a trusting soul”. Trust can also be a relational property, where is seen not as an attitude directed from the customer to the consultant, but as a constructed criteria of the customer-bank-relationship itself, i.e. “I trust my bank”. Trust can also be investigated as a

⁸ Note: WANG and EMURIAN (2005) use the terms vulnerability and risk-taking behaviors.

⁹ Note: Mayer et al (2005) present a distinction between trust and trustworthiness: The perceived trustworthiness is the perception of the trustor of how trustworthy the trustee is; hence it is a characteristic of the trustee. Trust is the willingness of the trustor to engage in a risky behavior.

¹⁰ Mayer et al (1995), page 711

feature of collectivities and reflects the collectivity's conformance to certain normative expectations, i.e. "we all recognize that banks are trustworthy". SAPP et al (2009) define another type and call it "consumer trust" as a form of inter-personal trust and see a perceived bond between the trustee and a specific agent, i.e. "I trust banks". KELTON et al (2008) highlights that the conceptual base of interpersonal trust are expectations of competent and reliable performance. In terms of banking business this form of trust can be described as the attitude that a customer holds toward banking products, such as an expectation of competence (i.e. financial expertise), goodwill, commitment to a future action (i.e. payback of capital), and ethical behavior (i.e. consulting on the behalf of the customer). Furthermore characteristics of the consultant such as likeability and similarity can play a major role in building trust between customer and bank¹¹.

CURRAL and INKPEN (2006) describe the existence of an interplay of inter-personal, intergroup, and inter-organizational trust which transpires over time and name this "co-evolution of trust". They argue: "Trust at one level will evolve over time and, in so doing, will serve as the organizational context for trust dynamics at other levels"¹². Applied to retail banking, the trust interplay can be described as follows: The inter-personal trust between customer and bank consultant can serve as organizational context for the development of trust between customer and the entire retail bank. Furthermore this trust may diffuse public by fostering trust among various customer segments. When individual customers trust a retail bank, the stability of their relationship to the bank can lead to bank-organizational trust because these customers influence other customers. However, this trust has its origins in one-on-one relationships between customer and bank consultant.

3 Characteristics of retail banking business

3.1 Definition of retail banking

For the purpose of this paper retail banking business is defined as banking business with private customers and smaller corporate customers¹³. In terms of customer segments for the financial service industry both groups are called "bank customers" in this paper. Despite the frequent negative marginal profit contributions achieved in this segment¹⁴ the banking business with bank customers is an essential strategic business field for the private banks,

¹¹ Compare Doney and Canon, (1997), page 36

¹² Curral and Inkpen (2006), page 240

¹³ Bartmann, Walter, Wild, Wimmer (2003), page 108

¹⁴ Compare Rossbach (1998), page 13

savings banks as well as for credit cooperatives in Europe. These groups will be described abstractly as credit institutions or just banks in the following. Considering the product structure (in terms of objects) retail banking (synonymous also called the “private customer business”) can be divided up into deposit banking, current account business, loan business and securities business¹⁵. Retail banking business is characterized by a high number of customer relationships, a high repetition rate of identical customer processes as well as by a large number of services rendered annually¹⁶. More features are large customer potentials, low increase in sales and a high fixed costs block¹⁷ that is caused by branch networks.

3.2 Customer benefit banking

In order to achieve success retail banks should consider what attracts customers to a particular bank and what customers do value in doing business with it. Products, channels, service levels and bank’s brands can be utilized to achieve a unique selling position. They do not exist for themselves, they should play a part in which they support the competitive position of the bank and enhance the bank to meet customer expectations within the different customer segments. To fulfill expectations it is necessary to create sustainable advantages. For the purpose of this paper a model by SCHIERENBECK is employed. SCHIERENBECK (2003) argues that such advantage exists when customers value a company higher in their perception in comparison to other companies. According to him retail banks can offer their services better and/or faster and/or cheaper in comparison to their competitors.

¹⁵ Compare Adrian, Heidorn (2000), page 18

¹⁶ Compare Winter (2002), page 270

¹⁷ von Köppen (2003), page 460

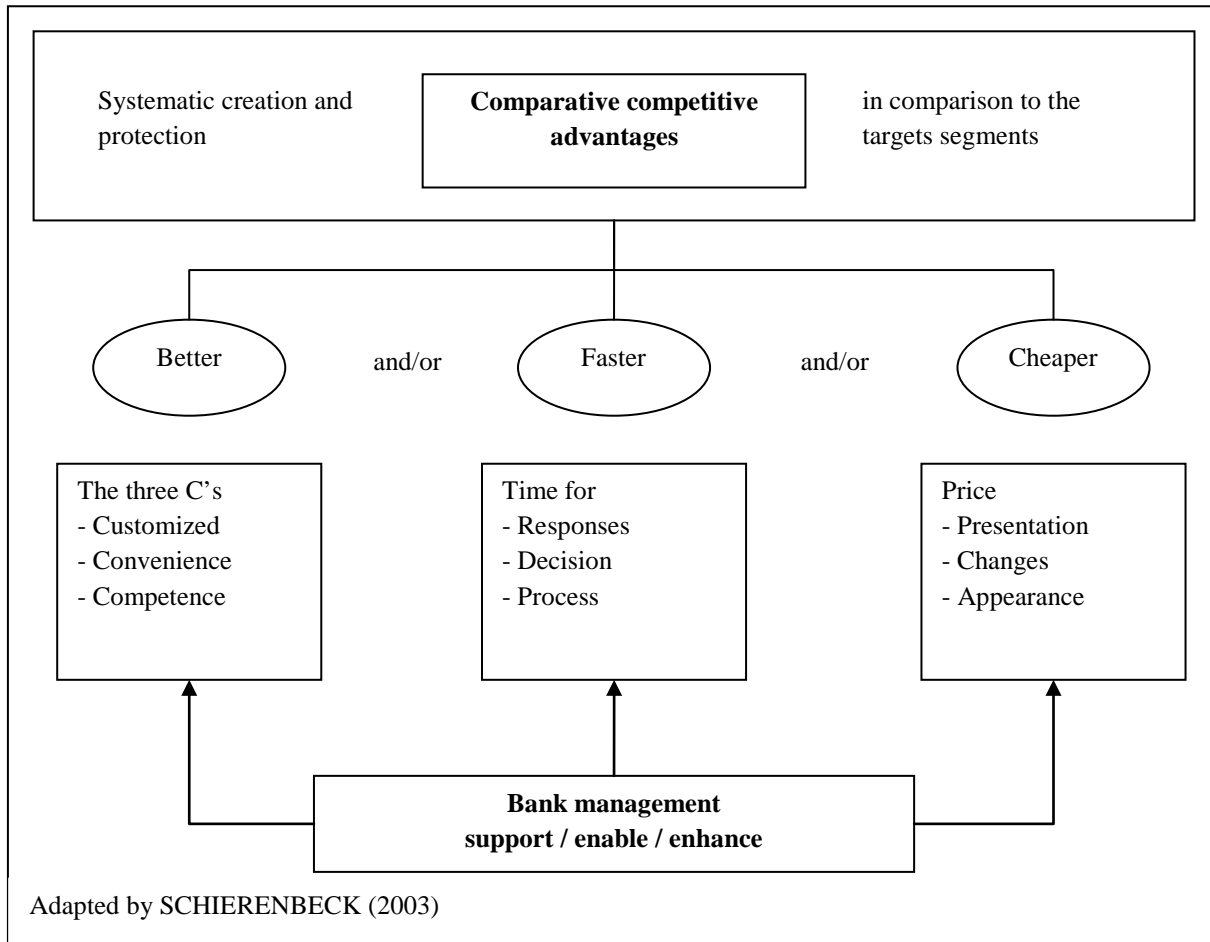


Figure 2: Bank management and the concept of customer benefit banking

To gain these competitive advantages, the bank has to create the justifiable impression in customer’s mind, that his needs/wants can be fulfilled by that particular bank better, faster and/or cheaper in comparison to other banks. Bank customers can make numerous choices based on convenience, but precision and trust represents represent key factors when choosing their banks. Just like customers of other organizations bank customers expect quality in the delivery of financial services and products. Quality in terms of banking products includes error free statements, the operational soundness of all access channels, reliable and competent financial consulting, or checks printed correctly. FREI et all (1995) stress the importance of trust and quality: “In fact banks may require higher levels of precision than their non-banks competitors: one source of advantage over other kinds of organizations lies in the trust consumers place in banks to handle their assets effectively”¹⁸. Hence trust in precision is a critical success factor for two reasons: Bank customers may be willing to a pay a premium for what they perceive to be precision to their needs, i.e. reliable and fair consulting or exact an-

¹⁸ Frei et al (1995), page 17

swers to their questions. Since competitors may match prices quickly and may copy products quickly, precision in operations can be a tool to protecting market share.

Competence can help the bank to increase customer's trust in the bank and to improve their processes; hence retail banks have to manage their competence in order to establish "better" services for their customers. But banks also have to consider that it is not enough to create a subjective impression of superiority; this superiority needs to fulfil an objective assessment in principle.

3.3 Nature of retail banking products

The nature of retail banking products can be characterized by a set of specific attributes. The scientific literature concerning banking management highlights the attributes service character, immateriality, interlacement, and dualism. In terms of trust management the immateriality plays a major role.

Very frequently banking products are called services within language use. From a macroeconomic perspective banking belongs to the tertiary sector. Furthermore banking products have features that are similar or equal to general services¹⁹. However, banking products are also close to trading activities, i.e. closing of gaps between suppliers and buyers in terms of time and lot sizes. In both the scientific and the business literature discussions can be found, whether banking products represent services or trading²⁰. The service character causes several effects. According to SWOBODA (2001) the service character inhibits that banking products can be protected from copying by patents. Since financial products can be copied quickly and easily, a competitive advantage that is based on product structure is not sustainable. Due to their imitableness banking products within the different product segments are nearly similar. A product differentiation is not possible through the general product design; furthermore branding of banking products takes a back seat. Opposite to this product differentiation can only be achieved by highlighting specific customer benefits, pricing policy or general image campaigns of the bank²¹.

Interlacements of banking products represent another important feature. Interlacement (also called "combine effect") in the context of retail banking products means that financial products have crosslinks to other financial products; hence different banking products will be

¹⁹ Note: The integration of external factors into the production process is an attribute for service. This attribute can be observed in retail banking processes, too. An example: When the retail banks performs a counseling interview, the customer has to submit details and information about his circumstances as input factors.

²⁰ Compare Büschgen, Börner (2003), page 34; compare Bruhn, Homburg (2001), page 249

²¹ Compare von Stein (2000), page 555, compare Hartmann-Wendels, Pfungsten, Weber (2004), page 743 ff

sold at the same time as a product bundle²². Reasons for these links can be found within production process, sales process or the basic nature of the specific products²³. It is also possible that the retail bank bundles certain products to increase its cross-selling ratios or to achieve a customer lock-in²⁴. Customers can establish those relationships for themselves by combining different products from the bank's product range.

The immateriality of banking products causes specific conditions for supply, production and sales in comparison to tangible products. It is not possible to store banking products. Since the customer is involved in the production process²⁵, a banking product can only be produced at the point in time when a customer demands for this product. As a result banks need to last organizational capacities ready to satisfy expected levels of customer demand in a specified time frame.

Dualism is another attribute of banking products. In most cases banking products consist of both a value related performance and piece related performance. Value related performance means the receipt, creation and transformation of money or capital. Costs and profits of this performance have a correlation with the financial value. The piece related performance is based on the involvement of staff and equipment. Costs and profits of this performance do not correlate with the financial value; instead they correlate with the number of transactions²⁶. This performance dualism has an impact on the entire external and internal accounting system of a bank²⁷.

In summary four major attributes characterize retail banking products. In particular the service character and resultant imitableness set certain boundaries for managing retail banks. The immateriality has a strong impact on the operational management, too. Furthermore immateriality of banking products causes abstractness from a customer's point of view. Since this attribute has a large impact on trust, the next chapter will discuss the linkages between immateriality, abstractness and trust in detail.

²² Compare: von Stein (2000), page 556

²³ Note: For example taking a personal loan is linked with money transfers. Using of a credit card also requires money transfers in order to balance the debit balance after a certain period of time.

²⁴ Note: An example for this is that a current account is exempt from charges if the customer signs a savings plan, too.

²⁵ Note: Frei et al (1995) use the term „co-production“ of the consumer

²⁶ Note: An example for this is the unit fee for a money transfer.

²⁷ Compare: Schuster (2003), page 183; compare von Stein (2000), page 556

3.4 Attributes of retail banking products from the perspective of the customer

The immateriality of banking products causes certain abstractness from a customer’s point of view. For most customers a large number of banking products in terms of their terminology and coherences are unknown. Furthermore legal definitions and regulations are major parts of financial products, which can cause a higher need for explanation. The following figure illustrates the attributes of banking products from the perspectives of the direct parties of contract.

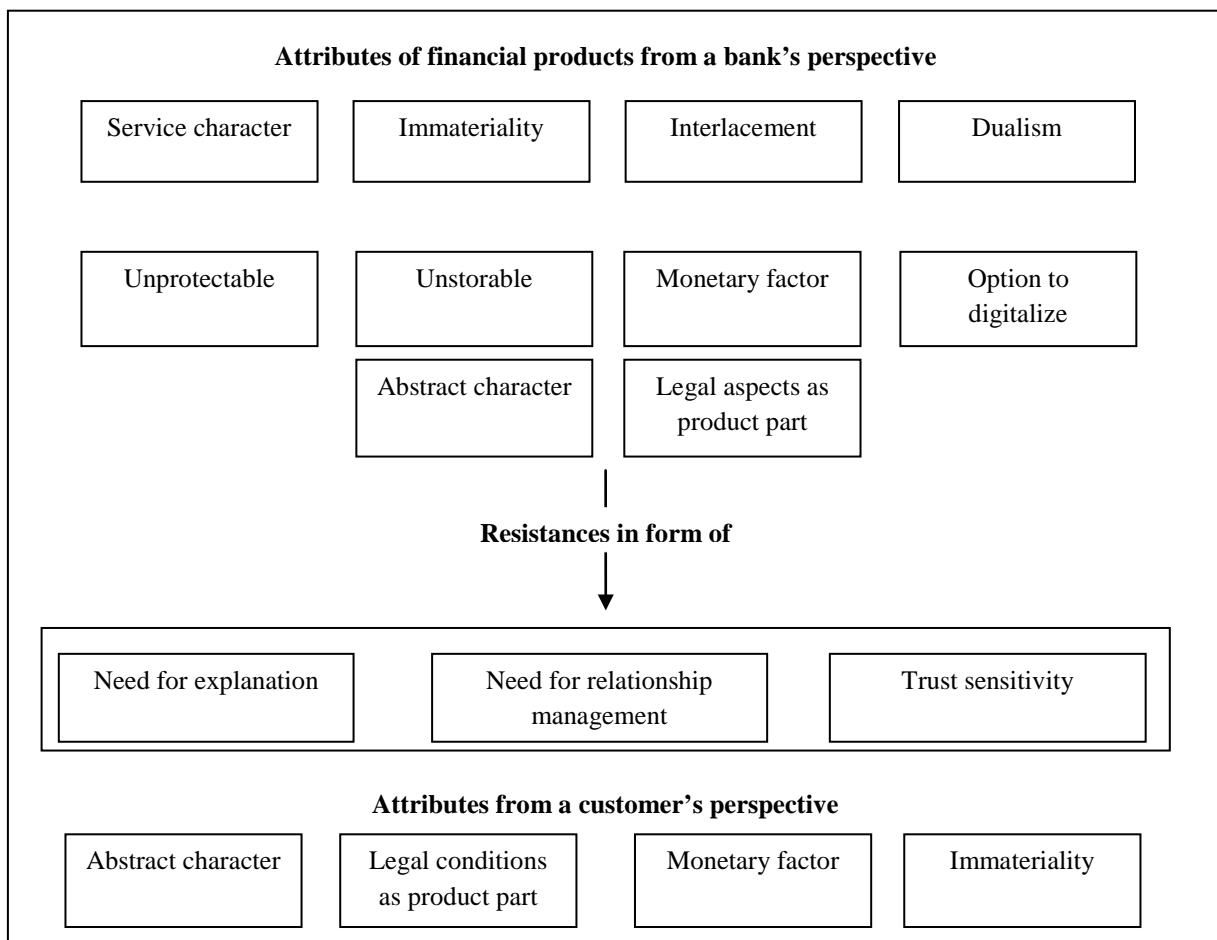


Figure 3: Attributes of financial products

Depending on the type of banking product these attributes – in particular abstractness, monetary factor and legal terms as part of the product – require a detailed explanation and communication to customers. These factors cause that banking products are trust sensitive. In summary it can be argued that retail banks have to consider trust management within their business to retain existing customers and to convince potential customers to buy banking products.

3.5 Banking products needs for trust management

Trust is a very important matter for retail banking: Before customers are willing to risk their capital in a financial transaction, they want to have appropriate assurance that they will receive the product what they closed the deal for; i.e. when customers deposit their money in a bank, they trust the bank not to fail and to pay back the money. Hence intending to buy a financial product from a bank may represent a willingness to be vulnerable in many ways: The product purchase can be faulty and the bank can refuse to refund the customer; the product may require service or adaptations in the future, or the bank or the bank's product supplier can fail to provide such services or even payback in an adequate manner. Financial products are very sensitive services, since customer cannot overview the bank's ability to offer the promised service at the time when they sign the contract. Customers have to trust in the bank and its promised reliability. It also is impossible for the customer to check and compare the bank's ability in advance, since some of the products are not easy to compare. At last the customer has to trust the bank as a whole, and not just to focus on a single product.

Financial products are abstract; therefore they require a specific level of explanation. In comparison with other goods and services, some financial products also require a high level of customer's economic expertise. GRUDZEWSKI et al (2008) describes such a situation as an information asymmetry: The bank enjoys not only organizational and financial advantage, but mainly advantages based on information²⁸.

DAYAL, LANDESBURG and ZEISSER (1999) highlight another issue: According to them customers look behind functional benefits (i.e. quality, price) for process (better way to research and buy) and relationship (trust, ongoing communications). The result for banks: the most valuable stock in trade for banks is trust since the basic principle in retail banking is an exchange of information (in the sense of a constant and interactive value exchange). Customers tell their bank consultants about their income, tax rates and their savings. This information is the basis for the recommendations by the consultant. If the bank wants to get this sensitive information it has to gain customers' trust.

3.6 The banking crisis 2007 / 2008

A large number of banks, in particular US American banks and European banks, experienced large losses directly or indirectly due to the devaluation of securitized subprime

²⁸ Compare Grudzewski et al (2008), page 113

loans at the same time in 2007 and 2008. The phenomenon has been described as bursting of the subprime bubble or very frequently as the “subprime crisis” or “US subprime mortgage crisis”, the latter one to indicate the root cause of the crisis. LAEVEN and VALENCIA (2008) called it “ongoing global liquidity crisis originated with the U.S. subprime crisis”²⁹. The crisis had major impacts on the economic system, from a loss of confidence between banks as well as from customers in banks, the latter caused so called “bank runs”³⁰ in UK and nearly “bank runs” in Germany. Furthermore it was possible to observe malfunctions on the interbank market, recessive impacts on the entire economy, and finally the shifting of costs for government guarantees, which has been offered to protect the banking systems of the respective country, to the taxpayer.

BONN (2008) argues those systematic bank crises are no so uncommon, in different 120 countries worldwide bank crisis could be observed since 1980. The high quantity of crisis is confirmed by LAEVEN and VALENCIA (2008) who identify 124 systematic banking crises over the period 1970 to 2007³¹.

For the purpose of this paper a framework by BONN will employed to explain a banking crisis. BONN (2008) stresses that most banking crises are characterized by a typical master-pattern and that the current banking crisis fits into this pattern (compare appendix A). However, each banking crisis has separate characteristics including specific surrounding conditions that have evolved over time. Pervasive changes in the conditions of financial markets represent the initial point for the banking crisis 2007/2008. Due to an increasing level of competition and structural interruptions banks were able to gain or to protect market shares only by accepting profit spreads that did not consider the risk profile of the underlying business completely. Banks did answer to these developments by mistaken adaptation and balancing strategies, in particular when investing free liquidity in derivatives on mortgages to compensate missing opportunities in their core business. Following this route a large number of banks misjudged the development and stability of real estate markets in the US, Spain, and

²⁹ Laeven and Valencia (2008), page 6

³⁰ Note: DIAMOND (2007) defines bank run as a situation when too many depositors of a bank try to withdraw their money, because they expect that the bank might be insolvent and therefore have no trust in this bank any longer. The bank run generates a momentum of its own, which can be described as a kind of self-fulfilling prophecy: The more customers withdraw their deposits, the probability of a bank default increases, and this – including information about the increased level of withdrawals - encourages further withdrawals. This can destabilize the bank to the point where it faces bankruptcy.

³¹ Note: BONN (2008) does not present a specific definition of the term banking crisis. LAEVEN and VALENCIA (2008) describe a systematic banking crisis as a “a country’s corporate and financial sectors experience a large number of defaults and financial institutions and corporations face great difficulties repaying contracts on time. As a result, non-performing loans increase sharply and all or most of the aggregate banking system capital is exhausted”.

UK as well as the real risk-return profile of derivative financial instruments on mortgage loans in those markets. Furthermore they had to trust in external ratings and did not try to get to the bottom of ratings for those instruments. BONN (2008) stresses that focussing financing on the single market segment of real estate causes an accumulation of bad loans and has been observed as a typical reason for banking crisis. In particular real estate markets are characterized by lack of shock absorption: Debtor and loan security are exposed to the same shock when a “price bubbles” in these markets burst. Furthermore banks did not establish an appropriate risk management system for their extended business activities. But instead of generating additional profits without taking additional risks, banks had to accept additional risks without generating sufficient profits. This situation has been described as “arbitrage Fata Morgana” (BONN, 2008). It can be argued that new business opportunities in the context of global financial markets also offer the opportunities to slip up or to avoid mistakes. In addition to entering new markets or to emphasize specific market segments, general management failures were made, i.e. lack of control mechanism, attended the undesirable development. Furthermore regulatory shortcomings acted as a stimulant, i.e. a fragmented and sometimes uncoordinated banking supervision³², or not monitored risk types in combination with shortcomings in accounting regulations.

Another condition for the banking crisis was the vulnerability of the banking system. Due to a combination of a lean equity ratio³³ and a leveraged refinancing structure a number of banks were not able to absorb the shocks arising from the occurring losses within their risk exposure.

In summary it can be argued that the two elements large financial losses in terms of “financial injury” and vulnerability have been essential for the banking crisis 2007 / 2008.

3.7 The impact of the banking crisis 2007 / 2008 on trust in banking system in Germany

The emerging of pan-European strategies in retail banking and the advances of communication technologies have intensified as well as extended the scope of contacts between

³² Note: The US banking supervision was executed by Central Bank, SEC and federal authorities. The German banking supervision is divided into the supervision by the Central bank and the supervision by the Federal Institute for Financial Services Supervision.

³³ Note: Banks did fulfill the legal requirements for their equity ratio. But in order to achieve a high “return on equity” ratio (ROE) banks orientated their equity more on regulatory figures then on their total risk exposure in a worst case scenario.

German customers and foreign retail banks. Hence customers considered news concerning the US based subprime-crisis carefully. Furthermore, several news about the bank run of Northern Rock³⁴, a “not so far away” British bank, illustrated that the banking crisis did not remain a US-problem and that it could affect the banking system in Germany, too.

Due to the regulatory requirements, i.e. banks have to inform customers about the deposit protection, customers are aware that certain mechanisms are in place to protect their deposits. Customers can also rely on the system relevance of a bank as an attribute which considers both bank’s business size and meaning for the financial system. Very frequent this approach is also referred to as “too big to fail”. That expresses that customers and business partners simply assume that - if necessary - the government, creditors and competitors will support a particular bank to avoid devastating systemic effects which would arise from any kind of bankruptcy or liquidation of a bank; hence it can’t be allowed to happen.

In 2008 the not-ending bad news about the banking crisis gave cause for serious concerns in terms of the stability of the banking system in Germany. The Hypo Real Estate Bank, a German mortgage bank, became the first example for a massive government financial rescue package about 35 billion EUR³⁵. These circumstances changed the trust in the banking system. In terms of the financial service industry LEE (2009) highlights the relationship between trust and financial crisis: “Loss of confidence and trust results in the loss of legitimacy, and when this occurs, commercial activity and business performance do not simply dissipate and decline, the disappear”³⁶. At the end of September 2008 the German Central bank informed the Germany government about two essential variances in its cash supply: The central bank observed an increase in its unusual surplus in cash outflows as well as a skyrocketing

³⁴ Note: On September 14, 2007 a rush of customers taking money out of Northern Rock started. The bank run started after the Bank of England offered Northern Rock unlimited support.

³⁵ Note: The 35 billion EUR was the initial back up. Until 2009 the total of government backups for this bank summarize to 105 billion EUR.

³⁶ Lee (2009), page 15

demand for 500 EUR banknotes.

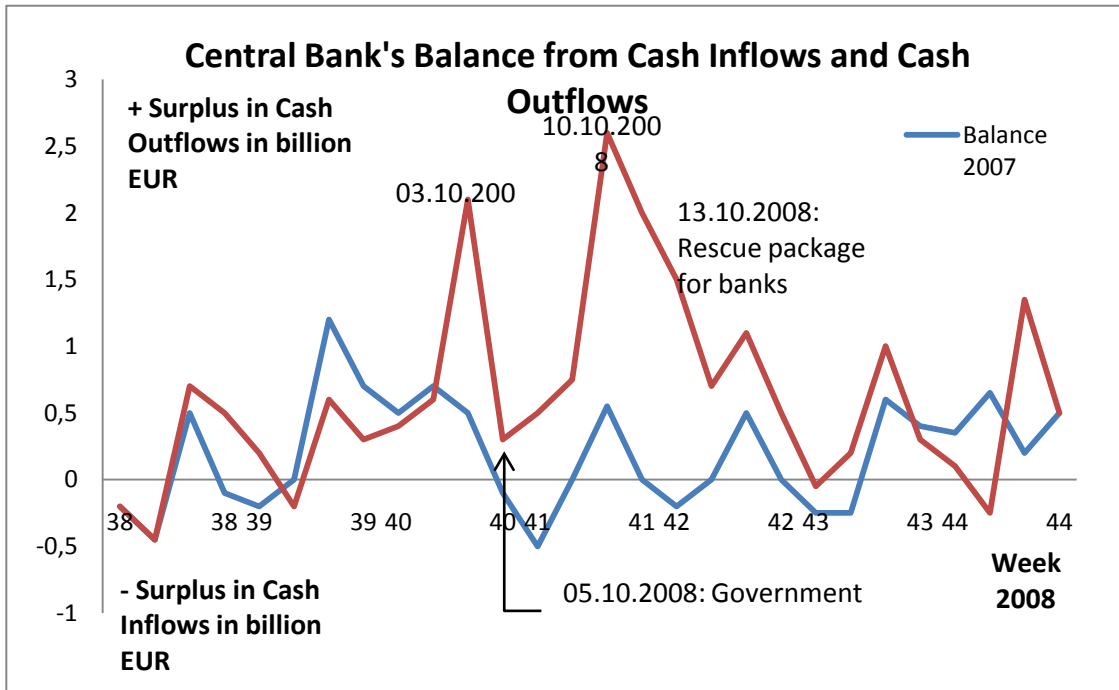


Figure 4: Balance of cash inflows and cash outflows

At the end of September 2008 depositors began to withdraw money from their bank accounts to keep it at home. In the next two weeks more and more depositors have the same attitudes; to keep their money at home they require banknotes with the highest face value.

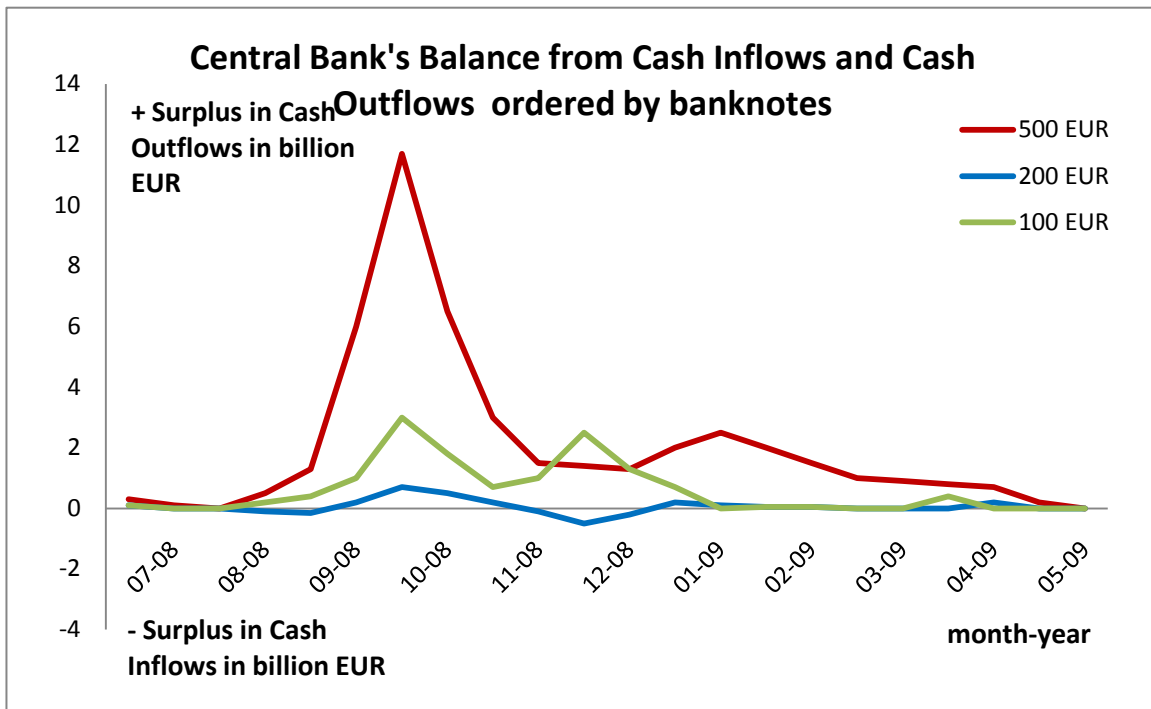


Figure 5: Balance of cash inflows and cash outflows ordered by banknotes

The situation illustrates that customers had begin to stop trusting general statements about the stability of the banking system, in particular “to big to fail” approaches. To avoid further erosion in trust, the German government had to announce that it guarantees all deposits in Germany on October 5, 2008 (compare appendix B). On October 13, 2008 the so called “rescue package” for the banking system was initiated and justified with the need to protect system relevant banks.

Since the beginning of the financial crisis 2007 the terms “system relevant” or “system supporting” in terms of bank classification were developed further. Due to its size or importance the “worth protecting bank” or bank group has a major role for the national financial system; hence a “system relevant bank” can expect to receive government backup first of all. Some countries have developed specific criteria and processes to classify banks³⁷; in Germany both the regulator BaFin and the central bank are responsible for this classification. The “too big to fail” doctrine was used to support deposit-taking banks, which are in financial difficulties. Considering the criteria for system relevance, the term “system relevant” is with regard to contents a synonym for the financial doctrine “too big to fail”³⁸.

In sum the government declaration for deposit protection and government’s rescue package for banks were sufficient enough to stop a further increase in cash demand among depositors and to achieve normalization.

3.8 Recent changes in the trust situation of banks

Due to the financial crisis 2008, the collapse of a large US based investment bank, and the nearly collapse of large and established banks in Europe – the latter ones forced national governments to take over equity in those banks – the level of trust in the entire banking system had to face a tremendous drop. This loss of confidence as well as the perception that some organizations, in particular in financial service, have violated their social contracts with regulators, consumers and shareholders, has been confirmed by different studies. In a recent

³⁷ Note: According to chapter 6 paragraph 3 of the central banks’ guideline to monitor banks („Richtlinie zur Durchführung und Qualitätssicherung der laufenden Überwachung der Kredit- und Finanzdienstleistungsinstitute durch die Deutsche Bundesbank (short term: AufsichtsRL; dated February 28, 2008) banks with a large business volume, a large number of business relationships with other financial institutions and close relationships to foreign banks can be classified as “system relevant”, in the case that a threat to their survival would have negative effects on other banks and even on the entire financial system.

³⁸ Note: BOARD and SCOTT-QUINN (2009) judge the doctrine and highlight a disadvantage: „Without question, it was correct to support these banks, but it is likely that banks’ actions were influenced by the knowledge that the bail-out would come if necessary (the moral hazard argument)”.

international survey of senior executives 85 % of participants argued that public trust in business had declined³⁹. According to another recent study 62 % of respondents across 20 countries confirm that they “trust corporations less now than they did a year ago”.

For banks the trust in “doing what is right” declined from 56 % (2008) to 45 % (2009). In the US trust in nearly every industry falls, but banking suffered the biggest declines – falling from 69 % to 36 %. Also U.K., France, and Germany faced a similar drop in major industries; trust in banks fall from 41% to 27 %⁴⁰. According to a recent international survey by GFK CUSTOM RESEARCH (2009) on the extent to which citizens trust various professional groups and organizations, a fundamental decrease in trust placed in bank employees. In comparison to 2008, the overall percentage of people according trust to bank employees decreased from 45 % to 37 %⁴¹. The trust loss was moderate in most countries of Central and Eastern Europe. The decline in trust was more dramatic in the USA and in some Western European Countries. The largest declines were measured in Sweden with a decrease from 72 % to 50 % and in the UK from around 50 % to around 33 %. In Germany bank employees have also suffered a decline of credibility. In 2009 just 63 % of Germans trusted their bank, compared with 75 % one year ago. However, this trust proportions are still above the average for Western Europe, where only 40 % see bankers positively. Switzerland is the only country where trust in bankers is higher than in Germany. However, the trust levels have declined, too: 68 % of survey participants evaluated bank employees to be trustworthy; in previous year the proportion was 77 %.

³⁹ Source: “Economic Conditions Snapshot, March 2009: McKinsey Global Survey Results”, mckinseyquarterly.com, March 2009

⁴⁰ Source: All data from “Edelmann Trust Barometer 2009”, edelmann.co.uk

⁴¹ Note: Opposite to this low trust level the fire service achieved a proportion of 92 % (2008: 89 %). There are just three professional groups with a lower rate than bankers: Top managers (33 %), advertising professionals (28 %) and politicians (18%).

<i>Trust rating for bankers</i>		
Country	% of respondents who trust banker Fall 2007 ⁴²	% of respondents who trust banker Spring 2009
United Kingdom	47	33
Austria	67	Not applicable ⁴³
Switzerland	73	68
France	38	35
Germany	71	63
Poland	66	59
Hungary	31	38
Average	56,14	49,33

Figure 6: Trust rating for bankers

In the context of the financial crisis customers became aware that their decisions in financial issues need to consider risks more than before. Hence in 2008 and 2009 a so far hidden customer need gained more importance. Customers began to put a strong emphasis on safeguarding their investments and deposit accounts. They became also aware that some product types, i.e. investment certificates, bear hidden default risks of the issuer and those products actually will not fulfill their financial needs in all terms.

This awareness offers a new option for differentiation. Taking into account the characteristics of banking products, in particular abstractness and legal aspects, it can be argued that a retail bank can address this emerged, more or less hidden customer need by improving its way of delivering product information. But before developing recommendations to retaining trust for banks, the next chapter will review whether and to what extent barriers to trust exist in retail banks' management.

3.9 Economic barriers to trust management

Retail banks can establish core competencies in the fields of sales and distribution, bank management or product development in order to achieve customer benefits. According to a study from 2006 more and more customers will require a comprehensive product range which includes products from other suppliers⁴⁴. This customer expectation presents a strategic option: A retail bank can establish core competencies in the field of customer care and customer consulting, by so doing the bank can offer a "better" service. In order to serve retail

⁴² GfK (2008), page 3

⁴³ Note: The figure for Austria 2009 is not available, since GfK Custom Research did not do the measurement in Austria in 2009.

⁴⁴ Compare: Steria Mummert (2006), p. 25

customers with a holistic approach, retail banks include products from other organizations. Focusing on this core competence causes that the retail bank has to act as reliable and trustworthy advocate for the customer when selecting and presenting (external) products. Retail banks can integrate this standard into a trust management concept or even employ this as a fundament for it.

However, some problems can be observed in this open architecture approach⁴⁵. Retail customers are not used to pay extra fees for their counseling interviews. Hence retail banks have to find another profit source within customer service. Very frequently retail banks use external commissions and internal fees to make a commission surplus. External product suppliers and retail banks negotiate these commissions for each external product. Taking this into consideration a retail bank can control its commission surplus by preferring specific product types and product suppliers within its product range. This preference can be contradictory to selecting products with the best customer value. This dilemma can be amplified when a retail bank considers the commission surplus within their reward system and therefore motivates bank consultants to sell products with high fees. Hence a retail bank has the option to misapply the information asymmetry.

In summary it can be argued that the information asymmetry represents a threat to trust management. The preference for generating high commissions when selling products at customer's expense may prevent that the bank works as an advocate for the customer.

4 Measures to developing and maintaining trust in retail banking

4.1 General aspects for developing and maintaining trust

In the context of the financial crisis banks have lost trust and reputation. To avoid further erosion in public trust the retail banking industry has to initiate measures to improve its tarnished ethical image. Core trust-driving factors manifest themselves in the behavior of the retail bank and requires that banks keep their promises. LEE (2009) argues that a truly effective development of trust must be left as responsibility of each organization. Sector wide bodies or governments can support trust development through the provision of confidence measures and by promoting trust-developing measures of the banks. A regulatory system cannot

⁴⁵ Note: The open architecture approach means that a retail banks has a large number of business relationships with suppliers of financial products and does not consider whether this supplier belongs to a specific financial network. Product features, profit margins and the ability to complete the bank's product range determine whether an external product will be integrated into the product portfolio.

avoid crisis from happening; however a robust regulatory environment helps provide a fundamental level of assurance.

Considering the two different layers of trust – inter-personal trust and inter-organizational trust – the following chapters will discuss three different measures how to retain trust in the retail banking industry. These measures are trust reporting, improved communication of legal deposit protection, and the introduction of a standardized product signing.

4.2 Trust reporting

To maintain trust in the bank itself – in the sense of fulfilling certain normative expectations for the overall aim “we all recognize that banks are trustworthy” – banks can present a trust report and establish a link between trust indicators and their management reward system. For banks to re-establish trust, bank managers have to be judged not just on the financial performance of the bank. Instead a new focus should be on stakeholder experience how profit and growth of a bank is generated and how sustainable this profit is. Reward can be linked to both financial returns and stakeholder performance the retail bank achieves. Measure points for a modified and improved reward system can be found within certain trust indicators, i.e. community trust in the bank, non-exploitative supplier relations, employee commitment and customer satisfaction. In the case that bank managers will be rewarded in terms of those criteria, they have to monitor and to know how to develop the underlying core of the banks business: the reputation of the bank and the stakeholder trust. Considering those criteria would also avoid just rewarding retro-perspective indicators, i.e. profit and loss. In order to summarize all information needed it is recommended that banks adapt a recommendation by MONEY (2009) for a “trust report” and develop a standardized report on issues trust, stakeholder relationships and reputation. BONINI et al (2009) confirm this; they recommend that organizations should reinvigorate their understandings of, and relationships with, critical stakeholders. This trust report should address the issues object of trust, receivers of trust, and purpose.

Banks can have reputations for many items, i.e. financial soundness, appropriate investor relations, fair fees and good interest rates, qualified consulting, or emotional appeal. Hence the bank has to find out which perceptions make stakeholders feel good about a bank. Banks have to summarize enough facts for an appropriate understanding of their key stakeholders including their customers. This part should report on things which stakeholders really care about.

The reputation of a bank exists in the view of others, hence it is important to find out which receivers are most important in judging trust and reputation of a bank. WADDOCK et al (2002) sees primary stakeholders, i.e. customers, employees, shareholders, suppliers, and parts of the community, as the most important stakeholders of any organization. However, there are other groups in the surrounding of a bank that can have an impact of the perception of the bank and therefore have to be taken into account, i.e. media including local press, analysts, and competitors. Hence the report should present reputation and trust among primary stakeholders as well as secondary stakeholders.

Trust and stakeholder reputation have to be in a context that expresses those issues that are important to stakeholders and important to bank managers. Banks have to focus on issues and measures which matter most to stakeholders. Those issues can be found within different issues, i.e. in terms of customer loyalty, employee commitment, rating stability, stability of relationships to other financial organizations, or reputation from the perspective of the financial regulator.

In addition to the above discussed report structure it may be beneficial that an executive director is charged with exploring trust and reputation among primary and secondary stakeholders⁴⁶. One task of this new role could be to balance trust within all stakeholder relationships and therefore to solve – or at least to minimize - the consulting dilemma of banks when integrating external products into the bank's product range.

4.3 Improved communication of legal deposit protection

To maintain trust in the entire banking system banks can improve their way to inform customers about the legal deposit protection. In the relationship between firm and consumer GRUDZEWSKI et al (2008) distinguish three alterations of trust: calculus, personal, and institutional. These modifications are valid in the bank-customer relationship, too.

Calculus trust considers the information passed; the source is social experience and past own experience with the specific firm or even bank. Information for this trust can also be based on test of quality, guarantees, and findings. Calculation is one of the main elements of consumer trust; retail banks employ certain concepts to support this confidence building. Some retail banks employ a phase of life concept that starts right after the childbirth of a potential customer. The objective of this concept is to establish a relationship between future customers and the bank very early or at least to stabilize the relationship between parents and

⁴⁶ Compare Money (2009), page 22, compare Bonini et al (2009), page 8

bank. When young customers start their professional life they have already gained experiences in terms of financial products; furthermore they have made their own experiences with banks.

BAUER et al (2007) define personal trust as trust in already existing relationships. Like calculus trust this trust form is based on experience. GIRMSCHIED and BROCKMANN (2005) call this trust as “history based trust”⁴⁷. But personal trust is based on a specific strand of experience which is independent to other strands and includes a degree of generalization of experiences. GRUDZEWSKI et al (2008) argue that in personal trust the customer completely believes in a given brand and the brand’s controls. The personal trust offers benefits for the bank, since the customer will not notice or not consider disadvantageous information on evaluated products for some time, e.g. better interest rates for similar products with other banks.

Institutional trust plays a very important role in banking business in general and in retail banking in particular. This trust modification is based on activities of customer organizations and existing legal regulations. According to BAUER et al (2007) institutional trust combines two aspects, one aspect concentrates on persons and another aspect focuses on their position within the society. Trust in bank employees is simultaneously trust in financial institutions when, i.e. customers assume that the bank employee in the local branch or in the call centre will render them the service that they have the right to require. This assumption is not based on results of inter-personal experiences – though it can be affected by those – but on induction from other experiences. Hence trusting in banks in terms of an institution in everyday life means to bind a specific situation to a particular framework. In terms of retail banks this framework can be found in a specific regulatory environment.

Banks have to consider a number of legal requirements in order to protect customer deposits against financial losses. However it is not possible to devise a regulatory system which can prevent any crisis from happening (BOARD and SCOTT-QUINN, 2009). The legal conditions for this customer protection and the information requirements vary in different European countries⁴⁸ (compare appendix C). In addition to legal requirements several banking groups did establish voluntary deposit protection systems of their own. In most cases legal and voluntary systems are linked with each other in terms of refund; i.e. the claim for

⁴⁷ Girmscheid, Brockmann (2005), page 7

⁴⁸ Note: The deposit guarantee covers to 100 % all sight deposits, savings, time deposits and savings certificates. First of all there is a minimum deposit guarantee about 50.000 EUR throughout the EU (limit was 20.000 EUR before July 1st, 2009). In a guarantee situation the customer has to receive the deposits payback within 30 days.

refund against the voluntary system may require that the customer has a claim for refund against the legal guarantee system first of all.

Due to much information in the media customers have been become aware that banks and financial services are subject to supervision. They are also aware that certain legal instruments and processes have been put in place to protect them against financial losses when banks fall into bankruptcy. In most cases customers are not aware about the details of this deposit guarantee. Furthermore a multitude of legal definitions characterize the entire guarantee system. In summary it can be argued that customers have to make a great effort to understand the entire system and their coverage, in particular when keeping accounts with several banks. Hence it can be recommended that under similar circumstances the legal deposit protection should be harmonized, in particular within the EU where retail banks employ Pan-European Market strategies. This should include a harmonization in terms of definitions, i.e. which products are covered, as well as size and scope of the deposit protection. Furthermore the legal protection should have an appropriate size and should reduce the current gap between size of legal protection and voluntary systems. So doing, bank customers will be better informed about the deposit protection; hence their trust in legal regulations will increase. A side benefit is a further level playing field for retail banks in the EU.

A harmonization of those issues within several countries may require time and effort. Hence the next chapter discusses an alternative to a harmonization of the legal deposit protection.

4.4 Standardized product signing as an instrument to inform customers

As explained before several aspects cause that banking products are trust sensitive and that customers have a need for explanation and relationship management. Banks' customers have to know that their "transactions" will be completed and executed as confirmed and that they are making decisions based on honest information. Furthermore banks have to ensure that customers receive appropriate products and understand product's nature.

A particular importance of this issue can be observed when customers request consulting advice in terms of financial investments. Until so far retail banks employ different approaches to transfer essential information to customers, i.e. in Germany customers receive a 169 page handbook⁴⁹ which informs about asset types, economic relationships, chances, and risks. Furthermore customers have access to comprehensive sales brochures, which can easily reach 28

⁴⁹ Note: Standard Information Handbook, last revision 2009

pages⁵⁰. But the overall purpose of these documents is to protect the legal position of the bank by fulfilling legal requirements. Neither the purpose is to inform the customer about the specific product nor is it to reduce the information asymmetry between customer and bank.

Hence retail banks have to improve their ways how to summarize and to transfer relevant information to customers. A central characteristic of modern societies is their large complexity (PARSON, 1962). Complexity can be defined as a “multi-layered structure of society in which many levels operate interdependent on each other”⁵¹. By the definition of constituting systems it is possible to reduce complexity by establishing a higher degree of order. Trust can be a mechanism for complexity reduction. When trusting, customers reduce the future complexity, because they choose to consider only a subset of all options for their financial decisions, i.e. that investing in certificates may be better than in investing in bonds. As long as customers trust in certain options, they rule out failures and behave as if only a positive and desired outcome is possible.

Since some of the financial products consist of a number of different elements, customers may have problems to understand their entire product. But product transparency in such matters is crucial. To address these issues I recommend to introduce a standardized product signing (“SPS”) that illustrates both the nature and the major characteristics of the product. “SPS”-information can be displayed in a way of a prominent logo. A crucial factor for the acceptance of this approach is to develop a sign that is applicable to different asset classes. Hence the “SPS” should fulfill three objectives: It expresses that basic nature of the product, it informs about the major characteristics of the product, and the SPS-structure makes it applicable to a number of asset classes.

In order to inform about the major characteristics of the product, “SPS” should deliver information about several financial aspects (currency, interest payments, maturity, and assessment of value), risks and their coverage (legal deposit protection, and relevant risk classes) and the underlying investment object from the perspective of the customer. The latter one should address the question “what is to be done with the capital?”. Appendix D applies this “SPS”-structure to four common and different asset classes and illustrate which information each “SPS” would show. The assets in appendix B present examples, in practice each of these assets may have different characteristics, i.e. index certificates are available with as well as without interest payments.

⁵⁰ Note: Example for DWS Gold Plus investment fund. The number of pages for the brochure of a similar product (Xetra Gold Certificate) is 57.

⁵¹ Girmscheid and Brockmann (2005), page 3

Opposite to this it is not intended that “SPS” recommends a product for certain customer types, since customers with the same financial status may have different financial objectives. Again, the overall objective of the “SPS” is to inform the customer about major attributes of the product objectively. As an additional benefit the “SPS” can also make it easier for customers to verify the accuracy of the information in product folders and other marketing papers. By doing so retail banks can reduce the abstractness of banking products, reduce the information asymmetry, and improve the comparability of different banking products.

Since first and foremost the bank consultant improves his way of communication, these aspects increase the inter-personal trust between customer and bank consultant. Taking into account the ideas by LEE (2009) that sector wide bodies or governments should support the development of trust, it is an option that these bodies at least promote the “SPS”. Furthermore it is recommended that external organizations, i.e. auditing firms or consumer protection organizations test and report the correctness of the “SPS”. The incorporation of those third-party certificates as “trust triggers”⁵² into the “SPS”- appearance can be used as an approach to assure bank customers that the “SPS”, the product itself and therefore the entire retail bank is trustworthy.

5 Final conclusion and recommendations for further research

This paper provided an overview of the nature of trust and retail banking products from multiple disciplinary perspectives. It also reviewed current studies that investigate the development of trust in banks.

Trust reduces complexity and hence the customer’s effort to make decisions in terms of his financial belongings. A major benefit of trust is that the effort required for controls and information can be minimized. Due to their characteristics banking products are trust sensitive; it can be argued that the need for trust in banks and products is higher compared to other industries. The financial crisis 2008 has violated the expectations and trust in the banking system including retail banks among customers, regulators and other stakeholders.

Hence retail banks should initiate measures to reestablish trust. In order to address the needs of all stakeholders a report on trust relevant issues can support banks to improve the

⁵² Note: LUMSDEN and MacKAY (2006) use the term „trust triggers” in the context of websites. Trust triggers are elements that serve as circumstantial cues for customers during their evaluation of vendor trustworthiness. In this context third party security seals had been defined as “immediate trust triggers”. These are those trust triggers which come into effect as soon as a customer visits a website.

“trust in the banking” industry. The trust report can represent an option to consider the sustainability of bank’s return, too. In order to address the needs of customers it was recommended to harmonize the legal deposit protection. As an alternative it was suggested to introduce a “Standardized Product Signing” that helps customers to understand the nature of banking products at first sight and to verify their financial decisions. Furthermore a “Standardized Product Signing” would reduce the information asymmetry between customer and bank.

While the present review has concentrated mainly on the link of trust and retail banking as well as on the current changes of trust in banks, further research should be directed to investigate how a new product signing increases the trust level among customers. It should be tested which presentation would offer the highest acceptance. For this purpose different forms and places of the product signing should be tested. Furthermore it should be tested, which kind of trust triggers can increase the acceptance most.

Appendix A

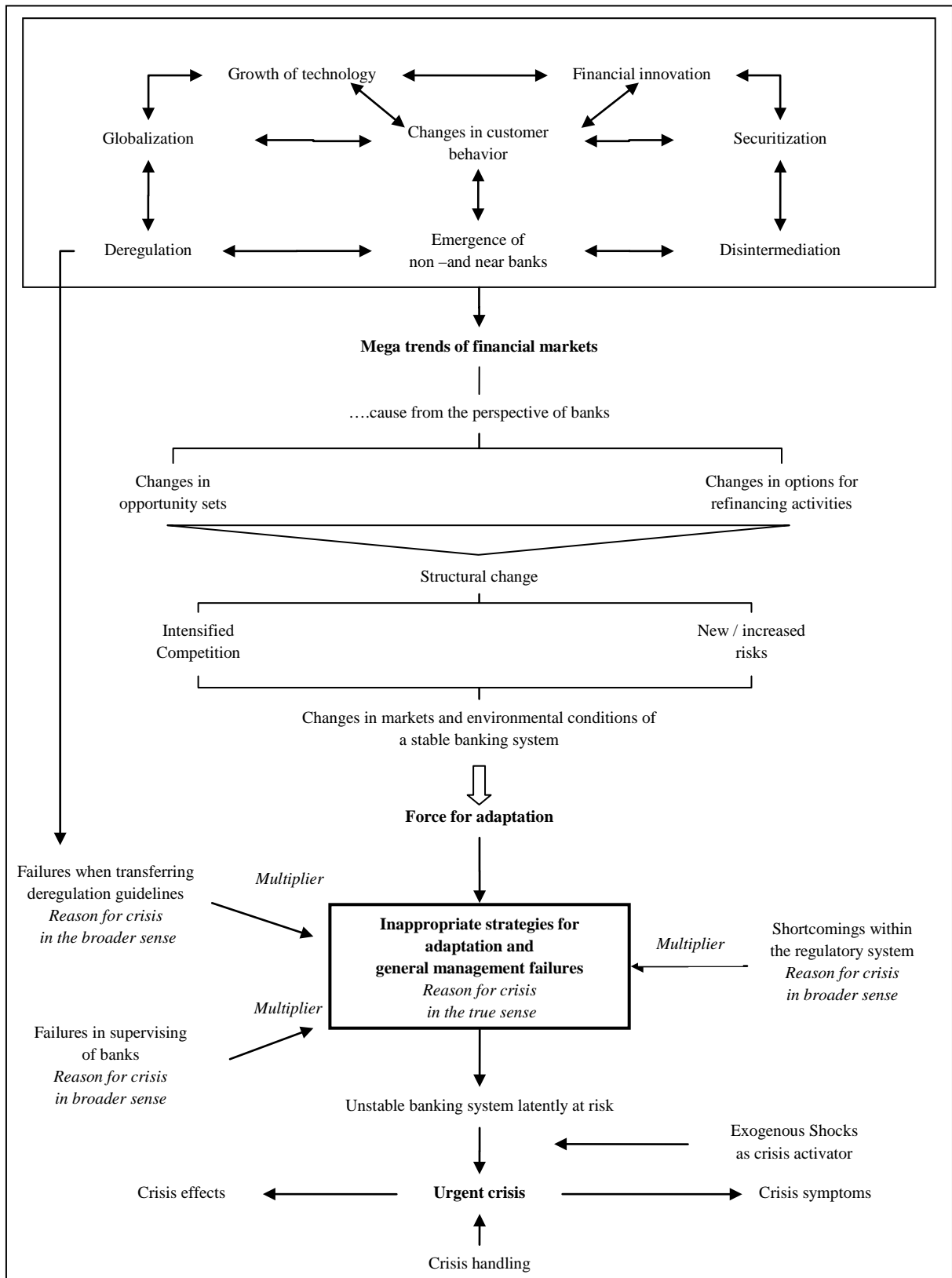


Figure 7: Genesis of banking crisis according to BONN (2008)

Appendix B

Overview about tide of events in a nearly bank run in Germany September - October 2008	
Date	event
March 16, 2008	Bear Stearns collapsed after facing major liquidity problems and was sold to JPM
September 14, 2008	Investment bank Lehman Brothers files for chapter 11 bankruptcy protection.
September 15, 2008	Merrill Lynch was acquired by Bank of America
September 17, 2008	AIG receives a loan about 85 billion USD from FED.
September 26, 2008	Savings bank Washington Mutual collapses after serious liquidity problems (biggest bank failure in U.S. history with 307 billion USD in assets).
September 28, 2008	German Government and large banks agree on a rescue plan over 35 billion EUR for Hypo Real Estate bank to avoid bank's collapse.
September 29 – October 1, 2008	Netherlands, Belgium and Luxembourg protect FORTIS with 11,2 billion EUR. German central bank identifies increase in total cash demand and a skyrocketing demand for 500 EUR bank notes. The chairman of the central bank Prof. Weber informs the Chancellor and the Minister of Finance.
October 2, 2008	Due to a technical malfunction in the savings banks' computing centre several thousand savings banks' ATM stop their operations in Germany. The Icelandic GLITNIR bank has to be rescued by governments. The central bank's surplus in cash outflows has a four time high compared to 2007.
October 5, 2008	Hypo Real Estate bank announces that the rescue package did fail since several banks did cancel their support. At night government and private banks agree on a rescue plan about 50 billion EUR. The federal president Mr. Köhler and the head of Federal Institute for Financial Services Supervision Mr. Sanio recommend to the Chancellor to announce a government guarantee for all deposits. At 2:30 p.m. the Chancellor together with the Minister of Finance makes a public guarantee statement on the behalf of the Government.
October 6, 2008	The level of withdraws remains high. The Minister of Finance informs about a plan for a rescue package worth 480 billion EUR to protect the stability of the banking system.
October 7, 2008	EU Minister for Finance increase the legal requirements for deposit guarantees from 20.000 EUR to 50.000 EUR
October 8, 2008	Chancellor and Minister of Finance have a meeting with publishers and chief editors of major media in Germany to discuss the current situation. The media are requested to report about these issues on a low key level and not to stoke fears.
October 10, 2008	The level of mistrust among banks peaks out. The central bank's surplus in cash outflows has a twenty time high compared to 2007.
October 13, 2008	The parliament decides the banking rescue plan. Cash outflows begin to reduce.
October 24, 2008	The demand for cash declines further and will reach their 2007 level.

Figure 8: Tide of events that affected the stability of the banking system in Germany

Appendix C

<i>Legal deposit protection in selected countries</i>			
Country	Deposit guarantee per customer and bank in EUR	Coverage	Public guarantor
France	70.000	100 %	Deposit Guarantee Fund (Fonds de Garantie des Dépôts)
United Kingdom	app. 63.000 ⁵³	90 %	The Financial Services Compensation Scheme
Austria	20.000	100 %	Deposit Protection Company of the Commercial Banks (Einlagensicherung der Banken & Bankiers Gesellschaft m.b.H.)
Switzerland	app. 70.000 ⁵⁴		Swiss Bankers' Association (Schweizerische Bankiervereinigung)
Germany	50.000	90 %	Several organizations for different segments in the banking industry
Poland	1.000	100 %	Bank Guarantee Fund
	22.500	90 %	(Bankowy Fundusz Gwarancyjny)
Hungary	48.000 ⁵⁵	100 %	National Deposit Insurance Fund of Hungary (Országos Betétbiztosítási Alap)
USA	app. 70.000 ⁵⁶	100 %	Federal Deposit Insurance Corporation (FDIC)

Figure 9: Overview about legal minimum deposit guarantees within selected countries

⁵³ Note: The amount is 50.000 GBP.

⁵⁴ Note: The exact amount is 100.000 CHF and valid for the period 20.12.2008 – 31.12.2010. The total coverage is limited to 6 billion CHF.

⁵⁵ Note: The exact amount is 13 Mio. HUF

⁵⁶ Note: The exact amount is 100.000 USD. In the context of the financial crisis the deposit coverage was extended to 250.000 USD for the period until 31.12.2009.

Appendix D

<i>Example for the presentation of SPS-Information</i>				
“SPS”-element	One month money (of a building society)	2 year Savings certificate (of a savings bank)	Corporate bond, payable on August 15, 2014	Open end stock index certificate by an US-investment bank
1. Basic nature	Deposit account	Savings certificate	Bearer bond	Bearer bond
2. Currency	EUR	EUR	EUR	USD
3. Interest payments	fix	fix	fix	--
4. Maturity	1 Month	2 years	5 years	Unlimited, the issuer has the right to cancel the product
5. Assessment of value	No, always at face value	No, always at face value	fluctuating market value	fluctuating market value
6. Size and scope of legal deposit protection	Full coverage up to 250.000 EUR per single customer	Full coverage up to 20 Mio. EUR per single customer	No coverage	No coverage
7. Relevant risk classes	Credit Risk: Default of building society	Credit Risk: Default of savings bank	Credit Risk: Default of corporation; Interest Rate related Risk: Increase in interest level reduces the value of the bond	Credit Risk; Default of investment bank; Equity price risk: Reduction in equity prices within the index Liquidity risk: A decline in demand for certificates reduces the value of the certificate
8. Fundamental investment object	Debt capital for building society	Debt capital for savings bank	Debt capital for firm	Debt capital for investment bank

Figure 10: Examples for SPS-Information

Element 6 – size and scope of legal deposit protection – represents another way to inform customers about these guarantees.

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