THE CONCEPT OF CONFIDENCE IN BANK

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Abstract

Confidence in commercial banks is considered an important factor that ensures a successful commercial banking operations and development, and provides continuous, high-quality consumer and commercial banking cooperation. In recent years this sector has been characterized as volatile and constantly loosing consumer confidence. This paper analyzes the scientific literature on the topic of theoretical concepts of trust; influencing factors in the formation of the consumer confidence in commercial banks are discussed; the model of consumers‘ confidence in commercial banking is provided. The model puts the influencing factors into three categories, representing trust formation stages. The first stage in the formation of confidence is attributed to the factors determining the initial choice of the bank. In other words, this is the information that a potential commercial banking services consumer can access without starting the co-operation with the certain bank. The formation of a second phase encapsulates confidence factors affecting further cooperation with a commercial bank, i.e. the information that the user receives in collaboration with a financial institution and the opinion that he (the user) of the financial institution, forms in the initial phase of cooperation. The third phase consists of the factor, determining the emergence of trust in commercial banks.

Key words: banking, confidence, assured, trustee, features of trust

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Introduction

Trust is important in all areas of life. According to Mačerinskienė and Vasiliauskaitė (2007), trust is a significant factor, and a big number of transactions would not be implemented without it in a market where the information is not equally available to participants and a certain time period is necessary for concluding and implementing a transaction. While in a difficult financial situation, smooth operation of banks is directly related to the customers' trust, which is considered to be the basis of a long-term relationship (Žvirelienė, Bičiūnienė, 2008). Trust decreases the social complexity, which is unavoidable and further increasing in modern societies (Jucaitytė, Maščinskienė, 2011).

At this time, trust in the banking system is a pertinent issue. Within the past few years, this sector has established itself as an unstable sector, loosing clients' trust on a daily basis. Actually, a lot of surveys were made to research the level of trust in banks after the financial crisis. For example, the level of net trust of citizens in the European Central Bank has declines significantly since the onset of the crisis (Wälti, 2012). Therefore it is very important to rebuild customers' trust in commercial banks. High trust levels may not only reduce contractual costs, but also legal costs by reducing litigiousness (Dearmon, Grier, 2009). Trust reduces agency costs and transaction costs in banking relationships (Moro, Fink, 2013), which means that trust is one of the most important elements that determines the development of future business relationships (Jucaitytė, Maščinskienė, 2011), therefore it is necessary to define the concept of confidence precisely and to identify the factors that condition it. The problem of the research is to settle on the factors that determine the trust in a bank. The object of the research is trust factors. The aim of the research is to establish the factors that condition the trust in banks. The following objectives are settled: to analyse the conceptions of trust; to identify the factors that determine confidence in banks.

1 The Conceptions of Trust

A number of different concepts of confidence could be found in the scientific literature therefore an analysis of trust, confidence, reliance conceptions are necessary for identifying the factors that conditions trust.

Academicians of various fields analysed trust: economists, managers, psychologists, sociologists, etc. Therefore it is vital to define trust, confidence appropriately investigating it in banks. Talking about trust in commercial banks, it would be valuable to analyse it from the economic-psychological aspect, because the customer has the key role in this relationship between the financial institution and the customer itself, and his decisions are influenced not only by economic factors, but also by psychological aspects. Due to this, majority of trust definitions are an interaction between psychological and economic expressions of human behaviour. There are scientists who define trust as a prediction of other individual future behaviour. For example, according to Gill, Flaschner and Shachar (2006) the trust is based on a customers' certainty that the managers assisting their clients will take any actions necessary for the client's benefit.

Very often scientists define trust as a possibility to control risks and diminish them. This conception can be applied defining the business trust establishment in financial institutions. All operations of companies are associated with a certain degree of risk, therefore it is very important for a company to manage and control the possible risks appropriately. Analysing the interaction between the risk and the trust, one can make a conclusion that they are two factors that cannot exist without one another. This state can be applied to the operations implemented electronically as well as all other activities of financial institutions, while all of them are related to a certain degree of risk.

Discussing relationship between an individual and a commercial bank, it would be valuable to apply the concept of security instead of the concept of risk management. Simpson (2007) states that trust between two individuals originates when they realize, that they feel secure. Moorman, Zaltman and Deshpande (1992) define trust as a wish to rely upon a changing partner. This is important not only in a relationship between two or more people, but in a relationship with a certain organisation as well. Trust is a conviction of the clients in creation of secure relations with the bank (Malyavko, 2003). Potential clients will not choose a company that cannot guarantee security of their provided services, for example in financial institution business they may treat the insecurity as a possible loss of money. Therefore trust in banks can be defined as an existence of quality relations between the employees of a financial institution and their clients, which ensures security.

2 Factors Determining Trust

Trust is acknowledged as one of the main factors, on the basis of which relations between individuals and business are formed. Hence trust is one of the most important factors in the business environment and is essential to ensure the successful activities of a bank. Consequently, understanding that trust is one of the main factors in choosing a commercial bank, it is necessary to identify factors conditioning such trust.

Studying trust, researchers have created models of trust formation, based on three main aspects: stressing that the process of trust creation depends on the features of the assured, the rational thinking and institutions, assuming that assured will understands them and evaluates positively (Laeequddin, Sahay, Sahay, Waheed, 2012). To identify the trust factors it is necessary to note that trust is a phenomenon which encourages the cooperation between two subjects – the assured and the trustee – therefore before providing the description of factors influencing trust, the concepts of assured and trustee should be described. Laeequddin, Sahay, Sahay, Waheed, (2012) claim that the assured is that side which has the vulnerable and the insecure position, while the trustee is that side, on which the confidence is placed and which has the opportunity to use the vulnerability of the assured.

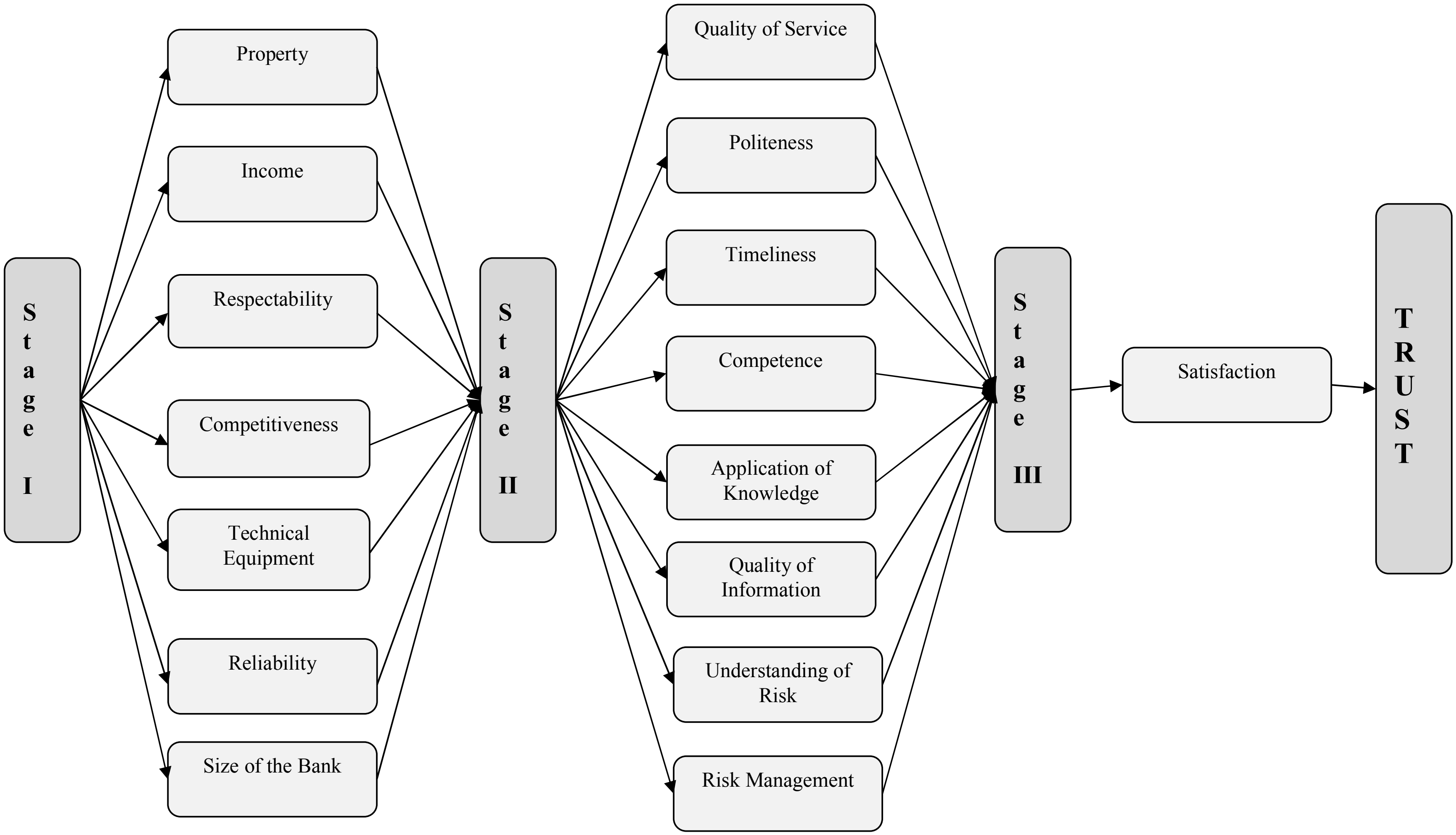
So researchers analysing trust in such financial institutions as the commercial banks, identify multiple factors that lead to the formation of trust. For example, Jasienė and Staroselskaja (2010) claim that the components of the general model of trust in Lithuanian banks are the following: a bank's property, a bank's income, the quality of information and the reliability. According to the data compiled by the research performed by Jagelavičienė, Stravinskienė and Rūtelionė (2006), ensuring the security of a client's information, the respectability of a bank, the technical maintenance of a bank and a bank's competitive ability - are the factors that have the most influence on a bank's image creation. In this case, the trust in banks is not mentioned, but these factors can be interpreted as ones conditioning the trust. Gill, Flaschner and Shachar (2006) identify the following important factors in trust formation: politeness, effectiveness, reliability, competence and application of information. According to Bülbül (2013), the size of the bank and of the sub-network influence trust. Hudson (2004) thinks that risk – an understanding of a probability for losses – is an essential condition in a disciplinary conceptualisation of trust. Bank clients want the risk to be lesser, and only in such situation it is possible to discuss about trust. So the perception of risk could be treated as one of the factors influencing trust. Furthermore, it is important to emphasize risk management, which is an extension of risk perception. A client of a commercial bank, who understands the risk, has to be sure that the risk will be managed, that will help to diminish the possibility of an unfavourable situation, and a client will have minimal losses in case such situation arises. Another important factor for the formation of trust is the quality of services. It is important for the client that the bank employees urgently provide new information, that they offer the newest services and etc. In other words, a bank's employees must perform their job properly in order not to lose the client.

Investigating the relationship between the clients and the financial institutions, it has been observed that the concepts of trust and satisfaction are closely related. Žvirelienė and Bičiūnienė (2008) claim that satisfaction is one of the factors that strengthen the mutual trust between the company and the customer, and define it as an important dimension of relationship marketing, which can be used to determine to what extent the market participants are satisfied with each other's activity. Satisfaction allows for the trust to emerge.

Summarizing, all factors conditioning the trust in banks can be divided into three groups:

1) factors, causing the initial choice of a bank (stage I);
2) factors causing further cooperation with the commercial bank (stage II);
3) factors causing the formation of trust in a financial institution (stage III) (see Fig. 1).

Fig. 1: The Model of Formation of Confidence in Banks



Source: designed by authors

Conclusion

Trust is a multiple social phenomenon, consisting of expectations of participants and the pursuit of gain. Trust is a value that influences the formation of cooperation between a customer and a bank. Trust is a part of an intangible property of organisation, which transforms itself to real value upon effective management.

According to researches the unstable financial situation has caused a decrease of customers trust in commercial banks. Therefore it is important to strengthen customers' confidence in commercial banks at the moment. The factors that influence the level of trust in commercial banks were identified and divided into three groups that form three stages towards the formation of trust. The first stage of trust formation consists of receiving the information about a certain commercial bank. Within the second stage, a favourable cooperation between a bank and a customer has to be ensured and leads to the emergence of satisfaction with the bank, which is the third stage of trust formation in a financial institution. According to these three stages the theoretical model of formation of confidence in banks was designed.

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