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# When Does the General Public Lose Trust in Banks?

Published: 10 August 2014

Volume 48, pages 127–141 (2015) Cite this article



**Journal of Financial Services Research**

David-Jan Jansen [1], Robert H. J. Mosch [2] & Carin A. B. van der Cruijsen [3]

**2603** Accesses **79** Citations **3** Altmetric Explore all metrics

## Abstract

When does the general public lose trust in banks? We provide empirical evidence using responses by Dutch survey participants to eight hypothetical scenarios. We find that members of the general public care strongly about executive compensation. Negative media reports, falling stock prices, and opaque product information also affect trust in banks. Experiencing a bank bailout leads to less concern about government intervention, while experience of a bank failure leads to greater concern on bonuses.

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# Notes

1. Source: http://www.financialtrustindex.org/resultswave15.htm. ULR last accessed 31 January 2013.

2. In the 2010 survey, respondents were initially presented with more than eight scenarios. In 2012 we used the eight scenarios where differences of opinion are more likely to occur. Examples of not-repeated scenarios are: ‘One of the

bank's executives faces prosecution' and 'The bank receives a fine from the financial supervisor'. One consideration for limiting the number of scenarios was the potential negative effect on survey response.

3. In using demeaned responses, we automatically rely on a complete cases analysis. The results are similar, however, if we perform an available cases analysis.

4. According to Statistics Netherlands, in the Dutch population over 16, the average age is 47, the percentage of males is around 49 %, and the percentage of individuals with a bachelor or master degree is around 28 %.

5. Here and in the further analysis, we exclude five observations for 2010, where the weights are larger than 15.

6. Some outliers are not plotted to improve legibility of the graphs.

7. We thank an anonymous referee for this suggestion. Detailed results available upon request.

8. Complete regression tables are available upon request.

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## Acknowledgments

This paper relies on survey material collected in 2010 by the second author and Kirstin Spahr van der Hoek as well as material collected by the authors and Jakob de Haan, also in 2010. We are grateful to both of them. Corrie Vis (CentERdata) helped arranging the various surveys using the CentERpanel. Jansen thanks DNB’s Governance and Accounting Department for hospitality while starting work on this paper. We thank conference participants at the University of Surrey, workshop participants at the Radboud University Nijmegen, seminar participants at DNB, Jakob de Haan, Marco van der Leij, Haluk Ünal (the editor), and an anonymous referee for constructive feedback. Any errors and omissions are our own responsibility. Views expressed in this article do not necessarily coincide with those of de Nederlandsche Bank, the Eurosystem or the International Monetary Fund.

## Author information

### Authors and Affiliations

**Economics and Research Division, De Nederlandsche Bank, P.O. Box 98, 1000 AB, Amsterdam, The Netherlands**

David-Jan Jansen

**International Monetary Fund, Washington, DC, USA**
Robert H. J. Mosch

**Economics and Research Division, De Nederlandsche Bank, Amsterdam, The Netherlands**
Carin A. B. van der Cruijsen

## Corresponding author

Correspondence to David-Jan Jansen.

# Appendix : Questions from the surveys

A. We submitted the following questions on trust to the members of the CentERpanel in 2010 and 2012.

*Introduction:*

This questionnaire is on trust in your bank(s).

**Q1: How likely is it, that because of the following events, you will withdraw the funds from your bank, as you no longer trust the bank due to these events?**

1 = highly unlikely

4 = neutral

7 = highly likely

? = I do not know.

*a*) The bank is led by a dominant person.

*b*) Managers of this bank are receiving large bonuses.

*c*) The explanations related to financial products of this bank are lengthy and difficult to read.

*d*) The share price of this bank drops sharply.

*e*) Family and friends are advising you to withdraw funds from this bank.

*f*) There are media reports that customers of this bank are withdrawing funds.

*g*) The bank receives government support to stay financially healthy.

*h*) The government nationalizes the bank.

B. We submitted the following questions on crisis experiences to the members of the CentERpanel in 2010.

**Q27: During the past 3 years did a bank at which you were customer go bankrupt?**

*a*) yes, DSB.

*b*) yes, Icesave.

*c*) yes, other .

*d*) no.

**Q28: During the past 3 years did a bank at which you were customer survive with the help of government support?**

*a*) yes.

*b*) no.

*c*) I don’t know.

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## About this article

### Cite this article

Jansen, DJ., Mosch, R.H.J. & van der Cruijsen, C.A.B. When Does the General Public Lose Trust in Banks?. *J Financ Serv Res* **48**, 127–141 (2015). https://doi.org/10.1007/s10693-014-0201-y

| Received | Revised | Accepted |
| --- | --- | --- |
| 27 January 2014 | 12 May 2014 | 27 June 2014 |
| Published | Issue date | |
| 10 August 2014 | October 2015 | |

DOI
https://doi.org/10.1007/s10693-014-0201-y

## Keywords

Trust | Banks | General public | Financial crisis | Survey data

## JEL classifications

D12 | D14 | D18 | G01 | G21

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1. Carin A. B. van der Cruijsen

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