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# When Does the General Public Lose Trust in Banks?

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## 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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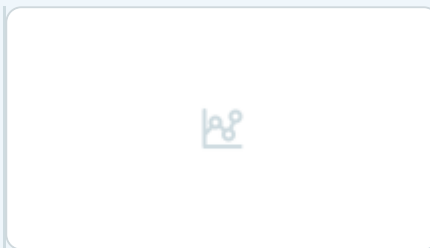
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## Notes

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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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## Appendix : Questions from the surveys

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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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