

BANK REPUTATION IN AUSTRALIA: *a view from the inside*

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This paper investigates management perceptions of bank reputational problems. Interviews with senior bank officials identified several factors that were recognised as impacting negatively on bank reputation; including profits, fees and charges, executive salaries and reactions to changes in monetary policy. Together with media and political commentary these have contributed to the poor public view of banks and increased reputational risk, which can only be mitigated by improving the bank/customer relationship. Measures to increase customer satisfaction ratings, such as fee reductions, improved environmental and social responsibility performance along with community engagement have been employed within the banking industry and have been successful in realigning community expectations.

It has been said that reputation is one of the most valuable assets of a company, particularly a financial institution (Stansfield 2006). Factors that affect reputation therefore can potentially have a significant impact on a company's bottom line. The issue of corporate reputation has attracted increased attention over the past two decades. This is particularly so in the financial services sector where the relationships developed are based largely on trust. Media outlets, ratings agencies, analysts, regulators as well as consumers have turned their attention not only to the actions of banks but also to their underlying management objectives (Stansfield 2006). The reputation of banks globally has suffered not only as a result of the recent financial crises but also through a combination of management decisions that have been perceived negatively by their customer base.

Dissatisfaction with bank fees, for example, is an international phenomenon, expressed by 50 per cent of surveyed customers worldwide (Ernst & Young 2012). The perception that banks charge high fees is increasing customer attrition rates (Ernst & Young 2012, p. 8). In a recent US survey of reputations within 17 diverse industrial and service sectors it was found that financial services firms and banks had the lowest reputation (Landy 2013). This is similar to the Australian experience where banks are also rated lowest of the industries surveyed¹ and have a disapproval rating of 42 per cent (ABA 2012a, 2012b). Further, poll results reveal that almost 76 per cent of

Australians think that bank profits are too high and 77 per cent of people believe that bank profits need to be curtailed (ABA 2012a). The UK experience finds that 70 per cent of the surveyed population consider that British banks are driven by greed (Rowe 2012).

Despite their success in weathering the financial storm in the wake of the global financial crisis (GFC), Australian banks have come under intense criticism from politicians, the media and customers. Media reports that sensationalise bank profits have added fuel to the fire. Media reports have also added to public perceptions that banks are not treating their customers fairly. See for example, 'NAB defends super profits' (Gluyas and Murdoch 2012), 'Big banks slash jobs, bristle over rates' (Kehoe 2012), and 'RBA to hold interest rates despite greedy banks not passing on cuts' (McMahon 2013). The result has been an increase in negative public perceptions about the banking sector and an ensuing rise in reputational risk.

The manner in which banks and other financial institutions identify and manage their reputation and reputational risk has become the focus of increased scrutiny (Trotta and Cavallaro 2012). In this context, and given the importance of reputation, particularly for providers of financial services, this paper investigates management perceptions of the reputational problems that they face. It addresses two key questions: What do senior bank officials think is the cause of perceptions that have had a negative impact on bank reputation? What strategies

have been devised to address the issue? The paper also analyses management's understanding of the issue and considers measures that have been put in place to mitigate the problem.

Corporate reputation

Previous multidisciplinary research has identified many disparate determinants of corporate [bank] reputation, which include internal identity, history, corporate behaviour, economic performance, and stakeholder perceptions (Fombrun and Van Riel 1997; Bennett and Kottasz 2000; Trotta and Cavallaro 2012). Walsh and Beatty (2007) argue that corporate reputation is influenced strongly by the customer's evaluation of the firm based on personal experience and/or information received about the firm. Bontis et al. (2007) make a direct link between customer satisfaction and reputation in the banking industry.

Reputational risk is broadly defined by the Basel Committee on Bank Supervision (BCBS) as 'the risk arising from negative perception on the part of customers, counterparties, shareholders and investors' (Trotta and Cavallaro 2012, p. 22). Over the past two decades Australian banks have experienced several periods of declining community and customer satisfaction. In the late 1990s, the major banks experienced community backlash at the closure of bank branches (Argent and Rolley 2000; Rugimbana et al. 2007). The anti-bank reaction and public dissatisfaction with the performance of banks was further reinforced with the introduction of fees for services. More specifically, the National Australia Bank's reputation was significantly and negatively affected in the wake of \$4.1 billion losses associated with its unsuccessful venture into the US loan market in 2001 and the scandal associated with its foreign currency dealings in 2004 (Thomson and Jain 2010). Recently, bank reputations have been tarnished as a result of the reactions of banks to cuts in the official cash rate and what has been viewed by the public as excessive profit-taking and payment of executive salaries. For example, the results of a recent Ernst & Young Consumer Banking Survey indicated 67 per cent of Australian respondents cited dissatisfaction with the banks' 'bonus' culture as an issue (Ernst & Young 2012).

Triggers such as the events mentioned above highlight the fragile nature of corporate reputation and reinforce the necessity of managing reputational risk. To improve corporate reputation it is important to understand what influences customer and public perceptions of the organisation.

The study

A series of interviews with CEOs and other senior bank officials from a sample of authorised deposit-taking institutions (ADIs) were conducted

between February and July 2013 (Table 1). Thirteen organisations were interviewed representing a cross section of the banking industry, including the Australian Bankers' Association (ABA). Seven of the officials interviewed were CEOs and the remaining were in senior management positions.

TABLE 1: Organisation of origin of interviewees

	Total number of entities June 2013	Number of interviews
ABA	1	1
Major banks	4	3
Other domestic banks	15	9

In face-to-face interviews, senior bank executives were asked the following questions about bank reputation: 'How do you think the financial industry rates in their reputation in comparison with other service industries: such as airline, public transport, and real estate agents? And why?'.² Thematic analysis (Boyatzis 1998) was performed on the interview transcripts. These interviews form the basis of the following discussion, which examines causes of poor reputation and reputation risk management.

Management perceptions of factors impacting on reputation

Analysis of interviews, point to several factors affecting the reputation of banks. Table 2 summarises the causes of poor bank reputation as described in the interviews.

TABLE 2: Factors contributing to poor bank reputation

Contributing factors	Total responses
Media	9
Inadequate approach to community responsibilities	8
Absolute size of profits	7
Fees and charges	6
Withholding interest rate cuts	6
Salaries of senior officials and CEOs	5
Government and politicians	4
Poor public relations	2
Tall poppy syndrome	1
Complex interbank trading and bank products	1
Concentration of power	1
Privileged place in society	1
Ignorance of the business of banking	1

The media was blamed for encouraging the spread of negative perceptions that contributed to the poor reputation of banks. There was a general opinion that the media sensationalised negative reports about banks. It was felt that both the media and politicians had adopted an anti-bank sentiment in recent times and used this to pursue their own agendas. As one respondent stated [banks were] 'constantly

pounded by political parties for their own interest'. The banks and the ABA responded to this attack with the ABA leading a media offensive and employing separate media relations and customer relationship managers. The ABA, a strong and vocal lobby for the banks retaliated with its own media releases. These included: 'Reserve Bank confirms borrowers do not pay more when banks hold back' (ABA 2012c); 'Households paying less in bank fees' (ABA 2013a); 'Doing it tough? Banking industry package to help those experiencing financial difficulties' (ABA 2013b); and 'Record level — banks' customer satisfaction' (ABA 2013c).

The second most important cause of damage to bank reputation identified was an inadequate approach to community responsibility. This stemmed from the late 1990s when branch closures were handled insensitively. The disenfranchisement of local communities, both in suburban and regional areas had a lasting impact on community perceptions. Bank executives now realise that changes to retail banking services were not well managed and failed to adequately take into account community impacts. As one interviewee commented 'There has been a lot of public relations catastrophes'. Two of the officials stated that banks had historically poor public relations. There were past instances when CEOs and other officials issued irresponsible statements in the lay press causing public outrage. This is now managed by having formal customer relationship managers and media relationship offices.

Seven respondents identified the size of bank profits as an issue. It was stated that banks are large organisations in the public eye and so are their profits. Some of the interviewees emphasised that the media and, consequently, the public, tended to ignore the fact that, in terms of measures of profitability, the banks do not have excessively high rates of return on equity. Related to the public perception that banks make excessive profits was the issue of fees and charges. It was acknowledged that decisions surrounding fees and interest rates have a large impact on customer welfare.

Six respondents felt that bank reputation suffered as a result of the perception that banks were withholding the interest rate reductions that were encouraged by the easing of monetary policy. In the past, there was a fair degree of certainty that bank interest rate movements would closely follow RBA changes to the cash rate. The increased costs in funding arrangements post-GFC resulted in banks no longer passing on the full rate cuts associated with monetary policy easing. Respondents felt that there was a general lack of understanding about the nature of banking and the costs involved, but it was recognised that banks could have done more themselves to educate the public in this respect.

Thirty-eight per cent of respondents saw executive salary packages as an issue. Although this matter was not viewed as being as critical as others in influencing public perceptions, it has been addressed by banks in recent times. The banks are increasingly linking salaries to customer satisfaction. The CBA, for example, has linked the salaries of the CEO and other executives to a customer focus, introducing a '25 per cent hurdle requirement for customer satisfaction'.³ This is in line with international trends, which are increasingly encouraging a more customer-oriented focus.

Other causes of poor bank reputation (each mentioned only by a single official) included: the Australian tall poppy syndrome (the habit of criticising successful people and organisations, in this case banks); complex interbank dealings and products; the failure of overseas ventures; the loss of the privileged position of banks and bankers in society post-deregulation; and continued ignorance of the public, media and politicians about the reality of banking business and their costs and profits.

In summary, the management of the major banks felt that the causes of poor reputation were largely due to negative press and media attention. However, it is recognised that not enough has been done in the past to explain their actions and foster positive perceptions among their customers and the community at large. In this respect there has been a failure to manage effectively the change in banking culture associated with the transition to modern banking.

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Banks have taken steps to address reputational problems, which have been accentuated since the GFC. In addition to linking executive salary packages more closely to customer satisfaction, greater emphasis has been placed on corporate social responsibility activities and engaging with the community. For example, charitable donations, providing assistance in disadvantaged areas such as supporting indigenous Australians, addressing financial exclusion, engaging in environmental measures and 'volunteer days', with bank employees contributing significant service to community projects. Specific measures to improve customer satisfaction have been introduced. These have included initiatives such as the establishment of

customer councils, the simplification of products and processes and the expansion of online services. Results of bank image surveys indicate that this approach has stabilised falling customer satisfaction rankings and has improved the fundamental bank image. Table 3 summarises the results of the Roy Morgan Bank Image Statements for four questions relating to bank fees, honesty, equality and appreciation of customer perspective.

TABLE 3: Mean rating for selected survey questions*

	April- Sept 2008	April- Sept 2010	April- Sept 2012	April- Sept 2013
Your bank treats you as an equal partner	4.6	4.7	4.9	5.1
Your bank appears to appreciate and take your perspective	4.7	4.8	5.0	5.1
Your bank is honest and upfront	5.0	5.2	5.3	5.4
Your bank has fair fees and charges	4.1	4.4	4.6	4.8

Source: Roy Morgan Bank Image Statement 2008–2013.
* A seven-point scale ranging from 7 (highest score) to 1 (lowest score) was used.

The increased focus by banks and the ABA on customer and public relations has had positive results. In each case satisfaction ratings over the five-year period have made continual, small incremental increases with three of the four questions relating to customer/banking relationships now scoring over five out of a potential seven points. Community dissatisfaction with the level of bank fees and charges is reflected in the low 4.1 score in 2008 (Table 3). Other polling on bank fees and charges showed 49 per cent of the community felt that banks should not charge anything and a further 39 per cent believed that banks should only charge what it costs them for basic transaction accounts (ABA 2012b).

The most significant change in the bank image statements over the five-year period has been the 10 per cent improvement in customers agreeing that banks have fair fees and charges. The RBA's 2013 survey of bank fees validates this view and reports that since 2010 total fees paid by households have fallen by \$1.12 billion or 22 per cent, taking fees paid by households to their lowest level for seven years (RBA 2013). Both competitive and regulatory reasons have caused banks to reduce and abolish many fees. For example, banking reforms in 2011 removed exit fees, and introduced responsible lending requirements, standardised layout of key information on credit card statements, and the requirements for credit card payments to be allocated to highest interest rate components followed in 2012. Also, recent voluntary reductions by banks on the number and size of fees imposed on late credit card

payments or overdrawn accounts have ameliorated some of the community concern.

While there is a general recognition that customer opinion is a key determinant of bank reputation, there still appears to be something of a mismatch between the two groups. On the one hand, management views adverse media attention as the most important influence on reputation. On the other hand, surveys of consumer banking suggest that pricing is the single most important driver of customer satisfaction (Ernst & Young 2012). The interview results suggest that banking executives do not have a complete understanding of the changing nature of the relationship between banks, their customer base and the broader community. The Ernst & Young survey of consumer banking suggests a shift in customer attitude to banks and banking. Consumers are listening more to other sources of information when making decisions about financial products. They are becoming less loyal to one particular bank and taking more control of banking relationships (Ernst & Young 2012). This in line with the ABA's view that bank customers now want certainty, stability and control in their banking activities (Münchenberg 2013).

Conclusion

In industries, such as banking and financial services, corporate reputation is particularly important as the essential relationships between the various participants are based on trust. Although it is a multi-dimensional concept, customers have an important impact as key stakeholders. Prior literature suggests that reputation is influenced by customer evaluation of the firm and that this is determined by their experience and perceptions. The problem of reputational risk for the banking sector was highlighted during the GFC but continues as an ongoing issue. To better manage risk, bank executives need to have an understanding of what influences customer and public perceptions.

The results of interviews with senior bank officials indicate that several factors are recognised as negatively affecting bank reputation. Profits, fees and charges, executive salaries and reactions to changes in monetary policy were all identified as issues. However, senior bank officials see the major cause of poor reputation stemming from the anti-bank sentiment championed in the media and by politicians. While this has undoubtedly had an impact, evidence from other surveys would suggest that is perhaps not as significant as bank management suspects.

Customer satisfaction has continued to improve due to falling product prices, innovation and technology, improved customer service and transformation in access (ABA 2014). Capgemini and Efma's World Retail Banking Report (2013) found that Australians

rate fourth in the world after Canada, the US and the Philippines in their customer experience. Within Australia, bank customer satisfaction reached a high of 81.6 per cent in January 2014. The major reason for the improvement over the past year was the interest rate reductions for the major banks' housing loan customers (Roy Morgan 2014). This demonstrates the significance of fees and pricing to customer satisfaction. Other reasons for improving customer satisfaction may be the result of class actions against banks including those for penalty fees in recent years. The increased scrutiny by the regulatory bodies has also undoubtedly influenced the way banks have handled their reputational challenges. For example, legislative change to fees, new responsible lending requirements and a number of parliamentary enquiries into the banking industry have had a positive impact (e.g. Senate Economics References Committee, Inquiry into the post-GFC banking sector; and ASIC and APRA inquiries).

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Acknowledgement

This research was supported by an ACFS Research Grant. We also acknowledge and thank the Australian Bankers' Association for their assistance.

Endnotes

- 1 Industries surveyed and ranked from best to worst: Mining, Airlines, Telecommunications, Electricity suppliers, Banks (ABA 2012a).
- 2 These questions were part of a broader survey. Analysis of the other data collected is outside the scope of this paper. The complete data set comprises survey questions relating to and including bank reputational issues as well as information on the perceptions of mutual banks and the challenges before the banking and mutual industry.
- 3 This means that 25 per cent of the long-term incentive awards to the CEO and senior executives will be linked to customer satisfaction, with 100 per cent vesting applying if the average ranking for the CBA group over the performance period is 1st, with 50 per cent vesting if the average ranking is 2nd and no vesting on the average ranking sliding to below 2nd. This comparison is with the other three banks in the big four.
- 4 An example of social responsibility by a major bank is that of NAB staff who volunteered the equivalent of 17,060 days in 2013 valued at \$8.9 million (National Australia Bank 2013).

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