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# TRUSTING BANKS IN EMERGING MARKETS

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# TRUST IN BANKS

- trust in banks is essential for the effectiveness of the financial system
  - greater confidence of individuals in financial institutions enhances their usage of financial system services
  - facilitates the pooling of savings and the expansion of credit by banks => contributes to financial development
  - fosters financial stability by reducing the risk of bank runs
- normal vs. crisis times
  - trust in banks => financial inclusion and financial stability => helps foster economic growth
  - during the financial crisis authorities aim to preserve trust by providing financial support to banks or by fostering deposit insurance to prevent bank runs
  - short-run vs. long-run impact



## WHAT DETERMINES TRUST IN BANKS

- little is known about what determines trust in banks
- studies conducted only on a few developed markets
  - Sapienza and Zingales (2012) for the USA
  - Carbo, Maqui-Lopez and Rodriguez-Fernandez (2013) for Spain
  - Jansen, Mosch and van der Cruisjen (2014) for the Netherlands
  - Knell and Stix (2015) for Austria
- mainly investigate the dynamics of trust in banks during troubled times



## EMERGING MARKETS

- determinants might differ in the case of emerging markets
- importance of trust in banks for emerging markets
  - more frequent and severe crises in emerging markets
  - mostly bank-based economies
  - implications for financial inclusion which is lower in these countries
- we aim to investigate level and determinants of trust in banks in emerging markets



## DATA

- World Values Survey
  - explores values and beliefs; asks individuals about their perceptions of life and institutions
  - representative sample of people from 60 countries during the period 2010-2014 (six waves since 1981)
- a question on trust in banks for 52 countries: “Could you tell me how much confidence you have in banks: is it a great deal of confidence, quite a lot of confidence, not very much confidence or none at all ?” => *Trust in banks*
  - four values; 1 for low confidence and 4 for high confidence
  - dummy variable equal to 1 if values 3 or 4, 0 otherwise



# TRUSTING BANKS AROUND THE WORLD

Country	Mean	S.D.	N	Country	Mean	S.D.	N
Algeria	2.38	1.04	1001	New Zealand	2.66	0.74	781
Armenia	2.60	0.95	1031	Nigeria	2.94	0.91	1759
Australia	2.34	0.80	1448	Pakistan	2.77	0.99	1148
Azerbaijan	2.64	0.98	1002	Palestine	2.15	0.91	926
Belarus	2.50	0.86	1519	Peru	2.25	0.91	1164
Chile	2.18	0.84	980	Philippines	3.00	0.80	1200
<b>CHINA</b>	<b>3.05</b>	<b>0.62</b>	<b>1975</b>	Poland	2.37	0.75	894
Colombia	2.49	0.98	1496	Qatar	2.71	0.94	1045
Cyprus	2.72	0.87	990	Romania	2.23	0.90	1428
Ecuador	2.43	0.90	1201	<b>RUSSIA</b>	<b>2.23</b>	<b>0.87</b>	<b>2329</b>
Egypt	2.53	1.02	1510	Rwanda	2.76	0.78	1527
Estonia	2.72	0.77	1506	Singapore	2.91	0.68	1971
Germany	1.96	0.80	2011	Slovenia	2.30	0.72	1041
Ghana	3.15	0.84	1552	South Korea	2.86	0.74	1197
Iraq	2.61	0.90	1090	Spain	1.77	0.75	1162
Japan	2.69	0.67	2158	Sweden	2.54	0.81	1185
Jordan	2.33	0.90	1135	Taiwan	2.91	0.58	1158
Kazakhstan	2.54	0.87	1500	Trinidad	2.54	0.86	962
Kuwait	2.75	1.03	1221	Tunisia	2.23	1.01	1026
Kyrgyzstan	2.81	0.92	1493	<b>TURKEY</b>	<b>2.25</b>	<b>0.97</b>	<b>1540</b>
Lebanon	2.46	0.97	1144	Ukraine	2.09	0.82	1500
Libya	2.85	1.05	1977	USA	2.33	0.74	2177
Malaysia	3.03	0.75	1299	Uruguay	2.49	0.91	911
<b>MEXICO</b>	<b>2.40</b>	<b>0.97</b>	<b>1993</b>	Uzbekistan	3.24	0.89	1398
Morocco	2.66	0.99	1078	Yemen	2.25	0.97	657
Netherlands	2.09	0.70	1796	Zimbabwe	2.90	0.91	1500



## LEVEL OF TRUST

- large differences in trust in banks across countries
- trust in banks lower in high-income countries
  - might reflect the recent financial crisis
- two subgroups of emerging markets
  - very low trust e.g. Russia, Turkey
  - very high trust e.g. China, Philippines, Uzbekistan
  - might be determined by the experience of individuals (transition period, crisis) and the level of development of banking sector



# DETERMINANTS OF TRUST

- sociodemographic factors
  - gender, marital status, education, income, age, health status
- information sources
  - newspapers, television, internet
- religious values and general trust
  - active member of the religious group
- economic values
  - favouring inequality, preference for the influence of government, negative attitude towards competition
- logit estimations – dependent variable trust in banks





# DETERMINANTS OF TRUST IN BANKS AROUND THE WORLD

Dependent variable - trust in banks (dummy variable)

Specification	(1)	(2)	(3)	(4)	(5)
Married	0.006	0.005	-0.010	-0.010	-0.017
<b>Female</b>	<b>0.081**</b>	<b>0.079**</b>	<b>0.090***</b>	<b>0.091***</b>	<b>0.101***</b>
Education	-0.003	-0.004	-0.018	-0.024	-0.034
<b>Age</b>	<b>-0.004***</b>	<b>-0.004***</b>	<b>-0.003***</b>	<b>-0.004***</b>	<b>-0.002</b>
<b>Income</b>	<b>0.083***</b>	<b>0.083***</b>	<b>0.077***</b>	<b>0.075***</b>	<b>0.069***</b>
Newspaper	0.050*	0.049*	0.040	0.037	0.029
<b>Television</b>	<b>0.150***</b>	<b>0.151***</b>	<b>0.134***</b>	<b>0.140***</b>	<b>0.139***</b>
Internet	0.016	0.015	-0.003	-0.005	-0.013
<b>Religious</b>		<b>0.100***</b>	<b>0.097***</b>	<b>0.091**</b>	<b>0.083**</b>
<b>Inequality</b>			<b>0.032***</b>	<b>0.032***</b>	<b>0.032***</b>
Government role			-0.006	-0.006	-0.005
<b>Competition harmful</b>			<b>-0.026***</b>	<b>-0.026***</b>	<b>-0.025***</b>
<b>General trust</b>				<b>0.152***</b>	<b>0.138***</b>
<b>Health</b>					<b>0.126***</b>
Observations	67,425	67,425	63,531	63,531	63,347



# DETERMINANTS OF TRUST IN BANKS IN EMERGING MARKETS

	Russia	China	Turkey	Mexico
Married	-0.065	-0.279	0.045	-0.127
Female	0.246***	0.161	-0.185	-0.089
Education	-0.089	-0.173	-0.057	-0.003
Age	-0.008***	0.012*	0.002	-0.013***
Income	0.208***	0.051	0.094**	0.024
Newspaper	-0.247	0.071	-0.400***	-0.074
Television	-0.109	0.295	-0.069	0.345***
Internet	0.096	0.140	-0.199	0.006
Religious	0.060	0.272	0.576	0.261**
Inequality	0.082***	0.060*	0.042**	0.027*
Government role	-0.033	0.035	-0.033	-0.002
Competition harmful	0.000	0.045	0.002	-0.022
General trust	0.296***	0.361**	0.276	0.040
Health	0.055	0.202*	0.092	0.130***
Observations	1,975	1,576	1,463	1,871



## CONCLUSIONS

- large cross-country differences in trust in banks
  - differences even within the group of emerging markets
- trust in banks lower in countries which experienced financial crisis
- identify certain determinants of trust
  - women trust banks more, older people less, higher income tends to increase trust
  - religious people and people who trust in general trust banks more
  - pro-market economic values contribute to trust



## CONCLUSIONS

- understanding what shapes trust in banks is crucial to designing effective policies to promote financial stability
- experience of financial crisis seems to have both short-term and long-term influence on the level of trust in banks
- further research is needed to better understand what shapes trust in banks and what explains the differences across countries