A Study on Trust Restoration Efforts in the UK Retail Banking Industry

Abstract

This paper aims to capture the perception of banking services providers on how to restore their customers’ trust in the UK banking industry. Twenty frontline employees (FLEs) who have customer-facing responsibilities are interviewed and a thematic analysis of the interview transcripts is undertaken. Through the emergence of three different major themes and a number of sub-themes, we have presented our findings in the form of a trust restoration model. Interviewees have reported three major themes as an action framework to restore their customers’ trust. Firstly, banks are implementing enhanced transparency in their operations, by appropriately disclosing the key features of their lending and other banking activities. Secondly, they are implementing policies and procedures that can help strengthen their relationship banking, such as improving employee and customer engagement activities for supporting small businesses and the community. Thirdly, they are promoting operational efficiency by adequately investing in information technology infrastructure. However, some financial service practices identified by the interviewees, for example, the deliberate sale of financial products that are unsuitable for their customers or too complex to understand, still continues. Ultimately, this ‘sale before service’ tactic is incompatible with the industry claims of compliance with the new financial regulations.

Key words: Trust, retail banking, relationship approach, moral hazard, financial regulations

1. **Introduction**

In the age of information technology (IT), a lone violation of trust can be severe enough to effectively eliminate all trust (Lewicki and Bunker, 1996). Accordingly, the prolonged period of various banking scandals and the Global Financial Crisis (GFC) has brought public trust in the Financial Services Industry to its lowest level. In the UK and other developed economies, banking products and services have lost credibility due to mis-selling[[1]](#footnote-1). The public confidence has been further diminished in the retail-banking sector due to the excessive pay received by bank executives and the ongoing press coverage of poor customer services. The public has also become very cynical regarding intervention by governments, fines imposed by regulatory authorities and bailouts to support failing banks.[[2]](#footnote-2) It is thus not surprising that restoring customer trust is at the top of the agenda for the banking industry and regulators.

In trust violation studies[[3]](#footnote-3), researchers mostly focus on firms’ competence and integrity in service-rich organisations, as these two dimensions are the most powerful determinants of a firm’s trustworthiness (Mayer *et al.,* 1995). In this regard, Gillespie and Dietz (2009) argue that integrity violations are more damaging and difficult to repair, e.g., fraud, lack of transparency and incompetence. Similarly, Tomlinson and Mayer (2009) state that integrity violations occur when the trustee does not adhere to a set of principles that the trustor finds acceptable. Other prior studies in this area have also investigated different aspects of the impact of financial crisis on banks and their operations, as well as the level of customer trust in the retail banking services industry. For example, Macintosh (2009) reports that past incidents in the banking sector are the reason for a decrease in customer trust. Sunikka *et al.* (2010) argue that customer expertise and aptitude are related to trust in banking services. Furthermore, while dos Santos and Basso (2012) relate consumer trust to the level of customer complaints, Shim *et al.* (2013) consider customer care and well-being as important determinants of customer trust in the retail banking services industry. Moreover, Jarvinen *et al.* (2014) examine customer trust in the banking sector across 29 developed economies and report variation in customer trust across countries. They argue that customer expectations are associated with the specific services offered by banks. Nevertheless, there is limited research to guide a comprehensive understanding of the process of trust restoration (Dirks *et al.*, 2009). Similarly, Heffernan *et al.* (2008) argue that, although the body of literature on trust has grown in recent years, fundamental gap remains, as little research has explored trust in the banking sector. We therefore ask the following question to examine the dynamic aspect of trust rather than static ones: How can customer trust in the UK retail banking sector be restored after the recent GFC?

This study therefore examines the micro-level trust restoration efforts implemented by the UK retail-banking services to explore areas that are of concern to customers. To accomplish our objective, we interview 20 FLEs during 2014 at leading UK retail banks, building societies and Post Office® professional[[4]](#footnote-4), who are directly exposed to the concerns raised by customers and their banks’ efforts. Thematic analysis of the 20 interview transcripts is undertaken, which identifies three major themes and several sub-themes. Our results show that the level of customer trust varies in the banking sector and appears to pervade the entire cross-section of banking services provided by FLEs.

This paper contributes to existing literature in this area in the following ways. Firstly, the study identifies meaningful patterns across the dataset, e.g., the emergence of the trust restoration model in the form of three major themes, i.e., transparency, relationship approach and strengthening the IT infrastructure in banking services, and several sub-themes. On a conceptual level, the trust restoration model is an ex-post outcome from our research.

Secondly, we argue that interviewing FLEs rather than boardroom executives is likely to provide reasonable insights into the level of trust displayed by customers since FLEs work closely with them on a day-to-day basis.[[5]](#footnote-5) Our interviewees include regional managers, branch managers, business managers, Post Office® professional, customer advisors and cashiers, i.e., FLEs who have direct communication with customers. They are a relevant data source for our research concerned with how to restore customer trust in retail banking. Solomon et al. (2013) report that company executives can damage company reputation and value by intentionally involving themselves in inappropriate activities such as international misrepresentation, instances of fabrication, etc.

Demirgüç-Kunt and Detragiache (2002) argue that, as the government ownership of banks increases, the risk-taking of governments also increases. This view is also supported by Iannotta *et al.* (2013), who specifically focus on the fact that government ownership of banks distorts competition among market participants and affects operational efficiency of the markets. We also argue that the practice of bailing out banks at times of financial difficulties can lead to significant moral hazard since the belief that the banks will always be bailed out by governments because of their importance in the economy implies that there is no need for the banks to be trustworthy. The implementation of the trust restoration model creates an opportunity for regulators to identify problems in the retail-banking industry from the outset and take immediate measures.

Conceptually, building on prior studies, this study documents that there are strong analytical grounds for arguing that providers of financial services continue to lack sufficient integrity to treat customers fairly. Such an approach is unlikely to win back customer trust (Ennew *et al.,* 2011; Gillespie and Dietz, 2009; Kim *et al.,* 2009; Lewicki and Bunker, 1996). We argue that banks and building societies may improve their services by identifying innovative ways of doing business. This includes developing new digital capabilities to improve FinTech engagement, and, similarly, to improve customers’ confidence over e banking. They must work hard to significantly reduce the chances of any major IT glitches, which in turn will minimise reputational and operational risks. We suggest that the Financial Conduct Authority (FCA) should undertake mystery-shopping activities to identify problem areas of financial selling, as well as publish a league table of UK retail-banking provision and key performance indicators.[[6]](#footnote-6)

Similarly, this study also supports earlier research in the domain of trust restoration. The emerging major and sub-themes in the present study are not alienated variables, as several authors have documented. For example, customer satisfaction (Theron *et al.,* 2011), concern for employees (Mandhachitara and Poolthong, 2011), customisation and multi-channel experience (Gill *et al.,* 2006) are all areas where trust violations can cause severe reputational damage. Complaint handling (Yep *et al.,* 2012), conflict handling and communication (Ndubisi, 2007), competence (Coulter and Coulter, 2002) and cooperation and performance (Nienaber *et al.,* 2014) are also widely researched areas that are linked to trust. Nevertheless, although the antecedents of trust that appear in this study are supported in previous research, the three distinct major themes and sub-themes, e.g., the trust restoration model, are not apparent in earlier research findings, and we therefore claim this as the main contribution of our research.

The rest of the paper is organised as follows. The next section presents an overview of the relevant literature on organisational trust and its multi-dimensionality. Section 3 outlines the research methodology and data. Section 4 presents our findings. Section 5 presents recommendations followed by conclusions.

1. Literature review

**The global financial crisis**

The GFC was mainly caused by oversupply and mis-selling of mortgage-based securities (MBS) in the US housing market (Treasury Committee, 2009).[[7]](#footnote-7) Anecdotal evidence also suggests that lack of confidence in the reliability of accounting systems also triggered the GFC (Muradoglu, 2010). Before the GFC, hard-to-value derivative instruments were widely used as an industry standard for risk aversion. Securitisation, MBS and structured investment vehicles were often treated as off-balance sheet activities, which made it difficult for the financial analysts to quantify the true leverage ratios of financial institutions (Muradoglu, 2010). Marshall *et al.* (2019) also report that the information content of debt as a market signal about the creditworthiness of the banks declined during the period.

Wilson *et al.* (2010) argue that fair value accounting (mark-to-market or mark-to-model) also exacerbated the severity of the financial meltdown. Manganaris *et al*. (2017) argue that accounting conservatism and timeliness of accounting information are two useful determinants of transparency in financial reporting. There is some evidence to suggest that financial institutions are still not sufficiently transparent in presenting their financial reports (see Bushman, 2014). Poor disclosure and lack of transparency do not facilitate trust among users of information. There is therefore a need for further research on the impact of the global financial crisis on banks’ transparency and related customer trust in this sector.

Furthermore, a series of high-level inquiries into the role and effectiveness of auditors was also conducted after the GFC. Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers, fuelled up, triggered the crisis by signing off ridiculously optimistic valuations of bank assets prior to 2008 (Sikka, 2009). Similarly, a professional accountancy body suggests: “*It is right, given the scale of the global financial crisis and the extent of taxpayer bailouts of banks in several countries, that the role of auditors and accountants should be questioned”* (ACCA, 2011, p. 17).**[[8]](#footnote-8)** The GFC has also triggered a debate on the credibility of the credit rating industry. The credit rating agency has also been subject to significant reforms, particularly in Europe, through Credit Rating Agency Regulation in 2009 (Klusak *et al.,* 2017; Duff and Einig, 2009).[[9]](#footnote-9)

The credit rating agencies (CRAs) have assigned high credit ratings for higher commissions to the bonds, MBOs and collateralised debt obligations (CDOs), among other financial products. Unfortunately, for ordinary investors it would have been impossible to assess the credit worthiness of any such complex financial products; rather, they have to rely on different CRAs, e.g., Moody’s, Standard & Poor’s and Fitch, for their certification. Conversely, the CRAs have favoured their self-interest over the interests of investors around the GFC. All these factors would appear to contribute to the lack of trust among bank customers and the public, and in general support our arguments for further research in the area.

**Industry analysis**

The Big Four British Banking Groups, i.e., RBS, Barclays, HSBC and Lloyds Banking Group, together with Nationwide and Santander constitute 80% of the British customer lending and deposits and 90% of the business loan market (Matthews *et al.,* 2007). There are over 147 million credit and debit cards in issue, and over 11.2 million mortgages worth in excess of £1.2 trillion. British banks usually process over 4 billion direct debits and standing orders, and 775 million cheques annually. They operate a network of more than 9,000 branches and over 63,000 ATMs – from which customers withdraw £185 billion in cash each year[[10]](#footnote-10).

According to the Competition and Market Authority (2014), there are approximately 80 million accounts in the UK, 65 million of which are used regularly. The personal current account (PCA) generated about £8.1 billion in revenues for banks in 2013, equivalent to £125 per account. Currently, 20 banking groups provide PCAs in the UK market and nine of them have more than one million active accounts on their books.

The severity of the GFC cannot be underestimated. On April 2nd, 2007, nine UK banks (Alliance & Leicester, Barclays, Bradford & Bingley, HBOS, HSBC, Lloyds-TSB/Lloyds Banking Group, Northern Rock, RBS and Standard Chartered) had a collective market capitalisation value of £316.9 billion. By April 6th, 2009, the BoE reported that the banking sector capitalisation was worth only £138.1 billion on the same date.[[11]](#footnote-11) Given the scale of the crisis and to avoid a major meltdown of the UK economy, the BoE cut the base rate to 5.5% from 5.75%, which was finally brought down to 0.50% in March 2009.

**Conceptualisation of trust**

Prior research provides key insights into trust. Trust has become a vital topic of inquiry in a variety of disciplines, including economics (Williamson, 1993) sociology and psychology (Kramer and Lewicki, 2010), philosophy (Baier, 1986) and relationship marketing (Colquitt *et al.*, 2007). The span of this literature offers rich insight (Lewicki *et al.,* 2006). However, Roy *et al.* (2011) argue that the issue remains complex, ambiguous and problematic. According to Smith (2010), there are many competing definitions of trust, creating confusion regarding the conceptualisation of trust and its dimensions.

Different studies in this area have used trust as a synonym for trustworthiness, confidence, faith and even loyalty (McKnight *et al.,* 1998; Khodyakov, 2007). Trust means different things in different situations (Colquitt *et al.*, 2007; see Ebert, 2009, for a review). Mayer *et al*. (1995) define trust as the trustor’s willingness to be vulnerable to the actions of the trustee based on the expectation that the trustee will act and perform accordingly. More recently, Sekhon *et al.* (2013) define trust as a belief held by customers regarding an organisation or its representatives. We consider the Mayer *et al*. (1995) one as the most relevant definition where the UK retail-banking industry trust restoration is concerned. That is the focus of our research. Customers of the UK retail banks (trustors) are attracted to the financial services (trustees), willing fully and taking the terms and conditions as binding, fair and serious agreement. They expect that the trustees maintain full due care and diligence while managing customers’ interests in the bank. They reasonably expect that the banks act and perform in compliance with their contractual agreements, stated in the documents related to their investments, savings, current accounts, credit cards, mortgages, various insurance policies, etc., held with the banks.

In addition, two different dimensions of trust have been identified by prior research in this area which suggests that trust is either evolved from a pattern of careful, rational thinking, as in the cognitive dimension or cognition-based trust coupled with emotional linkages, or as in the affective dimension or affection-based trust (Ennew *et al.,* 2007; McAllister, 1995; Rempel *et al.*, 1985). This idea is quite persistent, with Morrow *et al.*’s (2004) idea of a two-fold process of feeling and rational thinking by the trustor, which implies that customers may rely on affective and cognitive signals from the service provider as an indicator of their trustworthiness. In contrast, Zand (1972) suggests three determinants of trust: integrity, benevolence and ability[[12]](#footnote-12): the trusting party must believe that the trusted party is able to deliver on the promise and will not deliberately take unfair advantage of the situation. These three factors are later modified and reclassified by McAllister (1995), as cognitive and affective trust.

Cognitive trust is a customer’s willingness to rely on a service provider’s competence and reliability (Moorman *et al.,* 1993) or the customer’s willingness to reflect upon institutional integrity and competence (Rempel *et al.,* 1985). Coulter and Coulter (2002) state that the most common categories of the cognitive trust dimension are reliability, competence and integrity, whereas affective trust, which is more routed in social psychology, acts as a behavioural guideline. Trust is the confidence a trustor places based on feelings generated by the level of care and concern the partner demonstrates (Rempel *et al.,* 1985). Coulter and Coulter (2002) stated that higher levels of affective trust lead to greater levels of co-operation and may decrease perceived risk and uncertainty in a new relationship.

In trust violation studies (see, for example, Guiso, 2009; Ennew and Sekhon, 2007; Gillespie and Dietz, 2009; Kim *et al.,* 2009; Lewicki and Bunker, 1996; Poppo and Schepker, 2010), researchers have mainly focused on the organisation’s competence and integrity in service-rich organisations, as these two dimensions are the most powerful determinants of a firm’s trustworthiness. In this regard, Gillespie and Dietz (2009) and an early study by Lewicki and Bunker (1996) argue that integrity violations are more damaging than competence violations and they are difficult to repair. Similarly, Kim *et al.* (2009) report that the public weighs integrity violations more seriously than competence violations.

According to Tomlinson and Mayer (2009), integrity violations occur when the trustee does not adhere to a set of principles that the trustor finds acceptable. Gillespie and Dietz(2009) grounded fraud, dishonesty, lack of transparency, incompetence and exploitation as integrity violations that can have a negative impact on stakeholder trust. They have reported that the recent GFC arose due to multiple integrity violations, as many financial institutions had known the harmful effect of their actions towards the public, but they deliberately mis-sold the banking products.

Focusing on competence violations, Tomasic (2011) found that the GFC had exposed numerous incidents of gross incompetence in financial institutions, as most CEOs of UK banks claimed that they were caught completely caught by surprise regarding the sudden liquidity crisis that led to bank failures. Poppo and Schepker (2010) report that competence violations do harm the public’s confidence in purchasing a firm’s products and services. Nevertheless, regardless of the plethora of research on trust, there is very limited research to guide a comprehensive understanding of the process of trust restoration (Dirks *et al.*, 2009), with the exception of Kim *et al.* (2009) and Gillespie and Dietz’s (2009) work on trust repair at an organisational level.

Gillespie and Dietz (2009) stated that trust repair for organisations involves a *multi-stage* processes due to its profound complexity. For instance, following the GFC, the immediate response by the UK retail banking industry was public apologies, financial compensation and the removal of failing chief executives. [[13]](#footnote-13) However, the removal of these chief executives barely ‘scratched the surface’ and is only an initial response to these integrity, competence and benevolence violations. Moreover, to reinstate institutional trust, the UK government has now implemented a new ‘*twin peaks’* regulatory system and replaced the Financial Services Authority (FSA) in April 2013 with the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). Furthermore, an independent Financial Policy Committee was also created at the Bank of England (BoE) to safeguard the institutional integrity of the entire UK financial system.

Scholars have argued that the fundamental inadequacy with the UK regulatory paradigms is a conflict of interest due to the role played by Treasury bank bailouts, as the primary objective for the Treasury would now become profit maximisation or at least recovery of its original investment, which is contradictory to its broader regulatory responsibilities (see MacNeil, 2010; Lee, 2009). Thus, the above-mentioned draft of reforms to the financial system in the UK might not be the whole answer and these macro-exertions have to be combined with a micro-level approach to elevate bank-level trust. Therefore, in the context-specific parameters of the recent GFC and the subsequent trust violations, this study addresses the following question:

***What actions have the UK retail-banking industry taken to restore customer trust?***

This paper ha*s* a specific aim to provide valuable insight into the retail-banking service regarding the micro-level actions to restore customer trust following the GFC. To do this, we interview 20 FLEs, selected from UK retail banks, building societies and post offices who have close day-to-day business relationships and dealings with customers. The interviewees have been engaged in the retail banking services business for a while leading up to and following the GFC. We therefore argue that they are familiar with the factors that contributed to the decline in trust in the retail banking industry and the measures taken by the banks and regulators to restore customer trust.

1. Data and methodology

The main objective of this study is to outline the UK retail banks’ efforts to restore their customers’ trust after the recent GFC. We use semi-structured interviews to collect data for our research. Twenty open-ended semi-structured interviews have been conducted with FLEs from the UK leading banks, building societies and Post Office®. To analyse the interview dataset, we employ a six-stage approach to a thematic analysis method suggested by Burn and Clark (2006), producing major and sub-themes. The resulting themes were then organised to allow a clear picture of the interviewees’ experiences. Further, to strengthen the credibility of the study we have used direct quotations and individual reflective statements of the interviewees as directed by Thomas and Magilvy (2011).

Data sources

In order to examine on-the-ground realities, we interview different UK high street banking officials with customer-contact responsibilities at the branch level, including regional managers, branch managers, business managers, customer service advisors and cashiers. Their responses are more objective and real compared to individuals appointed at a higher level. Furthermore, authorities appointed at a higher level tend to defend (be biased towards) the existing bank policies and long-term strategies, which may not sufficiently reflect grass roots-level objective realities that are captured and reflected better by the grass roots-level officials whom we have included in our sample.

The presence of intentional misrepresentation, occasional instances of fabrication, etc., by company executives can damage company reputation and value (Solomon *et al.,* 2013). On the other hand, the banking staff included in the interview know about strategic decisions due to the consultative process that normally takes place among staff working at different levels of the banking business. Applying a judgemental sampling method (Bryman, 2008), we attempt to include the individuals most involved in the UK retail banking industry. Apart from achieving a good level of diversity in our sample, we also managed to position the sample more towards staff who have close contact with customers on a day-to-day basis as part of their daily routine activities. In total, 20 personal interviews were conducted between 1st January 2014 and 31st March 2014.

Interviewees’ experience levels range from two years to 26 years; see Table 1 for the interviewees’ profiles. Of the 29 interviewees approached, 20 participants agreed to be interviewed for this study. The high response rate perhaps reflects the seriousness of the issue, as public confidence in the banking sector will continue to erode unless the retail bankers *openly explain* to the general public what exogenous efforts, they have made to restore their trust.

**(Insert Table 1 here)**

Interview protocol

In this study, 20 participants are interviewed face-to-face as this allows the interviewer to ask them for clarification where required and immediately introduce follow-up questions (Saunders et al., 2007). All our interview questions were semi-structured and motivated by evidence in the existing literature. They were designed to elicit the participants’ perspective as to how to regain their customers’ trust after the GFC. For example: “*What improvement has your bank made to regain their customer trust?*” The interviewer then asks the follow-up questions to probe the various aspect of the banks’ complaints handling, “*Has your bank improved its complaints handling procedure since the GFC?*”, and the repulsive target culture which has actually triggered most of the mis-selling, “*Do the staff still have to hit certain sales targets on a daily basis?*”

Additionally, to check the interviewee’s appetite for the new banking regulations, another question was added: “*What is your view regarding the new banking regulations in the UK?*” The final area relates to the matters connected to branch closures: “*How is your bank managing problems arising as a result of branch closures?*”, and for alternative provision to the business community: “*What renewed efforts has your bank made to improve relationships with its business customers?”,* since the British business community is now among the main critics of the banking industry. The researcher also allowed the respondents to express their own views and perceptions regarding the state of customer trust and organisational trustworthiness. The number of questions was deliberately restricted because of the pressures on banking staff time.

Finally, to boost the research validity, a triangulation process is adopted by interviewing different area managers, branch managers and other frontline employees from different banks to check the consistency of the responses. Furthermore, to improve the confidentiality in the interview process, the respondents were given options to choose a location for the interview, and they were assigned a pseudonym to maintain anonymity, such as interviewee 1, 2, 3 and so on. Most interviews with area and branch managers were conducted in their banking premises, while other interviewees often chose nearby coffee shops for their interviews. Each interview lasted 1-2 hours and all were conducted by the lead author. We believe that the length of interviews helps to mitigate the relatively small number undertaken. With the consent of the respondents, all interviews have been recorded, and extensive notes were also taken during the interviews.

***Data analysis***

In line with Braun and Clark’s (2006) six-phase approach, interview data was analysed through thematic analysis[[14]](#footnote-14); see Table 2 for the six-phase approach of our thematic analysis. For instance, all audio recordings are professionally transcribed and imported into QSR NVivo[[15]](#footnote-15), a qualitative data analysis software package, to generate initial codes. Further, two trained coders who were completely unaware of the study type independently reviewed the codes, and hence were unable to establish any commonalities and differences in the initial coding process, as outlined by Morreale and Shockley-Zalabak (2014). Upon their debriefing, using NVivo software, the codes were carefully checked and sorted into themes and sub-themes which were closely linked to the objective of this study (Bernard & Ryan, 2010; DeSantis & Noel-Ugarrisa, 2000). Thus, a thematic map followed, illustrating the 43 subthemes connected to the three major themes. Finally, to complete the process an analysis was written using key quotes.

**(Insert Table 2 here)**

1. **Results and findings**

The thematic analysis yielded three major themes (see Figure 1) and several sub-themes (see Figure 2, for detailed model). The themes were extracted after carefully weaving together the analytical narrative of the 20 personal interviews. Finally, the extracted themes from the interview transcripts were *contextualised* in the form of banks’ customer trust restoration efforts examined in this research and this was named the trust restoration model. However, it would be fair to argue that the high-level themes and sub-themes (the trust restoration factors) that emerged were decisively expressed by the banks’ FLEs in regard to how to restore their customers’ trust.

**(Insert Figure 1 here)**

During the interview process, the interviewees put forward their views regarding: (i) the loss of customer trust; (ii) renewed efforts to uphold their banks’ integrity, ability and benevolence following the substantial financial losses around the banking crisis[[16]](#footnote-16); (iii) their efforts to restore their customers’ trust; and (iv) the psychological challenges involved in dealing with customers, especially after the recent mis-sellingof the PPI scandal, LIBOR rigging and bank bailouts. The interviewees also shared their views on how the public perceives financial institutions following the crisis and how banks are coping with the new regulatory regime since April 2013.[[17]](#footnote-17)

While some interviewees acknowledge an improvement in their banking operations, others, such as those who were rescued by the UK government (e.g., Royal Bank of Scotland, Lloyds Banking Group)[[18]](#footnote-18), have yet to establish a concrete path for the future ahead. However, Hall (2009b) and Iannotta *et al.* (2013) pointed out that in such situations towards the moral hazard dilemma and argued that government ownership can create more aggressive risk-taking behaviour in banks. In a similar vein, Barth *et al.* (2004:211) stated that “*deposit insurance may encourage excessive risk-taking behaviour, which some believe offsets any stabilisation benefits*”. Therefore, it can be argued that banks will always be bailed out due to the fact that they are ‘too big to fail’, hence there is no need for them to be trustworthy.

Finally, it is also evident that the interviewees have acknowledged that the financial institutions are aware of negative publicity surrounding the retail-banking industry and their business conduct. Since the banking crisis, governance reforms have been a priority. As such, several chief executives have been replaced. Other chief executives have suffered major changes to their pay packages. In relation to this, many observers argue that excessive pay contributed to higher risk-taking and exacerbated the moral hazard behaviour (see Bebchuk and Spamann, 2010). Therefore, retail banks have recently taken steps to improve their trustworthiness (e.g., integrity, ability and benevolence), as too often they have ignored their long-term strategic goals and the interests of their customers.

In general, the interviewees bitterly criticised politicians for the banking crisis, as they used banks during the pre-crisis to stimulate the economy. The view runs contrary to the Pigouvian view (Pigou, 1938) regarding government involvement in economic activity to mitigate externalities and informational asymmetries and ameliorate market failure. There is a huge degree of resentment towards politicians. The interviewees argued that a large proportion of the blame must go to the politicians, as they have successfully deflected attention from their own actions and have shifted the blame onto the banks. Indeed, one of the interviewees made the following statement regarding the tactics used by the politicians in shifting responsibility for the GFC from themselves to the banks:

*“Of course, numerous banks have played their part in the crisis, but the main obligation lies with the politicians, as they wanted us to increase homeownership at any price to stimulate the economy; but when debts exceed what borrowers can pay with their income, bubbles are created.” (Interviewee No. 14 for retail bank F.)*

The argument runs in line with Shleifer and Vishny’s (1998) view that governments act in their own interests and rarely mitigate externalities and asymmetries. Most of the interviewees gave the examples of the more recent government affordable housing policy, i.e., the Help to Buy mortgage guarantee scheme. They considered the scheme to be hasty and ill-perceived in order for the government to achieve its political ends.[[19]](#footnote-19) The interviewees perceived that bank lending to customers with barely a 5% deposit is risky since the deposits could come from friends and families, and applicants tend to hold risky jobs.[[20]](#footnote-20) Economic theory would suggest that depositors and even equity investors would monitor banks more closely to reduce this moral hazard problem. Similarly, politicians do not have the technical knowledge to understand complicated financial products. This also questions their ability to regulate. Another participant also argues:

*“The politicians were too slow to introduce the deposit insurance guarantee; otherwise it could have averted the debacle of Northern Rock as the ordinary depositors would have not reacted the way they freaked out.”*[[21]](#footnote-21) *(Interviewee No. 16 for B/S G.)*

The above statement, however, runs contrary to the evidence presented in the existing literature suggesting that deposit guarantee schemes increase the moral hazard problem and incentivise bank risk-taking practices. For example, Barth *et al.* (2004) document that banking crises are more frequent in countries with generous deposit schemes Similarly, Demirgüç-Kunt and Detragiache (2002) argue that deposit guarantee/insurance schemes effectively decrease depositors’ incentives to monitor bank risk-taking and increase the likelihood of financial crisis, especially in countries with weak institutional environments.[[22]](#footnote-22) The following section discusses the emergence of the major themes and sub-themes in more detail; see Table 3 for further details, and Figure 2 for the thematic map, which is in hierarchical order.

Firstly, we answer the research question by outlining the banks’ efforts to restore their customers’ trust by discussing the meaningful patterns across the dataset via themes in Section 4. The first major theme that emerged from the dataset was the existence of transparency in the retail banking operations, perhaps the most rigorously discussed item given the experience of the recent banking crisis (see Giannetti, 2003 for full details). Similarly, Flannery *et al.* (2013) and Bushman (2014) argue that the recent GFC has also strengthened the view that banking operations are not transparent. The sub-themes under transparency were conflict of interest – information asymmetry, regulatory transparency, accountability, cross-channel engagement and the role of the British media during the GFC of 2007/08. A detailed description of the findings on the existence of transparency in banks is given below.

**(Insert Table 3 here)**

4.1 Transparency

Transparency emerged as the first major theme.[[23]](#footnote-23) Interviewees described it as the disclosure of relevant information to the public and regulators, which in the past has been held back with the reason that it might jeopardise the banking operation and could induce a run on the banks. Interestingly, the paradox of transparency[[24]](#footnote-24) prevailed due to the explosive growth in financially engineered products such as mortgage-backed securities, credit default swaps and shadow banking, together with the prevention of regulators from performing their duties due to the hidden risk associated with these products. Lack of transparency is often recognised as a serious risk factor that may hurt revenue. It is also branded as a serious contender for reputational damage and corruption.[[25]](#footnote-25) In this context, evidence in the existing literature argues that the incentives to report conservative accounting income on time are higher during the crisis period (Jenkins *et al.,* 2009; Manganaris *et al*., 2017). Accordingly, Manganaris *et al.* (2017) argue that the timeliness of income and conservatism jointly increases transparency (mitigate asymmetry) in the banking industry due to change of banks’ accounting tactics following the outbreak of financial crisis.

Following the financial crisis, regulators required bank officials to apply drastic changes to their chief executives’ payment and bonuses, which would also limit the issue of moral hazard in the banking operations, as CEO powers can create a situation of moral hazard by accepting preferable projects to make personal economic gains (e.g., see Veprauskaite and Adams, 2013). Therefore, several interviewees mentioned the possibility of a clawing back pay scheme, where financial institutions underperformed and were subject to mis-selling. A respondent from a leading bank indicated that their bank, which was recently bailed out, had slashed individual bonuses of up to £2 million from several executives.

However, all interviewees agreed that underperforming executives should be held accountable for their actions, and their boards must limit the integrity and competence violations in the future. At closer inspection, the interviewees acknowledged that transparency was an emerging paradigm in bank operations, especially after recent product mis-selling and wider integrity defilements. Following the crisis, retail-banking providers are attempting to mitigate the impact of these financial scandals and addressing issues with great tact. Thus, in relation to the LIBOR-rigging scandal, one interviewee stated:

*“One leading bank official has proudly mentioned the appointment of Sir Anthony Salz by their bank to carry out an independent review towards their involvement in the LIBOR-rigging scandal, which is by far the best example of transparency as we are trying to curb internal actor’s involvement in the wrongdoing. At the same time, we will be able to assure our stakeholders that any future transgression can be reliably blocked.” (Interviewee No. 7 for retail bank C.)*

*4.1.1 Information asymmetry*

Information asymmetry is a sub-theme under transparency (see Figure 2 for detailed major and sub-themes). The theory of information asymmetry (information advantage to one party over another) predicts that it can create conditions for fraudulent consequences including adverse selection and selling of financial products/services, particularly those recommended by the banks, which creates conditions for conflicts of interest. Similarly, agency theory argues that influential CEOs could take the benefit of information asymmetries to maximise their personal wealth at the expense of their shareholders (Morse *et al.,* 2011), which could ultimately erode the trust in bank management. As such, many interviewees acknowledged the need for higher ethical and moral values, and one interviewee, in particular, emphasised the following:

*“...the need for the industry to adopt and maintain a code of ethics and the need for honesty in retail banking; thus, we are no different to doctors and lawyers, so we must hold our code of ethics to be superior to all other interests; the banking industry needs to demonstrate honesty to regain their lost pride and once again be viewed as predictable by the ordinary depositors.” (Commented by Interviewee No. 17 for B/S G.)*

Several interviewees admitted being criticised by the FCA for not disclosing in advance their low interest rates and banking charges to customers. In response, banks and financial institutions have moved to provide all available information online and inside branches. Similarly, the interviewees acknowledged that the lack of transparency impedes institutional trust and invoke suspicion in the public. Accordingly, one interviewee from a bailed-out bank stated:

*“For being bailed out by the taxpayers’ money, psychological pressure and anxiety is well evident among colleagues, especially in frontline employees, due to the mounting reflection of distrust from the public and being viewed as dishonest and commission agents! Doesn’t help at all.” (Interviewee No. 1 for retail bank A.)*

***4.1.2 Regulatory transparency***

In the context of this research, regulatory transparency is also identified as a sub-theme (see Figure 2). Regulatory failures constituted a large part of the anxiety and the loss of confidence experienced by the interviewees. They also lacked trust in the FSA since it severely underestimated the amount of the rescue package in the run-up to the crisis, thus:

*“[The] FSA was convinced in October 2008 of the rescue package: that the UK banks would only need £20bn against the Bank of England estimation of £75-£100bn, and this rift has also disclosed the tension and lack of consultation between these two institutions.” (Interviewee No 4 for retail bank A.)*

There was a common consensus among most of the interviewees that the FSA’s stance severely undermined confidence in the financial industry. Thus, one interviewee stated:

*“Indeed, what hope of recovery can we have if the lender of last resort and the regulator cannot agree on the recovery figures?* [The] *FSA has failed to understand the Northern Rock reliance on short-term finance in the run up to the crisis else it could have prevented the situation.” (Interviewee No. 5 for retail bank B.)*

While some interviewees criticised the FSA’s handling of Northern Rock, others cited the lax regulatory supervision by the regulator and stated that political pressure was to be blamed for the FSA’s lax regulatory regime, as well as having a regulatory body in place that did not understand the financial products.[[26]](#footnote-26) The credit rating agencies were also highly criticised because they confirmed a level of credit standing which mainly arose from conflict of interest, as one interviewee observed:

*“Credit rating agencies were assigning AAA ratings[[27]](#footnote-27) to derivative products for hefty commissions.” (Interviewee No. 17 retail bank H.)*

International banking operations are outside the parameters of this study. However, the interviewees revealed important fault lines within the regulatory framework when it comes to numerous tax havens and non-disclosure of the depository information by international banks. This doctrine of inequality yields wider resentment towards the whole of the banking industry. The interviewees highlighted the need for tougher regulations and the automatic exchange of depository information to instil institutional trust.

The British media also emerged as a sub-theme in the transparency quadrant. The interviewees argued that it was a constant source of information that depicted misery for the industry and taxpayers. For instance, interviewees blamed the BBC reporter Robert Peston for exacerbating the run on Northern Rock. One interviewee mentioned Peston’s reporting of the 8th October 2008 private meeting between the Chancellor and Northern Rock’s bosses, thus causing losses described by an interviewee as follows:

*“Share prices in RBS, HBOS and Lloyds TSB fell dramatically due to his ‘yellow’ journalism – ordinary people were in tears, dreading that their modest savings had gone.” (Interviewee No. 4 for retail bank A.)*

There was a common feeling among the interviewees that at the time the media could not decide which side to take. *“As of September 17, 2007, when the BoE announced the full deposit protection scheme alongside the three-month loan to Northern Rock, it actually received even more criticism in the leading newspapers, particularly by the Financial Times’ leading articles 18 September 2007.”*

4.2 The relationship approaches

The second major theme that emerged from the dataset was the *relationship approach* (see Table 3) as a way forward by the retail bankers to restore their customers’ trust, which involved sub-themes such as concern for customers and their employees. As the relationship approach revolves around feelings or affective trust, which is an antecedent of trust (Ennew *et al.* 2007), the UK retail banking sector is pushing beyond compliance to rethink the entire sales approach as the decline in trust has severely affected customers’ relationships with their banks. To achieve positive outcomes for both the customers and the banks, retail banking providers are focusing on customer engagement through service score, e.g., net promoter score (NPS®) and customer education (sub-themes). Further, staff engagement also emerged as a key sub-theme under the relationship approach and the thematic analysis (TA) have grouped certain variables which influence employee engagement, for instance, staff motivation, curbing the target culture and strengthening the whistleblowing procedures. Finally, the business community also evolved as a sub-theme under the relationship approach, and banks are trying to explore new ways to re-connect themselves with their business customers.

**(Insert Figure 2 here)**

*4.2.1 Concern for customers*

Concern for customers emerged as the main sub-theme under the dynamics of the relationship approach. The interviewees acknowledged customers’ criticisms regarding integrity and competence violations coupled with a failure to investigate customers’ concerns. Furthermore, lack of proper complaint handling procedures emerged as a significant sub-theme. Clearly, most complaints relate to the charges and fee structure, e.g., overdraft fees. Therefore, many banks have voluntarily reduced their service charges and printed out easy-to-understand service chargesleaflets for their customers. The majority of the banks have now also introduced the Faster Payment Service (FPS), simplifying and reducing their overdraft charges accompanied by a free text alert service.[[28]](#footnote-28)

All interviewees stressed that they are trying their utmost to solve customer complaints within the branch on the same day. Complex complaints are referred to their dedicated complaint handling departments. Once a complaint has been logged, banks and building societies have eight weeks to resolve the issue for an active or closed account while keeping customers informed every step of the way. If, after eight weeks, the customer is not happy with the bank’s final response or if the bank/BS has failed to satisfactorily resolve the complaint, they must inform the customer regarding their right to appeal to the Financial Ombudsman Service (FOS).[[29]](#footnote-29) In this regard, the FCA has made numerous changes to its regulatory framework, which has resulted in all major UK banks now being targeted by their head offices to solve 70% of the complaints within the branch on the same day, with an appropriate compensation to be paid to rectify the issue, if applicable. A leading bank’s official stated:

*“We have made it mandatory on a daily basis that our FLEs educate at least three to five customers on different aspects of their daily banking, in order to promote a helpful banking attitude and to demonstrate the integrity customers expect from us.” (Interviewee No. 17 retail bank H.)*

Most of the retail banks have empowered their branch managers to resolve most of the customer complaints at the branch level. The interviewees are very happy to confirm that FLEs can now resolve 70% of the complaints within the branch on the same day and this is a position that is consistently upheld by several interviewees, e.g.:

*“A major UK ethical banking provider has reported the adaptation of the five S’s model whilst complaint handling; for instance, be sorry, sympathise, solve, satisfy and surprise the customer with a brilliant outcome.” (Interviewee No. 17 retail bank H.)*

*4.2.2 Service score*

Based on the response counts, *service score* emerged as another significant sub-theme under *the concern for customer* theme. Service score is an important factor that is related to the bankers’ efforts to restore customers’ trust. In an industry where competitors are offering similar products, it is extremely tough to compete on price. However, banks that were once considered champions for providing ethical professional services are no longer viewed as ethical since the crisis. An interviewee stated the following:

*“As a result, the UK banks have moved away from the sales culture to a more service-oriented approach.” (Interviewee No. 4 for retail bank A.)*

A common view held by our interview participants from the mainstream retail banks is that the bank branches are no longer targeted in relation to the number of products they sell on a daily/quarterly basis, but are predominantly targeted for their customer service score/net promotor score(NPS).[[30]](#footnote-30)This is due to a root cause analysis of the banking operation in the post-crisis era to restore customer trust. As much as 60% of branch performance is now linked with the service score, or whether the branches have treated their customers fairly. For example, reducing queuing time by providing customers with alternative ways of banking, registering customers for loyalty schemes, complaint handling, promotional offers, digital registration and aiming to make their branch experience exceptional are important techniques to restore customer trust. In line with this, one of the interviewees observed:

*“Our customers get regular customer satisfaction surveys through telephone/email and the results are transmitted back to us in real time; if we provide them with exceptional service, we get a green alert, but unfortunately, if we get a hot alert, we have to chase it up and try to find out why, as it affects our service score.” (Interviewee No. 16 retail bank G.)*

Furthermore, all interviewees from leading banks believe that mystery-shoppers/service scores are the barometers for measuring branch performance. Similarly, based upon their internal reviews, the banking officials have acknowledged three key demands by their respective customers, i.e., best customer service, lower fees and charges, and being rewarded for loyalty. Therefore, banks have reduced fees and charges, made a number of improvements towards their customer service operations on all platforms and, finally, started rewarding their customers for loyalty by introducing different loyalty schemes. However, most of the interviewees acknowledged that customer acquisition is still top of the agenda for many in the industry but there is a steady swing from acquisition to retention.

Clearly, banks have reacted well to customer-driven demand for any-place, any-device and any-time banking services, as customers are now moving towards a *mobile wallet*. One interviewee proudly noted theiremergency cashback facility. This facility is designed for a situation where a customer has misplaced their debit card. They can now get a six-digit code through their mobile phone app which can be fed into an ATM to withdraw up to £130 free of charge.

More recently, several banks have also created a tailor-made interest rate system for their customers, to reward those with a better credit history. Other banking services providers have pinpointed their flagship branches, which provide their customers with an outreach service where they can experience an exceptional banking facility at the branch level, such as printing debit cards at the branch and personalised chequebooks within minutes. These features and benefits are introduced by banks not only to maintain customer trust but also to acquire new customers.

Moreover, in accordance with the recent FCA policies, banks have simplified their banking operations for their customers, so that they can understand those policies without any technical jargon and have also simplified literature about their products and services. Their websites now hold up-to-date price information on tariff lists. Customers now know better than ever what they are paying for their current account, their overdraft charges and, most importantly, what they are receiving in interest. This is a common understanding among all banking officials. In this regard, one interviewee explained:

*“… more importantly, we will give our customers the transparency they deserve. We have simplified our product range and explained our personal and business banking charges on a single sheet of paper, and our customers can easily understand them.” (By a leading UK banking provider, Interviewee No. 12 retail bank E.)*

*4.2.3 Customer education*

The lack of financial literacy (FL) emerged as the third sub-theme under the concern for customers. There is widespread sympathy for UK customers among the interviewees, due to customers’ low level of financial literacy and excessive debt-taking habits.[[31]](#footnote-31) People of all ages, especially the younger generation, do not receive any formal education to improve financial literacy. Even those customers who have some form of financial literacy are unable to understand the importance of a personal financial review, tax-free savings, bank statements and other financial products. This lack of FL is contributing to over-indebtedness ‒ a view held by the majority of the interviewees.

These findings are in line with previous studies. Hilgert *et al.* (2003), for example, report a strong association between daily financial management and FL. Similarly, Stango and Zinman (2009) link customer inability to calculate interest rates with excessive borrowing habits. Other interviewees felt that another, more recent, example of customer naivety is the PPI product claims. An interviewee from a leading bank stated:

*“PPI wasn’t sold to the majority of the UK customers with bad intentions by their respective banks and now the PPI claim companies are forcing genuine customers to cancel their PPI in order to make a claim. If the customer loses their job, they have no way to pay back that money as there is no such product available in the market now which will cover them if they are made redundant.” (Interviewee No. 12 retail bank E.)*

All banking officials strongly emphasised that their FLEs are now regularly educating customer on their ‘daily-banking-activities’, e.g., how to register for online, mobile and telephone banking, among other banking activities. The majority of the interviewees confirmed that, in order to uphold transparency in the daily banking operations, their customers are now receiving daily or weekly text alert on their mobile devices to enable them to stay in control of their finances and avoid charges, e.g., overdraft charges, late payment fees and unpaid direct debit fees, etc.

All interviewees reported that they are offering easy-to-understand literature to customers suffering from defaults or facing financial difficulties. Additionally, banks are also allowing customers access to their benefits money, even if their banking account is seriously defaulted or overdrawn. Similarly, customers who require independent financial advice are provided with useful literature and details of where to obtain free, confidential and impartial debt advice.

*4.2.4 Customer engagement*

Customer engagement emerged as the fourth sub-theme under the relationship approach. The interviewees confirmed that the growing use of *e*-banking has eclipsed bank size and the ‘redbrick’ ethos. They also recognised the multidimensional characteristics of customer engagement and the fact that continuing these developments over time is critical to their business. Therefore, the banking providers have actively evolved into using social media to respond to any customer feedback in real time and to improve FinTech engagement.

The interviewees further elaborated that banks are constantly striving to engage their disengaged customers. Consequently, the service providers are keen to conduct a free personal financial review for such customers and, through face-to-face interactions, banks are able to discover and fulfil their customers’ personal financial needs. One of the interviewees made the following statement in relation to the multiple advantages that can be obtained by retail bank customers who visit their particular branch:

*“These free personal financial reviews are a bonus for our customers for visiting their local retail branch, apart from the excellent service we provide on multiple platforms. However, for us, it’s has been a golden opportunity to cross-sell our service.” (Interviewee No. 10 retail bank D.)*

*4.2.5 Concern for employees*

The next sub-theme is concern for employees under the umbrella of the relationship approach. A common view among the interviewees was that customers are primarily influenced by the FLE’s attitude, and how he/she makes them feel during a business interaction*.* However, following the GFC, bank employees’ morale has decreased and many employees had a cap on their wages and were being made redundant.[[32]](#footnote-32)

The discontent among the FLEs could easily harm the banks’ relationship with their respective customers. Therefore, different banks in the UK are trying harder to engage FLEs by giving them training and developing their careers. Almost all major UK banks conduct yearly employee satisfaction surveys which help them understand their employees’ needs and also help in improving internal communication. Another common practice is staff re-training and support for industry-based qualification. Nowadays, customer interaction with staff is conducted through different interactive/face-to-face platforms. Thus, staff training has become a strategic objective for the retail banks. One interviewee from a leading bank explained the following:

*“We have introduced a skills matrix for our frontline staff, for them to progress in their role, and, once they have successfully completed the respective matrix, they can easily move up the ladder by becoming a customer advisor, financial advisor or a mortgage advisor.” (Interviewee No. 17 retail bank H.)*

*4.2.6 Changing the target culture*

The issue of changing the target culture emerged as one of the key sub-themes under the relationship approach. Most of the interviewees stated that sales targets are the driving force of the daily operations in most retail branches, and products sold to customers contain a point value system. However, some products, such as package accounts, life insurance and mortgages, are considered more valuable. Therefore, bank staff are more inclined and pressurised to sell more of these products to achieve the daily branch targets.[[33]](#footnote-33)

In this regard, customer advisors are updating the branch manager on sales figures at least three or four times a day. Furthermore, a common view among the interviewees regarding the customer advisors was that, if the branch is behind the daily sales targets, the branch manager will call a *power hour*, during which timecustomer advisors are supposed to offer maximum financial products to the customers. Any staff member who is behind their daily target receives extra training/couching logs. However, the majority of the interviewees stated that retail banks have moved away from the daunting sales culture, where staff used to be pressurised to gain sales. One interviewee made the point as follows:

*“We have removed sales targets which used to promote bad behaviour and mis-selling of financial products. Our staff are no more targeted for products sold but only for conducting a few quality personal reviews with our customers daily, and there is no product bias in our sales charter.” (Hinted by the majority of the branch managers.)*

Most of the interviewees strongly emphasised that their customer advisors are fully re-trained and empowered to offer only what is right for their customers while remaining fully compliant with the recent FCA regulations. All interviewees pointed out that they have either replaced or shaken up the bonus schemes. However, a quarter of the interviewees still believe that they are being pressurised by their bank to sell financial products, as one interviewee commented:

*“We are still expected to sell products regardless of whether it is appropriate to the customers or not! And the only difference is now we have to fill certain new forms with the customers due to the FCA regulation; i.e., for current account, lending, insurance products – where a customer actually has to sign separately that they have fully understood what is being sold to them by their bank to avoid the mistakes of the past, e.g. PPI debacle.” (Interviewee No. 2 retail bank A.)*

The above statement is rather worrying as it suggests that important lessons have not been learnt as banks are still using the ‘sale before service’ tactics[[34]](#footnote-34).

*4.2.7 Concern for the business community*

Concern for business customers also materialised as a sub-theme under the relationship approach. Most of the interviewees revealed that, after the recent GFC, UK banks had to tighten their lending to businesses criteria; however, recently, banks and building societies have substantially increased lending to the business community at lower interest rates. The interviewee from the big four banks[[35]](#footnote-35) also indicated that a bigger proportion of their future business will be catering for UK businesses, and banks have placed more business managers into local branches to help small businesses and for them to get faster lending decisions on their loan applications.

4.3 Strengthening the information technology (IT) infrastructure

The third major theme that emerged was strengthening the IT infrastructure. The sub-themes under this major theme are customer migration effort, fraud prevention, branch automation, improvement to the digital banking and increase spending on analytical tools. In our further inquiry, digital transformation to reach out the mass market and the existing use of legacy IT software systems while protecting customers’ personal information proves to be the toughest challenge for the retail banking providers. Moreover, the recent computer glitches by numerous banking providers in the UK have created prolonged concern regarding the competence of internet banking and its providers. The third major theme is further elaborated as follows.

Clearly, the recent technological advancements in IT have resulted in instant, anytime and anywhere banking facilities for customers, e.g., through online, mobile and telephonic banking. However, while describing the increasing use of online technologies, most interviewees reported that one of the difficult challenges for the retail banking providers is to engage their customers in these interactive technologies, while safeguarding them from online scams and cyber-attacks, and to provide a glitch-free experience[[36]](#footnote-36)as, in 2013 alone, £163.2 million was lost to online frauds.[[37]](#footnote-37) Therefore, the UK retail banking sector is now spending heavily on modernising the IT infrastructure and cyber security programme, e.g., the Blockchain technology, as echoed by some interviewees.

*4.3.1 Customer migration efforts*

Customer migration efforts emerged as a sub-theme under strengthening the IT infrastructure. The interviewees reported that their customers are now accessing more services on their handheld devices, e.g., smartphones and tablets. They are not just merely conducting balance enquiries, they can now conduct complex transactions and can buy complex products online, e.g., overdraft, personal loans, credit card and even personal mortgages. Yet, software issues are not helping the digitally ‘savvy’ banks and they are struggling to make branches digital due to the ever-growing number of technological glitches. Therefore, several interviewees were convinced that the branch network is still fundamental to the retail banking customers because customers still like going to their local bank. However, most UK banks are getting rid of retail branches due to budgetary constraints. In this regard, one interviewee stated:

*“We continue to review our branch network based on customer usage. Investment has to be made where we feel we can improve that and bring more customers in. But, ultimately, closing a branch is the last resort for us”*. *(Interviewee No. 12 retail bank E.)*

While discussing the issue regarding why banks are closing their retail branches, another interviewee added:

*“Being a commercial entity, we owe a greater responsibility to our shareholders and any decision to shut or reposition a branch should be made on virtuously commercial grounds, as a physical branch accounts for approximately 60% of the costs.” (Interviewee No. 9 retail bank D.)*

Finally, to mitigate the negative impact of branch closures, the majority of the interviewees mentioned the improving role of the Post Office® counter service in those areas where retail banking branches have been shut down. In this regard, one interviewee from the Post Office® bank observed:

*“Retail banking customers can now deposit and withdraw cash over the Post Office® counter free of charge in any of the 11,500 Post Office® branches in the UK” (Mentioned by a Post Office*® *official)*

1. **Recommendations and conclusion**

**Recommendations**

Trust is recognised as the cornerstone in retail banking operations. It is therefore argued that restoring trust and trustworthiness is a crucial measure in the financial services industry. A major contribution of this study is advancing the retail banks’ views towards restoring customer trust in the form of a trust restoration model which comprises three major themes and sub-themes, i.e., transparency in banking operations, relationship banking and timely implementation of IT software solutions. This model is unique as it highlights both internal and external trust restoration efforts by the UK retail banks, e.g., towards customers and staff; as past research has suggested that organisations pay less regard to staff when it comes to trust restoration, focusing instead on external relations (see Gillespie, and Dietz, 2009)

Overall, customers are attracted to organisations that are result oriented, innovative and put customers’ interests at the heart of their decision-making process. Therefore, retailbanks must act with integrity, treat customers fairly, and offer resilient, simplified and transparent services to restore their trust and operate efficiently. Banks must put in place internal procedures and penalties for deliberate blindness by FLEs or managers. They must act to deal with misconduct-related issues and breaches of trust. Moreover, upper management should be made responsible for their actions and inactions. The banking services providers should also improve their services by promoting relationships in retail-banking services. It is crucial to adequately and timely invest in IT to improve FinTech applications in the retail-banking business.

Conclusion

The evidence presented in this paper contributes to the existing literature in a number of ways. Our trust restoration model captures important attributes that can enhance customer trust. Interestingly, our results show that the emerging major and sub-themes are not comprised of new variables as other researchers concerned with trust violations treat these variables as the antecedents of trust (see, e.g., Yep *et al.,* 2012; Ndubisi, 2007; Theron *et al*., 2011; Mandhachitara and Poolthong, 2011).

The findings of this study further reveal that retail banks have started to improve transparency in their business operations. Specifically, introducing and publicising among customers and employees, actions are being taken by the retail-banks that are compliant with policy implemented by regulators. Retail banks have addressed the issues such as the removal of a target culture, focusing on whistle-blower protection, and re-engaging customers and employees. Finally, based upon the notion of Heffernan *et al.* (2008), e.g., little research has explored the trust in the banks, this study has ascertained the dynamic aspect of trust, for instance, how to restore customer trust in the retail banking sector. Finally, although this study provides useful insights and contributions using our trust restoration model in banking, its scope is not limited to the retail-banking industry.

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Table 1: Interviewees’ profiles

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Age** | **Gender** | **Interviewee** | **Location** | **Experience** |
| ***1*** | 45-50 | Female | Area Manager | City | 18 years |
| ***2*** | 50-55 | Female | Branch Manager | City | 20 years |
| ***3*** | 40-45 | Male | Branch Manager | City | 10 years |
| ***4*** | 50- 55 | Female | Branch Manager | City | 21 years |
| ***5*** | 30-35 | Male | Customer Advisor | City | 9 years |
| ***6*** | 30-35 | Male | Customer Advisor | City | 8 years |
| ***7*** | 45-50 | Male | Business Manager | City/rural | 16 years |
| ***8*** | 50-55 | Female | Cashier | City | 8 years |
| ***9*** | 25-30 | Female | Cashier | City/rural | 6 years |
| ***10*** | 30-35 | Female | Customer Advisor | City/rural | 9 years |
| ***11*** | 50-55 | Male | Post Office Owner | City/rural | 23 years |
| ***12*** | 25-30 | Male | Cashier | City | 4 years |
| ***13*** | 45-50 | Female | Business Manager | City | 9 years |
| ***14*** | 25-30 | Female | Cashier | City | 2 years |
| ***15*** | 40-45 | Female | Branch Manager | City/rural | 7 years |
| ***16*** | 50-55 | Female | Cashier | City | 26 years |
| ***17*** | 30-35 | Female | Customer Advisor | City | 5 years |
| ***18*** | 25-30 | Female | Cashier | City/rural | 3 years |
| ***19*** | 55-60 | Female | Cashier | City | 24 years |
| ***20*** | 30-35 | Female | Teller/Customer Advisor | City | 6 years |

Table 1 presents the interviewees descriptive statistics e.g., No. of interviewees, age profile, professional background and year of experience in their respective field.

Table 2. Phases of thematic analysis (Braun and Clarke, 2006, p. 87)

|  |  |  |
| --- | --- | --- |
| Phase | Description of the process | |
| 1. Familiarising yourself with your data | | Transcribing data (if necessary), reading and re-reading the data, noting down initial ideas |
| 1. Generating initial codes | | Coding interesting features of the data in a systematic fashion across the entire dataset, collating the data relevant to each code |
| 1. Searching for themes | | Collating codes into potential themes, gathering all data relevant to each potential theme |
| 1. Reviewing themes | | Checking to see whether the themes work in relation to the coded extracts (level 1) and the entire dataset (level 2), generating a thematic ‘map’ of the analysis |
| 1. Defining and naming themes | | Ongoing analysis to refine the specifics of each theme and the overall story the analysis tells, generating clear definitions and names for each theme |
| 1. Producing the report | | The final opportunity for analysis, selection of vivid, compelling extract examples, final analysis of selected extracts, relating back to the analysis of the research question and the literature, producing a scholarly report of the analysis |

Table 2 presents the six-phase approach to thematic analysis (see, Burn and Clark, 2006), which involved familiarisation with the data set; generating initial codes; searching for themes; reviewing themes; defining and naming major/sub themes followed by producing the research report while using the key quotes.

**Table 3: The emergence of three major themes and sub-themes**

|  |  |  |
| --- | --- | --- |
| Major Themes | Sub-Themes | Other variables which influence the sub-themes |
| Transparency | 1. Conflict of interest | * Information asymmetry |
|  | 1. Regulatory transparency | * Compliance with the FCA |
|  | 1. Accountability | * Claw back pay and bonuses from the failing CEOs |
|  | 1. British media |  |
|  | 1. Cross-channel engagement |  |
| Relationship Approach | 1. Concern for employees | * Staff motivation e.g., staff training & Facebook at work * Changing the target culture * Whistleblowing procedures |
|  | 1. Concern for customers | * Service score through NPS * Flagship branches e.g., video banking, BioCatch, artificial intelligence, FinTech engagement * Customer satisfaction survey e.g., mystery shoppers * Rewarding loyalty * Complaint handling, e.g., customer education * Engaging customers, e.g., emerging role of Post Office® * Bank social obligations, e.g., supporting the local community * Yearly account review |
|  | 1. Support for the business community | * Funding for lending scheme, e.g., crowdfunding * Compliance with OFT regulation * Two years’ free business banking |
| Strengthening the IT Infrastructure | 1. Customer migration effort 2. Fraud prevention 3. Automation 4. Improvement to the digital banking | * Automatic tellers Machines |

Table 3 reports the interrelationship between major and sub-themes, which have emerged from the data set. Later, these themes are *contextualised* in the form of a trust restoration model. Thus, the existence of the model is inferred from the author’s research, however, the emerged primary and secondary themes has been decisively formulated by the banks to restore their customer trust.

Figure 1: Trust restoration model

Figure 1 illustrates the trust restoration model that has emerged after carefully weaving together the analytical narrative of the major and accompanying sub-themes in this research that extracted from the personal interviews.

Figure 2: Thematic map, major themes and sub-themes

Figure 2 illustrates the thematic map of the major and accompanying sub-themes. These themes are hierarchical in nature e.g., being categorised as per their appearance and inferences drawn directly from the dataset. The final analysis in this report is presented with supporting quotes from the interviewees. Thus, the resulting trust restoration model is an *ex*-*post* outcome from the application of the rigours research procedure.

1. According to the FCA, £22.2bn compensation was paid between April 2011 and November 2015 following the mis-selling of payment protection insurance; and £298 million in fines were issued by the FCA for mis-selling activity between April 2013 and February 2015 (see National Audit Office, Financial service mis-selling: regulation and redress, HC 851, session 2015-16). [↑](#footnote-ref-1)
2. According to the National Audit Office (2008), UK taxpayers have provided £850bn in bailout packages to UK failing banks (see https://www.independent.co.uk/news/uk/politics/163850bn-official-cost-of-the-bank-bailout-1833830.html). [↑](#footnote-ref-2)
3. See, for example, Guiso (2009), Ennew and Sekhon (2007), Gillespie and Dietz (2009), Kim *et al.* (2009), Lewicki and Bunker (1996) and Poppo and Schepker (2010). [↑](#footnote-ref-3)
4. Major retail banking providers continue to close branches. Personal and business customers can use their local Post Office® branches to access their bank accounts for counter-based banking services. Moreover, the Post Office® in the UK is also providing parallel banking facilities to the general public (see https://www.postoffice.co.uk/branch-banking-services)*.* [↑](#footnote-ref-4)
5. Perhaps, customer interviews could have been the appropriate approach. However, it was difficult to identify specific bank customers and their service requirements because of confidentiality issues on the part of banks and the Post Office®. [↑](#footnote-ref-5)
6. Package accounts, banking charges, complaint handling, business banking and switching services, etc. [↑](#footnote-ref-6)
7. Banking Crisis: reforming corporate governance and pay in the City by House of Commons Treasury Committee (2009). See https://publications.parliament.uk/pa/cm200809/cmselect/cmtreasy/519/519.pdf [↑](#footnote-ref-7)
8. The Association of Chartered Certified Accountants (ACCA), May 2011, Audit under fire: a review of the post-financial crisis inquiries (https://www.accaglobal.com/content/dam/acca/global/PDF-technical/audit-publications/pol-af-auf.pdf). [↑](#footnote-ref-8)
9. Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on CRAs. [↑](#footnote-ref-9)
10. The Competition and Market Authority (2014). See https://www.gov.uk/government/organisations/competition-and-markets-authority [↑](#footnote-ref-10)
11. House of Commons Treasury Committee (2009). Banking Crisis: dealing with the failure of the UK banks. (HC 416). London: The Stationery Office, available at https://publications.parliament.uk/pa/cm200809/cmselect/cmtreasy/416/416.pdf. [↑](#footnote-ref-11)
12. Whereas, in trust literature, Mayer *et al.* (1995:715) have categorised “ability, benevolence and integrity as a pre-requisite for trustworthiness”; ability means skills and competence of the trustee, benevolence is the extent to which a trustee is ‘good’ to the trustor, and integrity is the set of principles to which the trustee adheres and which are acceptable to the trustor. [↑](#footnote-ref-12)
13. Examples include Fred Goodwin of RBS, Richard Ward of Lloyd’s Banking Group, Bob Diamond of Barclays and Stephen Hester of NatWest, among others. [↑](#footnote-ref-13)
14. Thematic analysis has a robust ability to move beyond counting explicit words or phrases and focuses on identifying and describing both implicit and explicit ideas in raw data, as suggested by Namey *et al.* (2008). [↑](#footnote-ref-14)
15. QSR NVivo is **the most powerful software package for gaining richer insights from qualitative and mixed-methods data.** QSR stands for Qualitative Research Software. The developer is based in Melbourne, Australia, with offices in the UK and the USA. NVivo is a Qualitative Data Analysis (QDA) software package that was first released in 1980. Refer to qsrinternational.com/nvivo/home. [↑](#footnote-ref-15)
16. Mayer *et al.* (1995:715) have categorised “*ability, benevolence and integrity as prerequisites for trustworthiness*”; ability means skills and competence of the trustee, benevolence is the extent to which a trustee is ‘good’ to the trustor, and integrity is the set of principles to which the trustee adheres and which are acceptable to the trustor. [↑](#footnote-ref-16)
17. Under the Financial Services Act of December 2012, from April 1st, 2013, the FSA was abolished and its functions transferred to two new regulators: the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) to regulate the UK’s financial industry (see, e.g., Edmonds, 2017. Banking Services: reform and issues, No. 07234, London: House of Commons Library). [↑](#footnote-ref-17)
18. As immediately after the GFC there were genuine issues of capital and liquidity in the banking system, therefore, as part of the wider rescue package, the UK government held a major stake in RBS and Lloyds Banking Group (see Hall, 2009b). [↑](#footnote-ref-18)
19. In order to support the hard-working taxpayers who could pay a mortgage (but were unable to afford the high deposits demanded by lenders), the Help to Buy mortgage guarantee scheme was introduced by the UK government in 2013 (<https://www.gov.uk/government/news/help-to-buy-helping-88000-buy-a-new-home>). [↑](#footnote-ref-19)
20. The Help to Buy mortgage guarantee scheme works through a government guarantee that is built into the mortgage and covers a portion of any losses in the event of foreclosure. [↑](#footnote-ref-20)
21. Northern Rock failure was due to its aggressive high-risk business model, as it was the first lender in the UK to offer consumers mortgages to the full value of their homes, plus an extra 25% money on top of their house value. [↑](#footnote-ref-21)
22. The BoE also increased the deposit savings guarantee scheme from £35,000 to £50,000 during the financial crisis. Since January 2017, the deposit guarantee scheme has been raised to £85,000 per person. [↑](#footnote-ref-22)
23. For an in-depth analysis of transparency and banking crisis, please see Manganaris *et al.* (2017). [↑](#footnote-ref-23)
24. Paradox means that banks should never disclose too much information or become too transparent, as it may jeopardise the banking operation and could induce a run on the banks. [↑](#footnote-ref-24)
25. However, the notion of voluntary transparency seems to be a dubious claim as new regulations in the post-GFC era have resulted in the provision of more transparency and disclosures in the banking sector. [↑](#footnote-ref-25)
26. At this point, we believe that the banks are still pretending to be naïve regarding the dynamics of the recent GFC and their role in the crisis. As in the UK, the banks, FSA and the government were equally responsible for the recent financial crisis fiasco. [↑](#footnote-ref-26)
27. See, e.g., Cawley (2016). From AAA to Junk, *Journalism Studies*, 17(5), p 647-666. [↑](#footnote-ref-27)
28. Under the FPS, UK customers can now transfer up to £20k per day, free of charge, between any UK accounts. [↑](#footnote-ref-28)
29. These are the new regulatory requirements for complaint handling by the FCA, see “Review of complaint handling in banking groups” April 2010. See https://www.fca.org.uk/publication/archive/fsa-review-of-complaint-handling-in-banking-groups.pdf. [↑](#footnote-ref-29)
30. UK banks track NPS with service delivery channels on a quarterly basis. Banking customers receive an online questionnaire and, depending upon their responses, the banks then focus on different performance measures to change or improve service quality. However, the use of NPS is not limited to the banking industry. [↑](#footnote-ref-30)
31. The low level of financial literacy has a dual impact on banking services. First, banks have to be extra careful when designing different financial products so that they are easy to understand. Second, products of a complex nature will be challenging to sell to customers with a low level of financial literacy. [↑](#footnote-ref-31)
32. Loss of future income due to the large falls in the banks’ share prices, as most of the banking staff had their lifelong savings tied up in the banking sector. [↑](#footnote-ref-32)
33. UK banks are still failing to implement an ethical target culture in the banks. As prior research suggests, it was this unethical target culture which forced the bankers to pursue profit maximisation (see Muradoglu, 2010). [↑](#footnote-ref-33)
34. See Financial services mis-selling: regulation and redress by House of Commons Committee of Public Accounts (41st report 2015-2016, HC847). [↑](#footnote-ref-34)
35. The UK SME banking sector is concentrated in a four-firm oligopoly. Since 1970, the market has been dominated by four banking groups, and in 2014 these groups accounted for a combined share of 80% of SME loans (see CMA, 2014: Banking services to small and medium size enterprises, for full details). [↑](#footnote-ref-35)
36. The IT glitch of 2012 affected RBS, NatWest and Ulster Bank. This had a detrimental effect on customer confidence. Another breakdown of a similar magnitude affected Lloyds TSB and the Halifax in January 2014. Barclays and HSBC have also had similar incidents. [↑](#footnote-ref-36)
37. See <http://www.financialfraudaction.org.uk/downloads.asp?genre=media>. [↑](#footnote-ref-37)