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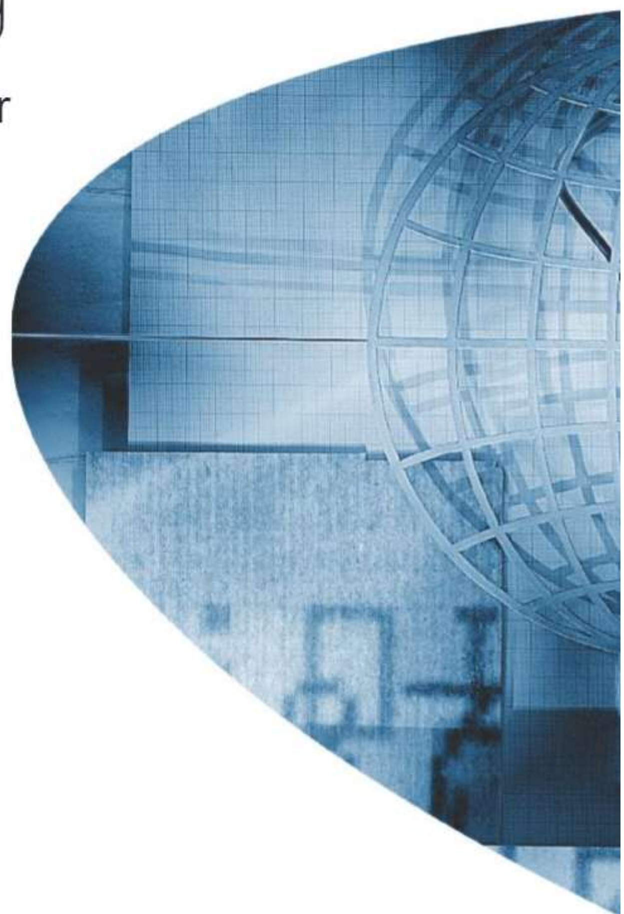

No 2 is a special issue: Consumer confidence in financial services after the crunch: new theories and insights

Guest Editor: Sally McKechnie

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Guest Editor
Sally McKechnie

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Guest editorial

About the Guest Editor *Sally McKechnie is an Associate Professor in Marketing at Nottingham University Business School, Nottingham, UK.*

Consumer confidence in financial services after the crunch: new theories and insights

The unprecedented turbulence and uncertainty experienced in global economic and financial markets because of the "credit crunch" has had a damaging impact on consumer confidence. For the financial services industry in particular the impact of the current crisis on consumer saving and spending activities is confusing. The goal of this special issue is to bring together research that is theoretically innovative and well grounded to enrich our understanding of the consequences of the financial crisis for the consumption of retail financial services. There are four research papers and two viewpoint papers, which individually and collectively provide timely insights into this area.

The opening paper "New insights into consumer confidence in financial services" by Adèle Gritten examines the extent to which consumer behaviour for financial services has changed in the UK since the credit crunch. Drawing from proprietary consumer tracking research undertaken by YouGov plc, a leading professional research and consulting organisation, this viewpoint paper provides strong empirical evidence on how exactly consumer attitudes and spending behaviours have altered. She explores hopes and fears with regard to financial decision making in households, and raises a number of interesting questions about whether we can expect to see further changes in consumer behaviour in a post recessionary climate

Ever since the publication of the OECD's (2005) international study of financial education and the need to improve consumer financial literacy, there has been a drive by many governments and organisations to improve levels of financial literacy and capability so that consumers are confident and capable of managing their finances well. The second paper, "Measuring the financial capability of investors – a case of the customers of mutual funds in Finland" by Outi Uusitalo, Antti Pellinen, Karl Törmäkangas and Anu Raijas, focuses on the financial capability of private investors with regard to their choice of mutual funds. Mutual funds have increasingly been seen as an attractive investment alternative to traditional savings accounts. This paper examines Finnish investors' financial knowledge and understanding in order to establish how this particular aspect of financial capability is manifested in their investment decisions. The authors find differences in types of investors according to level of financial knowledge and distribution channel used.

Notwithstanding attempts to improve financial capability, financial services consumers need to be protected especially in these challenging times. The third paper, "Financial services and consumer protection after the crisis" by Folarin Akinbami reviews the literature on behavioural economics and psychology and uses it as a basis to critique the approaches to consumer protection regulation in the UK financial services industry before the global financial crisis. Given ongoing moves to reform UK financial regulation, this paper considers some substantial changes that could have potentially significant consequences for consumers.

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There has been a long tradition of "multi channelling" in the financial services retail sector, which has allowed customers to choose from a range of distribution channels. The next two research papers provide insights into how technological developments in the delivery of financial services is changing the consumption process for retail customers. The fourth paper, "Understanding the consumption process through in-branch and e-mortgage service channels: a first-time buyer perspective" by Jane Coughlan, Robert Macredie and Nayna Patel, specifically investigates the consumption process for mortgages amongst first time buyers in the UK. It sets out to establish whether this process differs between traditional in-branch and web-based service channels, and how any differences may relate to problems encountered in the electronic service environment with regard to the information search and evaluation stages of the consumer decision making process. Their exploratory study reveals that the design of electronic service environments to support these complex products is product – rather than consumer-orientated, and consequently does not help to create confidence in the online information and advice provided. The fifth paper, "Generic technology-based service quality dimensions in banking: impact on customer satisfaction and loyalty" by Shirshendu Ganguli and Sanjit Kumar Roy, makes a different contribution to extant work on technology-based service channels. Rather than examine customer perceptions of service quality in relation to specific technology-based service channels, the authors consider how these perceptions relate to technology-based banking channels generally. Through an online survey of US consumers they identify four generic service quality dimensions and establish their relative influence on customer satisfaction and loyalty. As with the previous paper, these findings highlight the need for service providers such as banks to design these distribution channels more from a customer perspective as this should help them to instil consumer confidence in accepting them.

The sixth paper, "Banking without the banks" by Steve Worthington and Peter Welch, assesses the prospects for "non-banks" to enter and expand into the UK financial services retail sector in the aftermath of the financial crisis when the reputation of "traditional" banks has been considerably damaged. This viewpoint paper is based on a cutting edge report by the authors that concentrates on challenges that these new entrants pose for banks today. They critically evaluate the cases of Virgin Money and Tesco Bank, both of which operated as niche players in the UK marketplace for more than a decade before the crisis, yet have recently announced plans to become full-service retail banks.

Finally, I would like to thank several people who have helped to bring this special issue to fruition. First of all, I would like to thank the editor of the *International Journal of Bank Marketing*, Professor Jillian Farquhar, and the publishing team at Emerald for their support throughout this project. Secondly, special thanks to all of the authors who submitted papers to the special issue, as well as to the expert reviewers for their rigorous and prompt feedback. I hope that the insights into the contemporary consumption of retail financial services provided by this collection of papers will inspire academics and practitioners to undertake further research in this area.

Sally McKechnie

Reference

OECD (2005), *Improving Financial Literacy: Analysis of Issues and Policies*, OECD Publishing, Paris.

The current issue and full text archive of this journal is available at
www.emeraldinsight.com/0265-2323.htm

VIEWPOINT

New insights into consumer confidence in financial services

Adèle Gritten
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Abstract

Purpose – A paradigm shift in consumer confidence has taken place with the worst recession on record forcing people to evaluate their personal and household finances. This paper seeks to explore the extent to which consumer confidence has been tarnished and how it has evolved post-recession. It aims to take both retrospective and prospective views on what has changed in the British psyche since the credit crunch, looking at where new confidences have been found and where old confidences have been lost, and hypothesising about the extent to which consumer behaviour will remain constant or further change against a likely backdrop of continuing financial instability.

Design/methodology/approach – This paper is based on a variety of proprietary quantitative research surveys conducted by YouGov plc.

Findings – This paper provides new insights into consumer confidence, including, but not limited to: demonstrating the harsh realities of more people being in financial difficulty now than 1[illegible] months ago, and its impact on confidence; looking at which aspects of household expenditure and budgets have been hardest squeezed, and what that means for short- and medium-term futures; analysing the extent to which the generally lower level of available credit makes consumers more or less reliant on borrowing as a way of life, and the associated impact on confidence and decision making/financial planning prioritisation; exploring the real fears and concerns people have about their future finances; and exploring consumer financial hopes and aspirations in a post-recessionary climate.

Originality/value – Findings from bespoke research offer hitherto unpublished and statistically valid results on the extent to which consumers have coped with and embraced the aftermath of the recession, and, moreover, how that might manifest itself in terms of future consumer confidence in financial services.

Keywords Consumers, Recession, Personal finance, Debts

Paper type Viewpoint

Introduction

A paradigm shift in consumer confidence has taken place on a global scale. The worst recession on record has forced everyone, whether rich or poor, young or old, to evaluate their personal and household finances, and to think about the implications for future generations to come. From the hedonist heights of a UK society that had been predicated almost exclusively on debt and credit for nearly a decade and the tacit assumption that growth was always inevitable, consumers have all come back down to earth with a bump over the last eighteen months, some immediately, others in a more protracted manner.

This paper explores the extent to which such consumer confidence in the UK has been tarnished, and how it has evolved since the onset of the recession. The paper takes both retrospective and prospective views on what has changed in the British psyche during the recession. It looks at where new confidences have been found, and where old confidences have been lost. It hypothesises about the future and the extent to which,

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against a backdrop of ever more likely financial instability, consumer confidence will return to stability, remain at its current level, or increase.

The paper also explores the paradoxes and tensions requiring resolution in consumer's minds *vis-à-vis* their financial choices. The financial services industry urges people to make ever more certain and medium- to long-term decisions about products (savings, investments, pensions, mortgages etc), but these are being made in an ever more uncertain and unstable world. The manifestation of the clash between psychological/social worrying and financial planning often results in consumer resentment, frustration, inertia and irrational behaviours in terms of choices and decision making concerning financial issues and their implications for lifestyle choices.

All data for this paper are the result of primary, proprietary tracking research undertaken by YouGov, the largest proportion of which has been derived from YouGov's DebtTracker survey, a quarterly online survey of a nationally representative sample of 2,000 UK adults, as well as an additional 1,000 sample of respondents who are in "financial distress" (people who claim to be falling behind with debt or credit repayment terms). DebtTracker has been running since July 2008, tracking, pre-, during, and post-recession response measures on a range of financial metrics pertaining to individual and household finances.

Other data sources mentioned include the UK/Markit HFI (Household Finance Index) – a monthly online survey of 2,000 adults representative of UK household incomes exploring optimism about spending patterns within UK households. There are also minor references to YouGov's prosperity index, a proprietary index derived from a number of survey questions, all pertaining to household finances and people's perceived confidence *vis-à-vis* what is happening in the wider economy. Incidental reference is also made to some questions asked on an *ad hoc* basis on YouGov's Omnibus surveys.

The current state of play of household finances

It would seem appropriate to start by taking a look at UK household finances. Firstly, in terms of the extent to which individuals are keeping up with bills or credit repayments, Wales (37 percent), followed by Scotland (3[illegible] percent), fares the worst in terms of people still "finding it a struggle from time to time", according to YouGov's latest (June 2010) DebtTracker findings. London is the region least affected, with four in ten Londoners saying that they are currently keeping up with repayment obligations without any difficulty (see Figure 1).

However, the number of people claiming that they are "sometimes" or "more often than not" short of money and struggle to last until payday decreased rather markedly between February and June 2010. Consistently, between July 2008 and July 2009, 53 per cent of the UK population claimed to be struggling somewhat until payday. That figure peaked at 56 per cent in November 2009, but decreased to our lowest yet reported figure of 43 per cent in June 2010. In other words, householders are seemingly finding themselves on the road to recovery, with household finances in a better state now than they have been for over 2 years. This also coincides with the largest proportion of people saying that they "never struggle until payday" (31 per cent) in June 2010, in comparison with an average of 26 per cent for all DebtTracker waves prior to this year. Of those living in the South of England six in ten "hardly ever" or "never" struggle until payday according to our latest figures, whereas in Wales that corresponding

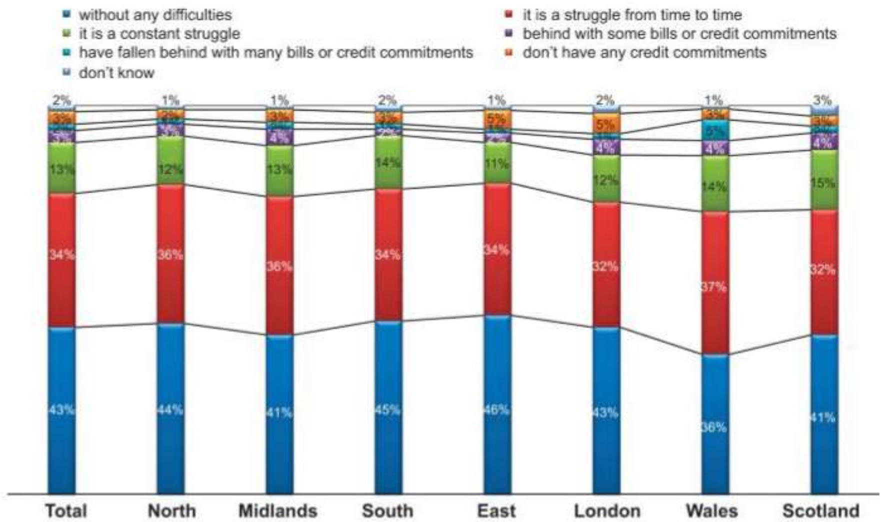


Figure 1.
Current economic situation – keeping up with bills and commitments by region

Note: Base: June 10: 3097

figure is four in ten: in other words, the further away from London and the more rural the area, the harder the struggle! It is also people living in Wales and Scotland who claim to be likely to borrow more in the next six months, whilst people in the South and Southeast of England are least likely to borrow more in the next six months.

Overall, however, when asking the population to comment more generally about their financial circumstances over the past six months, people do appear to be coping much better in 2010, with a small decrease on the 2009 figures of respondents saying "things have got a bit worse" or "much worse" for them financially. Correspondingly, there has been a similar, small (1 per cent) increase in respondents saying "things are better". When comparing people's present financial position with their position 12 months ago, it is the North and the East of England that think that their already distressed financial position has "remained the same" or "got worse" over the last 12 months compared to other regions. The North-South divide is thus very much still at play.

The "financially distressed" segments of society are also struggling more than ever before when it comes to repaying "other debts". In July 2008, only 13 per cent of those behind with bills for more than 3 months were behind with "other debt" commitments. That figure has risen steadily since then, peaking at 31 per cent in February 2010 amongst this distressed sample, showing how the real challenges of recession are hitting the already vulnerable the hardest. It also shows that trying to keep up with crucial living costs, e.g. utility bills, phone bills, council tax and rents etc., is to the detriment of clearing "other debts" such as store cards, credit cards and unsecured lending.

Daily spend

When considering household spend, fewer people are now falling behind with utility bill and council tax repayments than in the run up to and during the recession.

However, in order to cope with mandatory payments, cutbacks are evident across the board elsewhere, with consumers cutting back on almost everything including "nice to have" items, food and clothes. Many are also foregoing holidays.

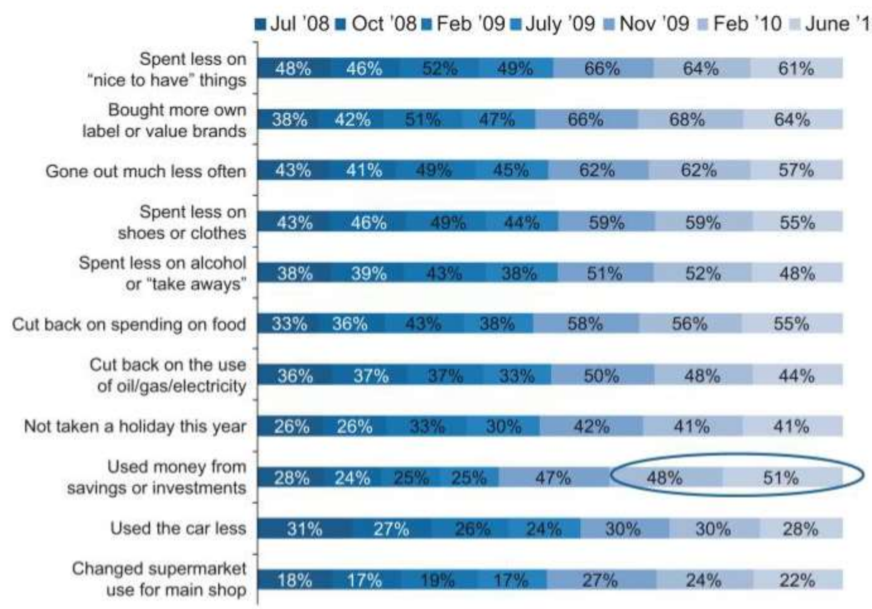
People are also seeking out the "own label" brands (the most marked shift in Figures 2 and 3) and are going out much less often and cutting back on alcohol. Also, five in ten are cutting back on food, suggesting that a new stoicism is emerging out of the detritus of the previous decade of decadence. This is particularly so for the financially distressed segment of society.

More positively, a larger proportion of people now expect to spend more on high-ticket items or purchases for their homes, such as carpets, curtains, furniture, double glazing, cookers, fridges, washing machines, televisions, computers and DVD recorders etc., than last seen in Autumn 2008.

Neither a lender nor a borrower be

Consumer borrowing levels over the last couple of years have either stayed the same or gone down across all retail borrowing categories, with the exception of the credit card category, where we have seen a slight increase in borrowing.

Those in financial difficulty are still turning to unsecured personal loans as a means of obtaining credit. In fact, the figures amongst those in distress who turn to unsecured lending are markedly on the up.



Q: Which of the following things, if any, have you [or your partner] had to do over the past 6 months in order to help make ends meet?

Note: Base: July '08: 3329; Oct '08: 3353; Feb '09: 3804; July '09: 3647; Nov '09: 1036; Feb '10: 936; June '10: 2792

Figure 2.
Spending trends over time