In brief

The Financial Services Research Forum has now collected seven waves of data investigating trends in consumers’ perceptions of fairness in financial services.

We have a sample of over 1000 cases for each wave, covering banks, building societies, general insurers, life insurers, investment companies, financial advisors and credit card companies.

Trend analysis shows that perceptions of fairness rose sharply from their initial lows in late 2009, but then dropped back significantly in late 2010 and early 2011.

Subsequently, fairness perceptions have recovered again, but appear to be levelling off somewhat below the levels witnessed in early 2010.

In absolute terms, all ratings are modest and in relative terms, ratings of Distributive Fairness (how the benefits of interactions between firms and customers are apportioned) are lowest.

Importance analysis shows Distributive Fairness to be by far the largest influence on consumers’ evaluations of overall fairness, being over four times as important as any other element of fairness. Given that this is exactly the area where firms are perceived to perform poorly, then the challenge posed for financial services firms is evidently clear.

The FSRF Approach

The FSRF has been measuring perceptions of fairness of financial institutions from the perspective of consumers for over two years. Each time we have collected data in exactly the same manner and have used identical questions, hence allowing us to analyse trends accurately. When measuring fairness, taking our cue from theories of justice, we measure the following dimensions:

- **Procedural Fairness**, which is fairness of a firm’s policies and procedures (made up of Impartiality, Refutability, Explanation and Familiarity);
- **Interactional Fairness**, which is the fairness of interpersonal treatment and communication (made up of Bilateral Communication and Courtesy and Respect), and;
- **Distributive Fairness**, which concerns resource allocation and the outcomes of exchange, or how “the pie” is shared out.

The precise questions employed are as follows, with the term FSIs being replaced by Banks, Building Societies, General Insurers etc as appropriate:

### Impartiality (Procedural)
- FSIs make sure that they are not biased towards certain customers
- FSIs make efforts to treat all customers equally
- FSIs make sure that they do not favour some customers over others

### Refutability (Procedural)
- FSIs take notice when complaints are made
- FSIs are willing to change things when customers are not satisfied
- FSIs let customers change things on fair and reasonable terms

### Explanation (Procedural)
- FSIs take time to explain its decisions to customers
- FSIs are willing to explain its products and services
- FSIs try to make sure customers understand the information they provide
- FSIs try to make sure that customers understand what they are buying
- FSIs provide customers with clear information at all times
- FSIs keep customers appropriately informed when providing products and services
- FSIs’ promotional material is accurate and informative

### Familiarity (Procedural)
- FSIs makes the effort to understand customers’ circumstances
- FSIs provide advice which is suitable for customers’ individual needs
- FSIs provide advice which takes account of customers’ circumstances

The Financial Services Research Forum is widely acknowledged as the UK’s most inclusive body for advancing the understanding of financial behaviour and promoting the interests of consumers. The Forum is also interested in any developments in the sector and in the global economy that are likely to have profound implications for financial services consumers and their interactions with financial services markets.
In each of seven waves, we collected roughly 150 observations across seven institutional contexts: banks, building societies, general insurers, life insurers, investment companies, brokers/advisors and credit card companies, making a total dataset of over 7000 cases. The data was collected by a specialist nationally renowned market research agency to ensure national representativeness.

Although we collected all data using a standard five point scale (1=strongly disagree – 5=strongly agree), we convert overall scores to an Index Score from zero to 100. For ease of interpretation, note that an Index score of 50 represents a neutral viewpoint, indicative that consumers perceive that the FSI concerned is neither particularly fair, nor particularly unfair. Values above 50 would range from moderate to strong perceptions of fairness and values below 50 would range from moderate to strong perceptions of a lack of fairness on the part of consumers.

**Trends in Fairness Perceptions**

Figure one provides an analysis of how overall perceptions of fairness, as captured by The Fairness Index have trended since data were first collected in late 2009. The first measurement of fairness by the FSRF produced the lowest overall assessment to date, with a Fairness Index score of 44.06. This is perhaps not surprising, as the initial severe banking crisis is widely viewed to have lasted from 2008 to mid-2009 and during this time there was a profound impact on confidence in the financial system in general, the value of individuals shares, pension funds etc and other attendant negative consequences. Our initial measurement in late 2009 was no doubt impacted significantly by such sentiments. By Spring 2010 there had been a marked improvement in perceptions of fairness, which endured for much of that year. However, in late 2010 and early 2011, there was a marked reduction in perceptions of fairness once again, no doubt as the reality of the longevity of the financial crisis became apparent to institutions and their customers. More recently, in late 2011 and early 2012 perceptions of fairness once again showed signs of recovery and are now significantly above the initial measurement but not quite as high as at any time during the period for which measurement is available.

Analysis of the three main element of fairness measured by the FSRF show that the difference in overall assessment of Fairness is reflected to varying degrees in measurements of Procedural Fairness, Interactional Fairness and Distributive Fairness.

Figure two shows the trend data for Procedural Fairness and indicates that the range of measures of perceptions for this element of fairness is larger than for other types of fairness, with a range of measurement of almost 4 index points over the time period. Such data suggest that elements of Procedural Fairness are the most varied over time; it is likely that customers are sensitive to a general tightening of institutions’ policies and procedures in particularly challenging periods.

**Bilateral communication (Interactional)**
- FSIs listen to customers’ needs and react accordingly
- FSIs are willing to listen to customers’ points of view
- FSIs take notice of any points and suggestions that customers make

**Courtesy (Interactional)**
- FSIs show courtesy in their dealings with customers
- FSIs treat customers with respect
- FSIs are considerate in their dealings with customers

**Distributive Fairness**
- FSIs make sure that customers only end up with products which are suitable and take account of their circumstances
- FSIs provides products which perform as customers have been led to expect
- FSIs keep their promises
- FSIs deliver what they say they will
- Customers benefit from interactions with their FSI as much as their FSI does
- FSIs ensure that any charges customers pay are fair
- FSIs give customers a fair deal
- FSIs ensure that any terms and conditions attached to products are fair
Firstly, note that ratings for Interactional Fairness are consistently higher than for other fairness elements. Ratings are also more stable than for Procedural Fairness, with a measurement range of 2.8. Although still not particularly high in absolute terms, the relatively favourable and stable performance of institutions in the area of courtesy and communication will provide some encouragement to firms.

Figure 4 shows trend data for Distributive Fairness. Overall, ratings of Distributive Fairness are significantly lower than other elements of fairness, with respondents consistently rating as relatively poor institutions attempts to share the benefits of relationships and interactions fairly. This is a particularly pertinent observation when combined with our findings on importance of influences on overall fairness, as presented below.

Influences on Perceptions of Fairness

After seven rounds of data collection, we are in an excellent position to comment on the relative importance of the various sub-dimensions of fairness on overall perceptions of fairness on the part of consumers. We present this data in the form of a pie chart, with the relative size of the segments indicative of the level of importance of sub-dimensions of fairness in driving overall perceptions of fairness. It is immediately apparent that by far the most important influence on overall perceptions of fairness is Distributive Fairness, or how the benefits of a relationship are apportioned between the firm and the customer. Customers evidently base their overall perceptions of fairness primarily on the view of whether their benefit from interactions is as great as the institution concerned and whether generally they perceive that they get a fair deal and appropriate terms and conditions. We showed above that consumers’ ratings of Distributive Fairness are generally in the order of 5–10 Index points below that of other fairness dimensions so financial institutions should be concerned that they are perceived to perform relatively poorly in what is by far the most important influence on overall perceptions of fairness.
Other relatively important drivers of overall perceptions of fairness are the Procedural Fairness element of explanation and the two elements of Interactional Fairness, courtesy and communication. Improving fairness perceptions by showing customers more courtesy, consideration and respect should, in theory, be quite straightforward. Equally, effective two-way communication should not be beyond the capability of financial services firms. However, ensuring that consumers perceive that products have been explained clearly and that they are confident that they understand what they are buying is likely to prove more challenging, given the well-documented problems of product complexity and consumer understanding in financial services markets.

The remaining sub-dimensions of fairness, all elements of Procedural Fairness, have only a small impact on overall fairness perceptions. Consumers appear relatively indifferent as to whether their institution is particularly familiar with their circumstances, or whether the institution is impartial in its treatment of customers. We are particularly surprised by the small role played by refutability, which encapsulates the ability to change things on fair and reasonable terms and a willingness to listen to customer's complaints and suggestions and change things. We would have expected this factor to be a far more important influence on overall perceptions of fairness, however, it may be that customers have relatively low expectations in this regard and hence the influence of firm performance is limited.

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We did this by using a regression analysis with a single item measure of overall perceptions of fairness as the dependent variable and composite mean scores for the sub-dimensions as explanatory variables.