

# Why do people hate bankers? No, really...

February 9 2015, by Rodney Maddock

---



Credit: Haley Black from Pexels

In survey after survey bankers [rank poorly on ethics and honesty](#). It's not hard to find entire websites dedicated to bank hatred. And Bank of America consistently rates in the top 10 [most hated companies](#) in the US.

Recent Australian [research](#) looks to some of the potential reasons for Australian bank hate. Ameeta Jain and her co-researchers ask three questions in their research:

Do banks make excess profits? Are bank executives overpaid? Do banks pay their share of taxes?

Their work finds the answer is "no" to each of these questions.

## **Excess profits?**

On the issues of size of profitability, Jain finds that the return to bank shareholders is about average for Australian companies. Banks are less profitable than telcos, health care companies, and non-bank financial institutions, but more profitable than companies which produce consumer staples, resources or energy. The work does report that bank returns are more stable over time than those of other sectors, but over the last decade have been consistently in the middle of the pack.

Jain speculates that public concern may well be focused on the absolute size of profits rather than on profitability. Size also plays a role in the debate about salaries.

## **Silly salaries?**

The paper's findings about salaries come to a stronger conclusion. Executive salaries appear to be lower than one might expect given the overall salary bills of the banks. In fact, it is the lowest of the sectors analysed. Relatively the best paid executives are in the energy sector, followed by materials companies. Banks rank last. The result is derived from a regression equation which explains salary by reference to the size, profitability, stock returns and firm risk. This result appears robust

as the authors test a number of alternative measures but come up with the same findings.

## **Tax dodgers?**

The findings on taxes are even more startling when put in an international context. Australian banks over the period 2003-2009 paid a median tax rate of 29.95%. By comparison Canadian banks paid 19.11%, German banks 16.41% while US banks never paid more than 11.86% in any year and UK banks never paid more than 9.50%. Looking at the Australian evidence Jain finds that the banks pay amongst the highest tax rates, just slightly below consumer staples.

So if Australian banks do not seem to make excessive profits, pay their share of taxes, and do not have excessive salaries, how do we explain the level of public concern?

At the same time, bank customers seem increasingly at ease with their banks. Over the last decade the banks have made a significant effort to reverse some of the negative public perception. The overall level of customer satisfaction with banks has risen sharply.

The most recent Roy Morgan survey found that "The satisfaction level of the personal customers of banks reached 81.6% in January, a marginal increase from 81.5% in December, but enough to achieve the highest level in the 18 years of this survey". The gains are sizeable: a decade ago customer satisfaction scores were at about 65%. The big banks are still rated lower than the small banks but the gap has narrowed sharply.

## **Too big to like**

One explanation for negative perceptions might be size. There are

people who are concerned about big business in general, and the major Australian banks are big businesses. As a society we have institutions like the ACCC, APRA and ASIC whose function it is to prevent bad behaviour by these large organisations. Clearly they are not perfect and they have to act within their legislative briefs. Interestingly a number of the recent cases for which banks have been criticised were actually failures of investment companies or brokers.

There is also a group in society which is suspicious of business in general and for which the banks look like an easy target to express their doubts. While important to the public debate it is not clear where this tendency leads in Australia's mixed economy. Government banks have been tried many times and failed many times. Governments are not very good at running businesses and that includes banks.

History, both ancient and modern, also helps shape attitudes. There has been an historical animosity between banks and the ALP arising from events in the depression of the 1890s, the Great Depression, and from Labor's failed attempt to nationalise the banks after the Second World War. The experience of the 1990s, when branches were closed and the quality of customer service reduced, sustained and reinforced many public concerns about the banks. And recent concerns about financial advice have served to further reinforce scepticism about banks.

The research published in *Economic Papers* is helpful. To the extent criticism of banks is rational, we now have to look to factors other than profitability, salaries, and taxation contribution to explain the ongoing negative public perception of [banks](#).

*This story is published courtesy of [The Conversation](#) (under Creative Commons-Attribution/No derivatives).*

## Source: The Conversation

Citation: Why do people hate bankers? No, really... (2015, February 9) retrieved 6 May 2024 from <https://phys.org/news/2015-02-people-bankers-noreally.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.