

ON CHANGES IN THE FINANCIAL BEHAVIOUR OF ESTONIAN HOUSEHOLDS

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The present article is based on the annual survey of the financial behaviour of households conducted by the Emor² researchers. The survey has been carried out since 1998. The following summary is a short overview of the major changes that have taken place in the financial behaviour of Estonian households in 2001.

The 2001 survey was conducted between 30 August and 13 September. A total of 1,007 households were studied by interviewing household representatives aged 18 and older. The methodology of the survey was similar to that used in earlier years. One of the commissioners of the survey was Eesti Pank, although the property rights and copyright of the results belong to AS Emor. The present survey is being published with the consent of Emor; in quoting please acknowledge the source.

Links of the Inhabitants to Banks and the Use of Bank Services

86% of the respondents considered themselves to be **bank customers**, which is four percentage points more than in 2000³. This is a very high percentage, taking into account that four fifths of persons without any links to banks are pensioners. The overwhelming majority of private customers use the services of the two largest banks – Hansapank (*Hansabank*) and Eesti Ühispank (*Union Bank of Estonia*) – and consider one of these to be his or her main bank even when using the services of some other banks. Nearly one third of customers have a passive account in another bank and the number of customers who have accounts in several banks but who still use the services of only the main bank has increased as compared to 2000. At the same time, the number of private customers who have several accounts under the force of circumstances or who wish to diversify risks has decreased and people keep several accounts simply from habit, which they do not intend to change.

Characteristic of **the use of bank services** is that nearly all customers have a **bank account** at their main bank and more than two thirds of the customers have also obtained a **bank card** from the same bank. The bank services used by more than 10% of the total number of

bank customers include **payment terminals** (used by more than two fifths of the customers), **standing order** or **direct debit payment** (one third of the customers) and **Internet banking** (a quarter of the customers).

Compared to 2000, the number of users of most bank services has increased. The increase has been biggest for such services the share of which was small in earlier years (for example, **insurance services** and **borrowing**). The increase of the users of services that gained quick popularity in 1999 (**payment terminals**, **Internet banking** and **credit cards**) has slowed down. Thereby, it can be assumed that, for example, the users of credit cards obtained during advertising campaigns are relatively passive or use similar newer products. In 2000, the share of **privatization voucher** and **time deposit account** holders decreased, as well as the number of **telephone bank** and **debit card** users. It is more difficult to compare data on the use of standing order and direct debit payments because in earlier surveys these were treated separately but since 2001 they are taken together. The opposite has happened with instalment payments and leasing, which are treated separately since 2001. Figure 1 characterizes the use of bank services at the private customer's main bank.

¹ The compiler of the survey is head of the Publications Group of Eesti Pank.

² AS Emor is a Marketing research and consulting company.

³ Here and below we have not indicated the possible statistical deviations, which in the case of 1,007 respondents is $\pm 3.1\%$ and in the case of at least 100 respondents – not more than $\pm 10\%$.

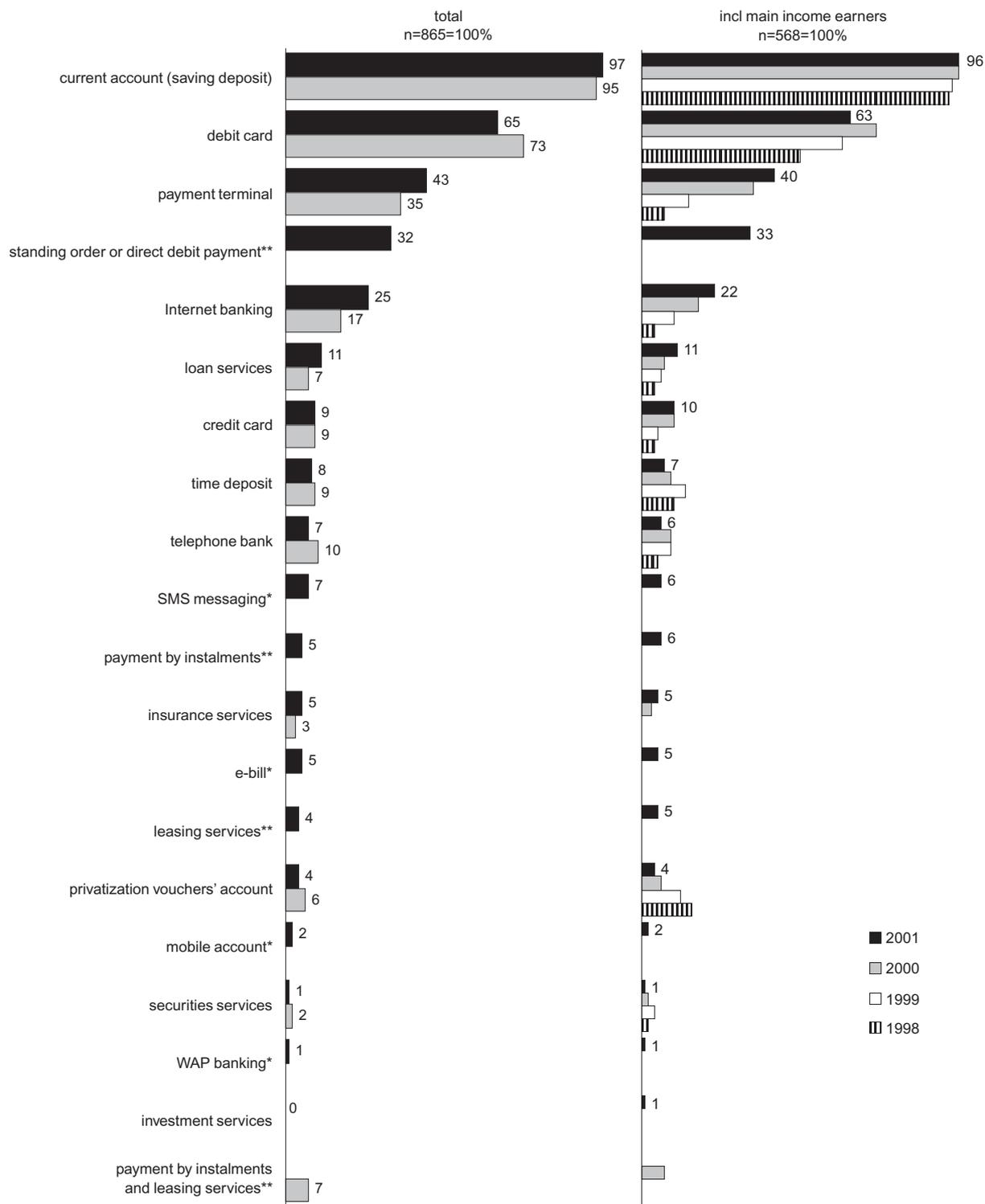


Figure 1. Use of banks services in the main bank during the previous year (% of all banking customers)

* not asked in previous years

** From 2001 instalment payments and leasing services are treated separately, standing orders and direct debit payments together

For the customers of more than one bank, the use of the non-main bank's Internet bank has increased the most as compared to 2000. The use of the non-main bank's debit card has decreased the most.

In 2001, an active bank customer (a person who uses more bank services than just a bank account and a debit card) was likely to be characterized by the following parameters: Estonian by nationality, young, with higher

education, executive position and high income, resident of Tallinn.

In the next 12 months the majority of customers wish to continue using the same services. The use of new and, therefore, relatively uncommon services is likely to increase the most. For example, the number of **mobile account** users is expected to grow four-fold, the number of **e-bill** users is likely to increase 2.5 times and the number of customers using **SMS messaging** by nearly 75%. Under favourable conditions, the actual number of users might grow even more. In 2000, for example, 20% of bank customers expected to use Internet banking in the next 12 months. In reality, every fourth bank customer also used Internet banking in 2001.

Satisfaction with Bank Services

The respondents were asked to rate their satisfaction with the bank services at a 5-point scale. The majority of customers were **rather satisfied** or **very satisfied** with various bank services (4 or 5 points) and the average rating has increased by 0.08 points, to 4.23 points. Satisfaction has increased the most with **saving facilities**, **electronic channels** and **availability of ATMs**. Only satisfaction with the **availability of bank offices** remained on the 2000 level. The highest ratings were given to **pleasantness of service culture** (4.6 points), **bank cards** and **competence and professional skills of the service staff**. Customers were least satisfied with the **price level**, its justification and correspondence to

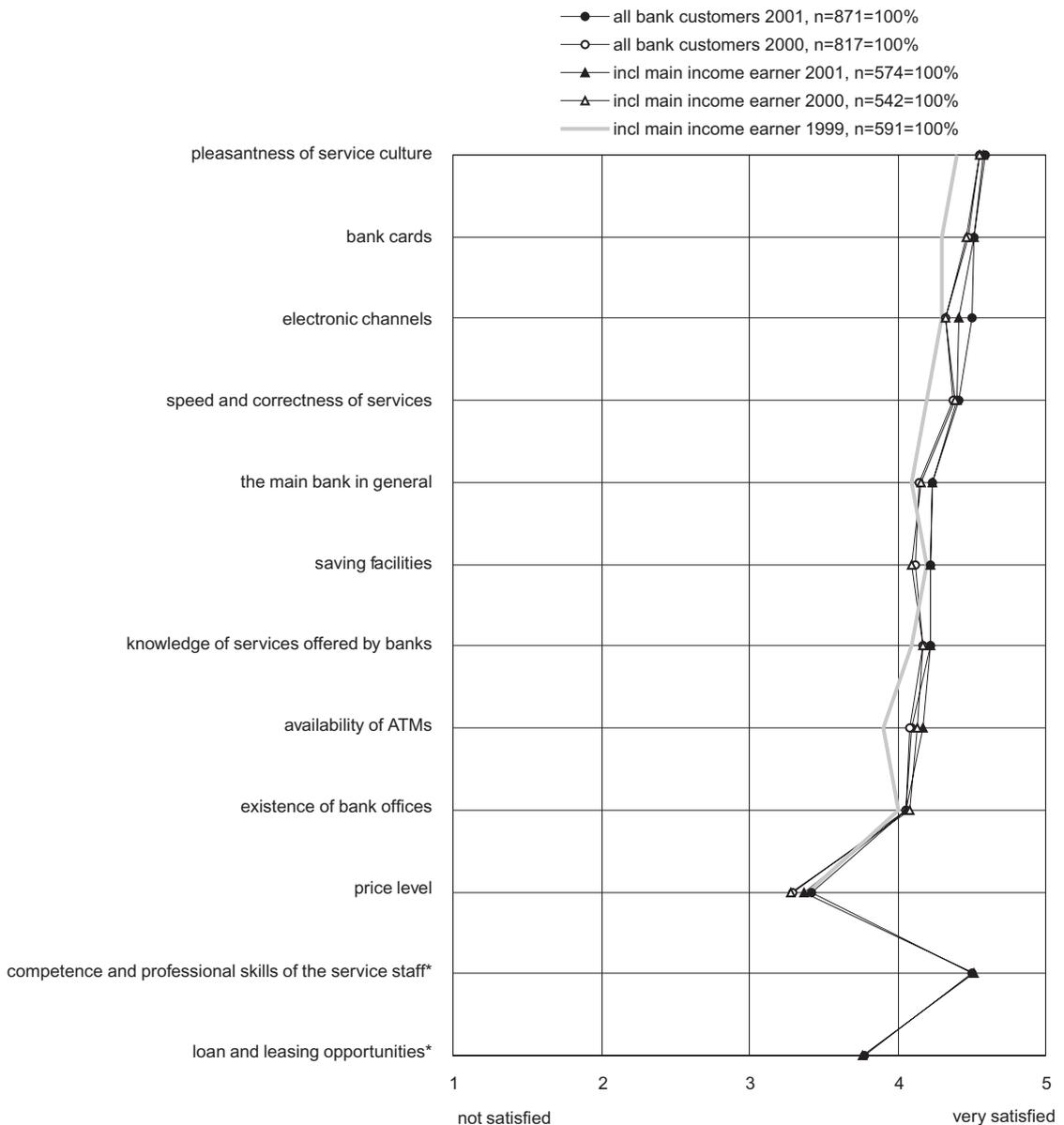


Figure 2. Average ratings of various bank services

* not asked in previous years

quality. Although the average rating of the price level was 3.4 points in 2001 (3.3 points in 2000), nearly 20% of the respondents rated the price level at 1 or 2 points. Still, year-on-year, the number of dissatisfied customers has decreased and the number of satisfied customers has increased. **Satisfaction with loan and leasing opportunities** is also relatively low (3.8 points), although banks have introduced new products. The average ratings of various bank services can be seen from Figure 2.

Problems Arising from the Use of Bank Services

In 2001 the number of problems was the biggest in more widely used services – more than 20% of users of **bank cards** and **ATMs** reported problems, as well as one sixth of the users of **Internet banking**. Over the past couple of years the number of users of these services has increased considerably. For example, if in 1999 nearly half of the bank card holders did not use the card in **payment for purchases**, then in 2000 the number of such card holders dropped to one third and in 2001 to 25%. The increased number of users and more intensive use are likely to increase the number of problems as well, although in Internet banking, on the contrary, the number of problems has dropped by one third as compared to 2000.

Nearly half of the **customers who do not use the bank card** find that they have no need for it because their income is small, the account has little money on it or wages are paid in cash. Against 2000, the number of

such customers has decreased by nearly a half. One eighth of non-users said that there was no ATM at their place of residence or possibilities for card payments.

One fifth of **bank card holders** experienced some problems with their cards in 2001. Half of the problems were related to the work of ATMs, but nearly one third resulted from the absentmindedness of the customers themselves (they forgot their PIN code or left the card in the ATM). It is also worth noting that the share of card holders who use the card to pay for their daily purchases or services whenever possible reached to 20% of the total number of card holders, while the number of card holders who never use it for payments dropped from 30% to 25%.

Nearly half of the **customers who do not use payment terminals** have no need for it as they use other facilities that are more convenient for them. One fifth of the customers have no possibilities of using payment terminals as these are located in unsuitable places or the customer does not have a bank card. The users of payment terminals were mostly dissatisfied with the work of the terminals themselves.

Nearly half of the **customers who have not used the services of Internet banking in recent years** just lack a computer or Internet access. Approximately one sixth of the customers find that Internet banking is too complicated for them. In 2000 the main problem for the users of Internet banking was too slow a connection. In 2001 the share of this problem dropped by nearly three times, from 77% to 27%.

Payment Habits and Preferences of the Inhabitants

Receiving Income

The payment habits and preferences of the population depend largely on the way they receive their income. 64% of Estonian residents aged 18 or older receive wages, 32% receive pensions, 35% other state benefits and 15% some other income. The ways of receiving income (to the bank account or in cash) did not change much as compared to 2000. Neither were major changes recorded in the income receiving preferences – **the current way** was still considered the best. However, there were also people who would prefer payment of money to the bank account in all forms of income instead of the current way of payment. The difference was the biggest for those respondents who receive wages or state benefits in cash. While in case of wages the way of receiving depends first and foremost on **the way it is paid**, then in case of pensions, state benefits and other income the determining factor is **convenience**. Receiving money on the bank account is also considered **safer** than receiving cash.

Paying for Purchases

In previous years the share of people paying for purchases in cash only decreased rapidly, but in 2001 this tendency slowed down. Two thirds of families pay for their daily purchases in cash and approximately 70% pay in cash also for major purchases. The term **convenience** is understood differently: people who pay for purchases with the bank card consider it convenient, whereas people who pay in cash say the same about their choice. However, convenience as an argument for paying with the bank card gained considerably more importance, jumping from 47% in 2000 to 77% in 2001. Bank card payments are not hindered so much by lack of opportunities or technical problems as a **habit to pay in cash**. The main arguments voiced in favour of card payments were **convenience** and **security** (particularly in case of major purchases).

The growth potential of card payments is, however, quite big: while only 9% of families pay for their daily

purchases with the bank card, 18% would like to do so. The respective figures for major purchases were 17% and 28%.

Paying of Bills

In 2001, 43% of all surveyed regular payments were made through banks and slightly over one third of irregular payments. Over two thirds of the households use the bank for making at least one regular payment. Compared to 2000, the number of such households increased by five percentage points and the share of regular payments made through banks grew by four percentage points.

The most popular ways of making regular payments are still **cash payments directly to the service provider and through the post office.** Four fifths and half of the households, respectively, use these possibilities for making at least one regular payment. More than one third and one fifth of all regular payments are made this way. The use of **standing order and direct debit payments** has increased the most, for at least one payment the methods are already used by over 40% of families and cover 14% of all regular payments.

The use of **Internet banking** in regular payments increased by 70% in 2001, the use of **payment terminals** was up 20% and the use of **standing order and direct debit payments** grew by nearly 17%. The use of post offices and bank offices decreased for the first time. A considerable part of fixed-line and mobile phone bills

was paid through the standing order or direct debit payments.

Although gas and cable TV is used by less than half of the households, over half of them pay for it directly to the service provider. Electricity, fixed-line telephone and newspaper subscriptions are most frequently paid through the post offices, standing order and direct debit payment is preferred in loan and leasing payments, fixed-line and mobile phone bills and insurance payments.

The most preferred method of payment for regular payments is still **cash directly to the service provider.** Next comes the use of **standing order and direct debit payments**, which is preferred by one fifth of households. The fastest annual increase was recorded for **Internet banking** (4–5 percentage points), which is preferred by 13–14% of the households, depending on the category of payment. Making payments **through post offices** is preferred by considerably fewer households than the actual users of this channel. The share of households who prefer making payments through banks increased by five percentage points, amounting to a half of the households; the share of supporters of making payments through non-bank channels dropped by seven percentage points.

Looking at the actual and preferred methods of payments together, we can notice the relatively big role of the force of **habit.** At the same time it is somewhat unexpected that although the use of Internet banking has increased remarkably both in reality and among payment preferences, an overwhelming majority of households still want to receive their regular bills by post and on paper, not just in electronic format.