

## A Comparative Study of Trust and Loyalty among Citizens towards Government and Private Financial Institutions

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### ABSTRACT

*Trust and loyalty are crucial elements to the financial behaviour of the citizens in any economy. This study presents a comparative analysis of the levels of trust and loyalty exhibited towards government financial institutions and private financial institutions. Using theoretical frameworks and secondary data available, surveys and academic literature, this paper explores how citizens perceive public versus private sector banks. Key drivers of trust and loyalty such as transparency, reliability, service quality, technological efficiency, ethical practices and unexpected crisis handling are evaluated. The study will also explore how loyalty is developed over time and influenced by emotional attachment, previous experiences and the institutional performance etc. Findings show that while government institutions are trusted more for stability and safety security and government backing private institutions often gain customer loyalty through superior personalised product and service delivery and their agility. The paper concludes with suggestions for bridging the trust-loyalty gap across this sector and also highlights the implications for policy and strategic management.*

**Keywords:** Trust, Loyalty, Government Banks, Private Financial Institutions, Customer Behaviour and Financial Stability.

### Introduction

Trust and loyalty are not just emotional concepts in the financial sector, they are measurable, strategic assets of the institution. Trust in financial institution is customer believe in banks reliability, security and transparency. Loyalty is customer commitment towards institution to use its product and services over the period of time. While trust ensures customer entry into a financial relationship and loyalty ensures its repeat business of customer and positive word of mouth. In India, both public sector banks (PSBs) and private sector banks (PVBs), along with NBFCs, compete to secure and retain citizen engagement. The public's perception and expectations vary significantly between these entities, often shaped by past experiences, technological adaptations, crisis performance and risk management etc. By addressing the preference of customer, my aim is to understand the psychological and functional dynamics behind institutional preferences of citizens.

### Objectives of the Study

- To compare the levels of trust among citizens towards government and private financial institutions.
- To analyse the degree of customer loyalty in both institutions.
- To analyse the factors that influence trust-to-loyalty.
- To give suggestive measures for improving institutional relationships with customers in both institutions.

### Research Methodology

This paper uses a qualitative-analytical approach, majorly relying on secondary data from:

- RBI reports and statistics

- Consumer surveys from Statista, Deloitte, EY
  - Peer-reviewed academic journals (UGC Care, Scopus)
  - Case studies and news reports
- The comparative framework is built on two constructs:
- **Trust:** Transparency, reliability, safety and security etc
  - **Loyalty:** Service satisfaction, reputation, customer emotional attachment, re-engagement, advocacy etc.
- A brief analysis of existing surveys (like- RBI Financial Literacy Reports, BCG consumer trust indices) supports the analysis.

### Literature Review

Morgan and Hunt (1994) –Trust Theory,” which states that successful long-term relationships—like those between banks and customers—depend on trust and commitment. If a customer feels that a bank is honest and keeps its promises, they are more likely to stay loyal even if competitors offer slightly better rates. This idea helps explain why some people stick with government banks for decades, due to perceived security and reliability.

Ganesan (1994) –Ganesan emphasized that in industries where the customer cannot directly observe the service (like in banking), trust becomes crucial. He explained that when banks act in a predictable and transparent way, people feel less anxious about their money. This is especially true for government banks, which are often seen as more stable due to regulatory backing. Private banks, on the other hand, must work harder to earn that trust through service quality and transparency. This study helps frame why different types of banks are trusted in different ways.

Yousafzai, Pallister & Foxall (2003) –In the digital age, Yousafzai studied how trust works in online banking. They found that people trust banks more when they feel their data is secure and their privacy is protected. Private banks often lead in digital services, which can win loyalty—but only if users trust the system. In contrast, government banks may struggle with tech adoption, but users still trust them for safety and official status. This research is important for understanding how technology affects trust and loyalty differently in public and private banking.

Oliver (1999) –Oliver’s research argued that loyalty is more than just being satisfied with a service. It’s about an emotional commitment that makes a customer come back, even if other options are available. In banking, this means a customer may continue with their bank not just for better interest rates, but because they feel a connection or sense of belonging.

Mishra and Sahoo (2018) –This study examined how customers perceive public vs. private banks in India. It found that public banks are generally more trusted due to their government affiliation, which makes customers feel their money is safe. However, private banks often outperform in service quality, speed, and customer care, which makes them more competitive in building loyalty. The research also showed that younger customers tend to favor private banks, while older customers lean towards public banks. This gives a balanced view of how different factors influence trust and loyalty.

Gupta and Dev (2012) –Their study compared how customers view private and public banks in terms of fairness and efficiency. Private banks were seen as more professional and quicker in handling requests. However, some customers also felt they were more profit-focused and less empathetic. Public banks, although slower, were seen as more accessible and fairer, especially to weaker sections of society. This affects both trust and long-term loyalty, especially when people choose values over speed.

Reichheld and Sasser (1990) –Although this was a general business study, its insights apply strongly to banking. The researchers found that loyal customers are far more profitable than new ones because they buy more services over time and cost less to serve. For banks, this means that building trust and keeping customers loyal is not just about ethics—it’s smart business. Both public and private banks can benefit from focusing on trust, but they may take different paths to achieve it.

Narayan and Mishra (2020) – Digital Trust and Financial Inclusion -This recent study explored how digital banking platforms like mobile apps, online wallets, and UPI have changed the way people interact with banks. It found that trust in technology is becoming just as important as trust in the bank itself. Private banks are often better equipped for digital banking, which helps them attract young and urban customers. But digital mistrust, especially among older or rural populations, still pushes people toward traditional public banks.

Sirdeshmukh, Singh & Sabol (2002) – Service Reliability and Customer Value -These authors showed that trust increases when customers feel that a bank is both competent and genuinely caring. If a bank handles issues well, communicates honestly, and doesn't overcharge or trick customers, trust and loyalty grow naturally. This is especially relevant in India, where customers are increasingly aware of hidden charges and product mis-selling—issues more often associated with private banks. It reinforces the need for transparent practices across both sectors.

### Types of Financial Institutions Considered

#### Government – Run Financial Institutions

- Public Sector Banks (e.g., SBI, PNB, Bank of Baroda)
- Regional Rural Banks
- Post Office Savings Banks
- NABARD and other developmental institutions

#### Private -Run Financial Institutions

- Private Sector Banks (HDFC Bank, ICICI, Axis)
- NBFCs (Bajaj Finance, Mahindra Finance)
- FinTech platforms (Paytm Payments Bank)

### Comparative Analysis: Trust and Loyalty

Factor	Government FI's	Private FI's
Trust	High during crises; perception of safety and security	High during normalcy; faster innovation
Loyalty	Moderate- driven by habit and legacy	High- driven by satisfaction and efficiency
Transparency	Often low in communication	High in product clarity (Proper communication)
Customer Service	Slow, bureaucratic	Fast, customer-centric
Technological Trust	Improving; limited by rural area	High among urban area
Crisis Handling	Strong (loan moratoriums, bailouts)	Weak in sudden systemic risks
Rural Penetration	Deep and longstanding	Growing but limited

### Key Findings

This comparative analysis revealed key insights about the trust and loyalty patterns of customer in Indian towards government and private financial institutions:

#### Trust is Contextual and Conditional

Citizens trust government institutions more in times of uncertainty, such as economic downturns or economic crises (e.g., during the COVID-19 pandemic or NBFC failures).

Private financial institutions enjoy higher trust during stable economic periods, particularly among younger, urban and tech-savvy consumers.

#### Loyalty is Experience-Driven

Private institutions create loyalty through seamless digital experiences, new technology adaption, personalized customer services, quicker grievance redressal and quick and efficient product delivery.

Government institutions create habitual loyalty through legacy connections, pension and salary accounts, subsidies, and rural outreach.

#### Digital Divide Affects Trust Patterns

In rural and semi-urban areas, limited access to digital literacy and limited infrastructure makes citizens inclined more towards government institutions.

Urban consumers, exposed to more digital or tech-savvy services, often favour private banks and NBFCs for the ease of use and app-based banking system.

#### Emotional vs Functional Loyalty

Government Financial Institutions evoke emotional loyalty, based on trust in the sovereign guarantee, institutional legacy and social service perception.

Private Financial Institutions invoke functional loyalty, where repeat engagement is based on convenience, technology innovation and quick problem-solving.

### **Crisis Response Reinforces Trust**

Government banks responded better during financial stress by providing restructuring loans and being perceived as “too big to fail.”

Some private Financial Institution struggled with liquidity, triggering concern over their long-term sustainability among risk-averse consumers.

### **Suggestions**

To bridge the gaps and build a more inclusive, high-trust financial ecosystem, the following strategic recommendations are suggested:

#### **Foster Hybrid Models of Trust**

Government banks should adopt digital efficiencies of private banks.

Private banks should adopt the service values and transparency models of government banks, especially for long-term financial planning.

#### **Strengthen Financial Literacy Programs**

Joint financial literacy programs by RBI, NABARD and private banks can reduce misconceptions and build trust in both sectors.

#### **Personalized Engagement at Scale**

Banks should adopt AI-driven segmentation to tailor communication, services and loyalty benefits for different customer groups such as students, entrepreneurs, farmers, retirees, etc.

#### **Introduce Trust Audits and Loyalty Indexes**

Banks should conduct regular third-party trust assessments and publish public “Trust Reports” and “Loyalty Index” scores, like credit ratings, to foster transparency.

#### **Focus on Reinforce Customer-Centric Regulations**

Regulators like RBI and SEBI should mandate standardized grievance redress timelines, transparency in lending practices and customer rights policies across all financial institutions.

#### **Invest on Loyalty Program Beyond Products**

Both sectors should invest in community-building activities, social banking projects and co-branded partnerships that reflect citizen values and their needs.

### **Impact of the Study**

This research has significant implications are as;

#### **On Society**

- Financial Behaviour Improvement: When citizens understand the role of trust and loyalty, they will make more informed financial decision, improving savings and investment, borrowing behaviour.
- Consumer Empowerment: Key insights from this study encourage greater demand for transparency, better service quality.

#### **On Financial Institutions**

- Strategic Planning: Financial Institutions can redesign their trust-building approach and customer retention strategies based on insights about citizen preferences.
- Crisis Preparedness: The findings can guide the banks on how to communicate during crises and safeguard the reputational trust of the institution.
- Service Innovation: Promotes digitization, innovation and technology adoption, quick problem resolution and value-based service enhancements.

#### **On Organisation (Policymakers and Regulators)**

- The study highlights where policy reforms are needed—especially in digital\technology infrastructure, rural out-reach, and fintech regulation.
- Frameworks for Public-Private Collaboration can be designed based on the complementary strengths of both type of institution.

### On Future Research

- Adds to the growing field of financial psychology, behavioural economics and banking trust studies.
- Provides a framework for future primary studies, surveys or experimental research in consumer trust.

### Limitations

- The study is based on secondary data; primary surveys would enhance empirical strength.
- Regional differences in customer perception are not deeply explored.
- The FinTech segment is rapidly evolving and findings may change with new regulations add-on.
- Emotional trust is difficult to quantify and may vary significantly across socio-economic groups.

### Conclusion

Trust and loyalty are dynamic elements and interlinked phenomena in the financial world. In India, public and private financial institutions are perceived and approached differently by the citizens. Public institutions continue to enjoy high trust due to perceived safety and security and government backing, while private institutions have made strides in building loyalty through personalised product/service, Innovation and digitalization. Bridging the trust-loyalty gap across the sectors is not only vital for market competition but also for ensuring inclusive financial stability and future growth. Both sectors must learn from each other and innovate towards a customer-centric financial approach for future.

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