

# **Perceptions in the Banking Industry of Latvia**

## **Summary of a Survey among Riga Business School (RBS) Alumni**

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Perceptions can play a crucial role in the banking industry. Bank runs are sometimes triggered by rumors rather than real problems. When such things happen an average person will not be looking at a bank's balance sheet, but probably will refer to the perception of the specific bank, its owners, business model and image.

The banking system in Latvia is by no means homogeneous. There are a number of features that distinguish the banks, including the ownership, business model, target customers etc. In this article we explore one dimension of the banking industry in Latvia by carrying out a survey on the perceptions of the potential business customers towards the banks. The survey was carried out in July 2014 among the RBS Alumni – a group of mid- to high-level managers. We attempted to analyze their perceptions about the individual banks competing in the Latvian marketplace.

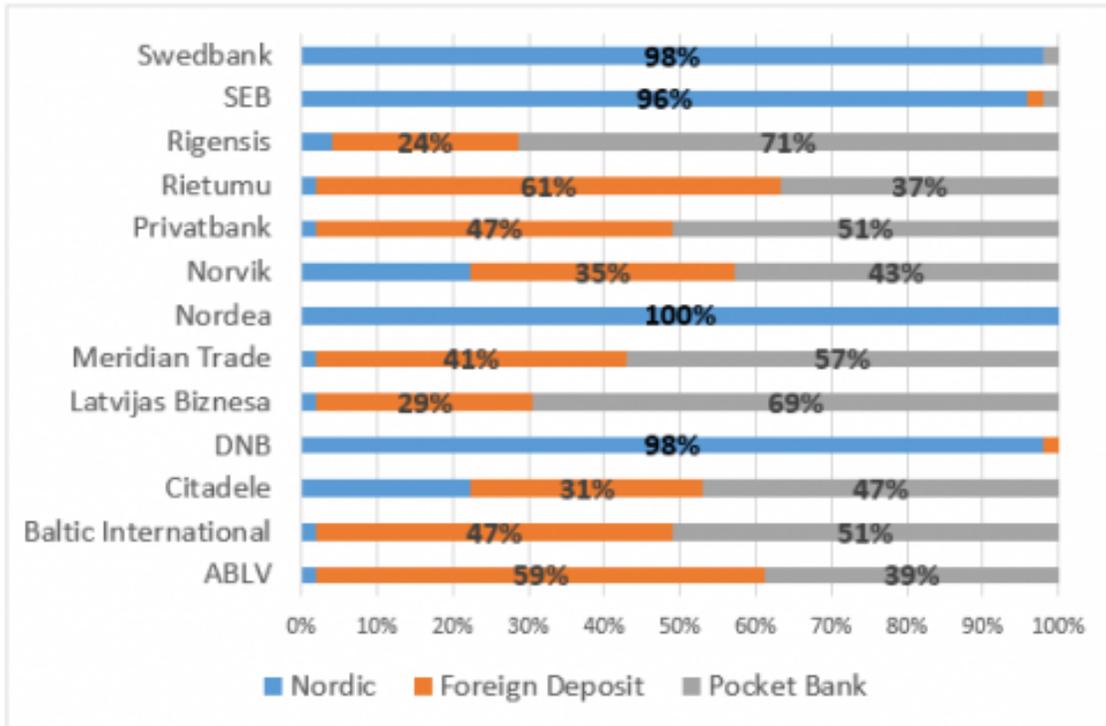
The survey examined perceptions regarding the top 13 banks operating in Latvia concerning their business models. Although it is possible that some banks may define themselves differently, we offered to choose from the 3 following types of banks in our survey – Nordic, Foreign Deposit, Pocket Bank. A brief definition of these types follows. The Nordic model refers to banks which have foreign ownership, but are acting primarily in the domestic Latvian market. The Foreign Deposit approach seeks to explore the advantages of the Latvian banking sector by attracting deposits of non-residents (the risks of this model have been discussed in more detail by the Financial and Capital Market Commission, see their 22.11.2012. press release). The Pocket Banks typically serve the shareholders and their inner-circle and have very little to offer in the local marketplace.

The survey responses suggest that the Nordic model is well-defined – the 4 banks identified by respondents to belong to this group (Swedbank, SEB, Nordea and DnB) gathered more than 95% of the responses. The distinction between the other 2 options offered – Foreign Deposit and Pocket Bank – is much less pronounced. For the remaining 9 banks the shares of responses regarding their business models indicate that the respondents may not be able to clearly distinguish between the Foreign Deposit and Pocket Bank models.

The most significant players in the Foreign Deposit model are Rietumu, ABLV, Baltic International and Privatbank, however, only the first 2 of them are mentioned as belonging to this model by more than half of the respondents. The banks mostly perceived as Pocket Banks are – Rigensis, Latvijas Biznesa and Meridian Trade – all receiving more than 55% of corresponding responses. This illustrates an interesting phenomenon of the banking in Latvia – the banks which are attracting their funds outside Latvia (foreign deposits by non-residents) usually have a mixed image in the eyes of the locals. The distinction between banks with a broad-based range of foreign depositors and the banks which mainly service business needs of one specific enterprise is not clear. As a result, the larger banks in Foreign Deposit business are quite often looked at suspiciously – at least domestically.

Interestingly, the state-owned Citadele has a very mixed image – the responses are split between the 3 models with the Pocket Bank model receiving about 47% of responses. This perhaps indicates the perception of the lack of transparency during the ongoing privatization process of the bank. As a result, despite the relatively good recent performance of Citadele, the users of the banking services seem to be quite confused about the strategic path of this bank.

Chart: A Summary of Survey Responses



Source: RBS Survey.

To summarize the results – the key business models followed by the Latvian banks vary quite considerably in terms of the perceptions of the business clients. The Nordic model is much more clearly defined and perceived by the customers. The survey indicates that there are 4 banks following this approach. The public perception of some of the other large banks (which follow the Foreign Deposit model) is less straightforward. Although the 2 largest representatives – ABLV and Rietumu - have about 60% recognition of their business model, more than a third of respondents consider them Pocket Banks.