Editorial

Journal of Financial Services Marketing (2014) 19, 249–252. doi:10.1057/fsm.2014.28

In this final issue of Volume 19, I am pleased to introduce the following five papers. In the first paper, *The interplay of external punishment and internal rewards: An exploratory study of insurance fraud*, Ali Dehghanpour and Hooman Estelami explore the factors leading to the likelihood of fraudulent insurance claims. While much research into the insurance industry has focused on how to improve profitability by increasing revenue generation, comparatively less research can be found that seeks to increase profitability via cost-reduction mechanisms, specifically by reducing the costs associated with insurance fraud.

Fraud represents an intrinsic business risk that must be costed into the pricing structure of the insurance product and also requires that insurance companies invest in fraud detection systems. While the level of fraud varies across countries and products, insurance fraud is widespread and a major issue to the industry. The authors note that the practice of insurance fraud is relatively unexplored from the perspective of ethical decision making.

The process of ethical behaviour can be explored from various theoretical perspectives. The authors argue that the economic perspective, accounting for a large part of research into ethical behaviour, gives prominence to the role of external incentives and deterrents (that is, punishment), leaving internal incentives (that is, attitudes and values) relatively less explored. Set against this background, the study explores the independent and joint effects of internal rewards (attitude towards insurance fraud) and external punishment mechanisms (perceived likelihood of being caught) on the likelihood of consumers exhibiting unethical behaviour in insurance fraud contexts.

Data was derived from the (2010) European Social Survey and based on self-reports of insurance fraud from a survey of 43 127 consumers in 26 European countries. The paper examines attitudinal differences towards insurance fraud among groups of customers and segments consumers based on their perceptions of the probability of being caught after committing insurance fraud. The findings indicate that insurance fraud is significantly and negatively related with both internal reward mechanisms (attitude towards insurance fraud) and external punishment mechanisms (perceived probability of being caught).

The authors find that the act of insurance fraud is most common among consumers who perceive the probability of punishment as not very likely, and even more common among those who believe that the probability of being caught is non-existent. However, attitude towards insurance fraud has a stronger influence on the incidence of fraud than perceptions of the probability of being caught.

The authors suggest that incidence of insurance fraud may be reduced by appealing to the moral foundation of customers and their values and beliefs. This can be achieved as an industry-wide effort as well as at the firm level. For example, demonstrating high moral standards in interactions with customers and treating customers fairly and ethically may serve to reinforce such messages.

In the second paper, *Customer satisfaction with socially responsible investment initiatives: The influence of perceived financial and non-financial quality*, Jonas Nilsson, Sofia Isberg and Anna-Carin Nordvall explore the relative impact of financial performance and social responsibility performance of financial institutions on

customer satisfaction with socially responsible investments (SRIs).

SRI initiatives have grown from a niche area of investment activity to become a mainstream financial service offering. Despite the importance of SRI, though, research on socially responsible investors is lagging behind research into investing behaviour more generally. Research into SRI has tended to focus on understanding the motivations for investing in SRI funds and the investment/purchase decision stage, yet we know much less about SRI investors' evaluations after they have made their decision to invest in SRI profiled investment initiatives and the impact of such evaluations on subsequent behavioural outcomes.

Set against this context, the authors examine customer evaluations of quality and satisfaction in the post-purchase stage in the SRI context. The paper develops and tests a theoretical model of satisfaction with SRI profiled mutual funds. The model specifically examines the relative importance of the perceived quality of two sets of factors on investor satisfaction with SRI profiled mutual funds: financial performance and environmental, social and governance (ESG) performance. The study was based on a survey of 369 Swedish SR-investors.

The findings of the study suggest that both perceived financial performance and ESG performance are important to customer satisfaction of SRI profiled mutual funds. However, perhaps not surprisingly, perceived financial performance of the SRI profiled mutual fund emerged as the most important predictor of customer satisfaction. The authors suggest marketers of SRI initiatives should primarily focus on the conventional quality attributes such as financial performance, as a good ESG record alone is unlikely to generate customer satisfaction.

However, the authors caution that the significance of perceived ESG performance should not be underestimated. The study also shows that investors in SRI profiled mutual funds do evaluate the ESG quality of their fund

and also judge their investment based on this evaluation. For financial services providers this highlights the importance of demonstrating genuine impact in ESG factors, which may have a greater impact on customer retention.

Technology continues to make a dramatic and profound impact in financial services, radically shaping how financial services are being delivered. Yet, research into the effects of new media, in particular social media, is not keeping pace with technological developments. Consequently, little is widely understood about the potential role of social media in banking contexts in general and its potential impact on retail bank relationships in particular. In the third paper, *On the potential for Twitter to add value to retail bank relationships*, Mark Durkin, Steve Worthington, Lisa Murray and Victoria Clark argue that a better understanding is needed of the impacts such new media bring for the retailing of financial services and particularly the implications arising for more effective relationship management. The paper reports on the use of Twitter in bank–customer communications. In particular, the study attempts to ascertain the extent to which explicit communication strategies seem to exist for the deployment of Twitter.

The study was based on a content analysis of 400 Tweets sent to customers from a range of financial service providers based in Ireland. In addition to assessing the level of activity in Twitter use by the financial institutions, the study also provided for an analysis of Tweets according to relational intent to ascertain the extent to which the communication was primarily acquisition-, engagement- or retention-oriented. Customers' reactions to the Tweets, in the form of retweets, were also examined.

The findings reveal that the extent to which there appears to be any formal strategy regarding the use of Twitter for acquisition, engagement and retention among the institutions is inconclusive. Many of the institutions in the study appear to utilise Twitter

reactively or opportunistically in response to external activities in the financial services market generally. The vast majority of Tweets seem to be used for customer engagement type communication, rather than for acquisition or retention messages. However, while engagement Tweets accounted for the largest number, they were 'retweeted' by customers far less than acquisition and retention Tweets. This suggests that there is scope to increase the extent of Twitter use more explicitly for acquisition and retention and that such a strategy could have far greater impact on the customer–bank relationship.

The authors caution that a key challenge is how to achieve consistency of the marketing message across all the communications channels that are now available, particularly where responsibility for communicated messages via Twitter is distributed; but they also argue that opportunities appear to exist in utilising social media for relationship building in financial services, if used as part of a clear communication strategy.

The area of retirement saving is complex. Much has been written about the need to save for retirement and the challenges and barriers to effective retirement saving. Equally important, though, is an understanding of how to make the most of the retirement fund following retirement and the optimal strategy for withdrawal of retirement income. Determining the optimal withdrawal strategy is complicated by two key unknowns: life expectancy and portfolio returns. Given perfect information of future returns and life expectancy, it would be relatively easy to determine the income that could be generated from a retiree's portfolio, eliminating the possibility of either a shortfall or surplus. In reality, however, analysts are forced to apply common rules, such as the 4% rule, which result in sub-optimal outcomes.

Set against this context, in the fourth paper in this issue, *Improving retirement adequacy through asset class prioritisation*, Jason West, Michael Drew, Adam Walk and John Cameron investigate a strategy for withdrawing retirement income

from different asset classes through retirement in order to derive an optimal withdrawal process. They define an optimal withdrawal rate as one that neither depletes a retiree's portfolio of savings nor unnecessarily constrains their desired spending needs.

The analysis is based on 130 years of historical data obtained from Global Financial Data. Using a block bootstrap simulation technique, the study examines decision rules relating to stock and bond investments. The findings show that retirement portfolios with a bias towards stocks coupled with a decision rule that sources withdrawals from bonds and cash before stocks significantly outperforms alternative withdrawal strategies. The authors note that this finding is in direct contrast to the safe withdrawal rate conventions commonly used. The paper provides some useful managerial implications.

The Islamic banking industry is one of the fastest growing industries in the world, and has demonstrated remarkable resilience in the face of the financial crisis. How has this been possible? Increasingly, scholars are analysing the key differences between Islamic and conventional banks to understand the key success factors. One such difference is the way in which Islamic banks are governed. There has been a lack of research into corporate governance of financial institutions, in particular comparing Islamic and conventional institutions. Babak Naysary and Siti Normala seek to address this in the final paper in this issue, *Towards a comprehensive theoretical framework for Shariah governance in Islamic financial institutions*.

The paper reviews and synthesizes three commonly used theories in the corporate governance and Shariah governance area—agency theory, stewardship theory and stakeholder theory – and integrates these to propose a theoretical framework. The constructed theoretical framework includes five concepts: accountability; disclosure and transparency; competency; confidentiality; and independency among the key functionaries in Shariah governance. The five concepts are presented as the key

principles on which Shariah governance is founded.

The authors claim that this is among the first attempts to build an integrated theoretical foundation for Shariah governance in Islamic financial institutions. The framework can be used both by Islamic financial institutions and by conventional institutions as a means by

which to analyse and compare existing governance arrangements with a potentially ideal arrangement.

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