

CONSUMER ENGAGEMENT IN THE CURRENT ACCOUNT MARKET

Trust Loop
May 2016

A Bacs Research Paper



CURRENT ACCOUNT
SWITCH
GUARANTEE

 **bacs**



1 FOREWORD

Bacs operates the Current Account Switch Service (CASS) which enables consumers and small businesses to switch from one payment account provider to another in a simple and stress-free way. In order to understand how our promotion of the Service can be most effective we have undertaken a research programme with the University of Bristol to investigate how consumers engage with and make choices in the market. The first of our three research papers, published in March, provided an overview of our findings; in particular the existence of two key feedback loops which drive the market dynamics: Trust Loop and Inertia Loop. This paper focuses on our understanding of the 'Trust Loop'.

The drivers that strengthen a consumer's relationship with their provider reinforce confidence and lead consumers into the 'Trust Loop'. Consumers in the 'Trust Loop' believe that their provider delivers the service that they expect and want, and their experiences reinforce this belief. These consumers are satisfied and, consequently, less likely to consider alternative providers.

The drivers that weaken consumer relationships reduce confidence or satisfaction. These can move a consumer along the learning journey, away from the Trust Loop and onwards toward decision points where they are more likely to actively consider switching. However, at this point consumers may find that alternative providers are unattractive, or consider the process to switch providers too complicated. If this is the case, they can enter an Inertia Loop; where they are dissatisfied with their current account but consider the alternative of switching unattractive.

This report investigates the Consumer Learning Journey and considers what elements consumers value in a relationship with their providers and what would drive them to consider change. It also explains what the loop contains and how consumers assess benefits and non-benefits of the choices they are presented with.

We believe our fresh approach to analysing and identifying what motivates consumers will assist the industry to deliver better current account products for consumers and help us to develop and refine CASS. We hope our research helps to ensure CASS continues to stimulate competition across the sector whilst delivering the simple and stress-free process for consumers who want to switch their current accounts.

Anne Pieckielon

Director of Product and Strategy, Bacs Payment Schemes Limited

THIS REPORT PROVIDES A DETAILED EXPOSITION OF THE LEARNING JOURNEY AND WHY IT IS IMPORTANT TO CUSTOMER SWITCHING BEHAVIOUR.



2 BACKGROUND

The Current Account Switch Service (CASS) was developed with the objective of reducing a perceived barrier to switching current accounts, making the process simple and stress-free for consumers. Although CASS has undoubtedly been an operational success and addresses the key concerns consumers expressed about the switching process, the overall level of switching has not changed significantly. As the company behind CASS, we want to understand what really drives consumer behaviour so we can find ways of increasing market engagement and thus stimulate competition.

In our previous publication in March 2016, "Consumer Engagement in the Current Account Market – Why people don't switch current accounts", we gave an overview of the key findings from our research programme. We identified several reasons why current account switching levels might be lower than in other similar markets, such as insurance, energy and telecommunications. These factors included relatively undifferentiated products and a lack of 'trigger points' for change, such as annual renewals of insurance. In order to explore the relative importance of the factors affecting switching we have developed the Consumer Behaviour Dynamics Map, as shown in Figure 1 below. We also introduced the Consumer Learning Journey concept that seeks to explain consumer actions in terms of their ability to make informed decisions about how best to get what they need from a current account.

Our focus in this second report is on the Trust Loop, exploring how consumers' level of trust and loyalty to their current providers can increase over time and how consequently they become less likely to switch. We also discuss how providers' innovation, such as product development, and service improvements drive product differentiation and thus better meet consumers' needs. We go on to demonstrate that these activities increase the perceived value for consumers and thereby reinforce a stable loop of trust.

This report provides a detailed exposition of the learning journey and why it is important to customer switching behaviour, how the concept relates to the Trust Loop, and what the key drivers of customer behaviour are within it. Following on from this report, our final research paper in this series will examine the Inertia Loop, its relative importance compared with other market drivers, and what influences can help to break the loop.

3 THE DYNAMICS OF CONSUMER BEHAVIOUR

Our research has demonstrated that the two critical elements that shape overall market behaviour are trust and inertia. While both can lead to relatively low switching rates the balance between the two is critical to the effective functioning of the market. The Consumer Behaviour Dynamics Map below shows how they interact.

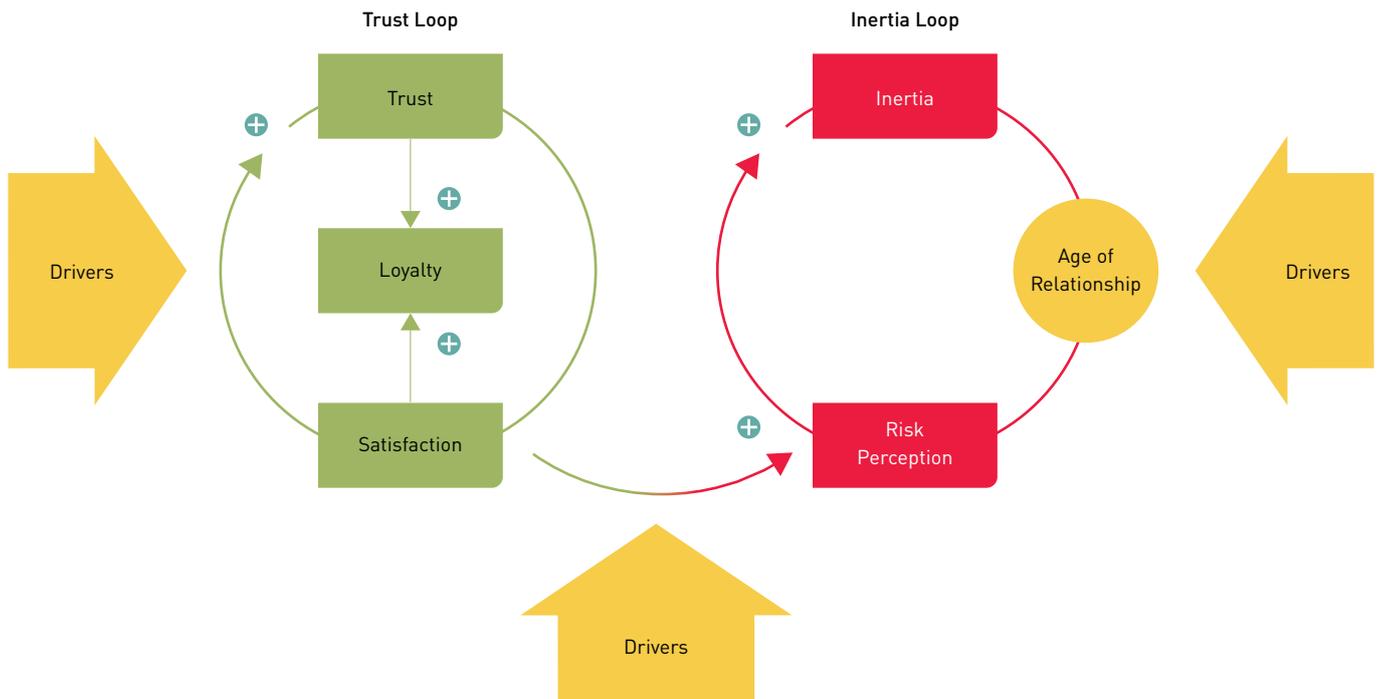


Figure 1: Consumer behaviour dynamics map

If a consumer is in the Trust Loop they tend to stay with their current provider and their level of trust and loyalty to their provider increases over time. It acts as a reinforcing loop, with a consumer’s trust in their supplier increasing with time as a result of experiencing satisfaction with the products and services that they receive.

The Inertia Loop is where consumers may become disengaged from the products and services available in the market but still tend to remain with their current provider. The Inertia Loop also acts as a reinforcing loop, which drives consumers to stay with their provider. Despite being dissatisfied there is a reluctance to switch because of a lack of engagement in the market, due to lack of motivation and/or knowledge and the perceived risk of switching.

Our research suggests that the Consumer Learning Journey, a concept conceived within the financial sector and developed by the University of Bristol as a learning journey, can stimulate entry into the Trust Loop rather than the Inertia Loop. In analysing customer engagement as a learning journey, we have identified three main drivers that influence consumers’ decision on whether they decide to switch their provider. **These are Current Provider Perception, Other Provider Perception and Life Events.**

IN ORDER TO UNDERSTAND CONSUMER BEHAVIOUR WITH REGARD TO ACCOUNT SWITCHING WE NEED TO UNDERSTAND HOW CONSUMERS ASSESS VALUE

4 CONSUMER LEARNING JOURNEY

A learning journey concerns the transition from, purpose to performance in relation to the purpose. More specifically, the Consumer Learning Journey describes how a consumer can move from a state where the value they expect from their account is not met, to one where their needs are being met effectively. In order to understand how consumers move along this journey we need to understand how consumers assess value, and the available tools and information that allow this assessment. When the consumer is at a level where they are suitably satisfied or have been satisfied in the past, a degree of certainty is developed in their provider being able to continue to provide value thereby increasing trust in that provider. Accordingly, they enter the Trust Loop.

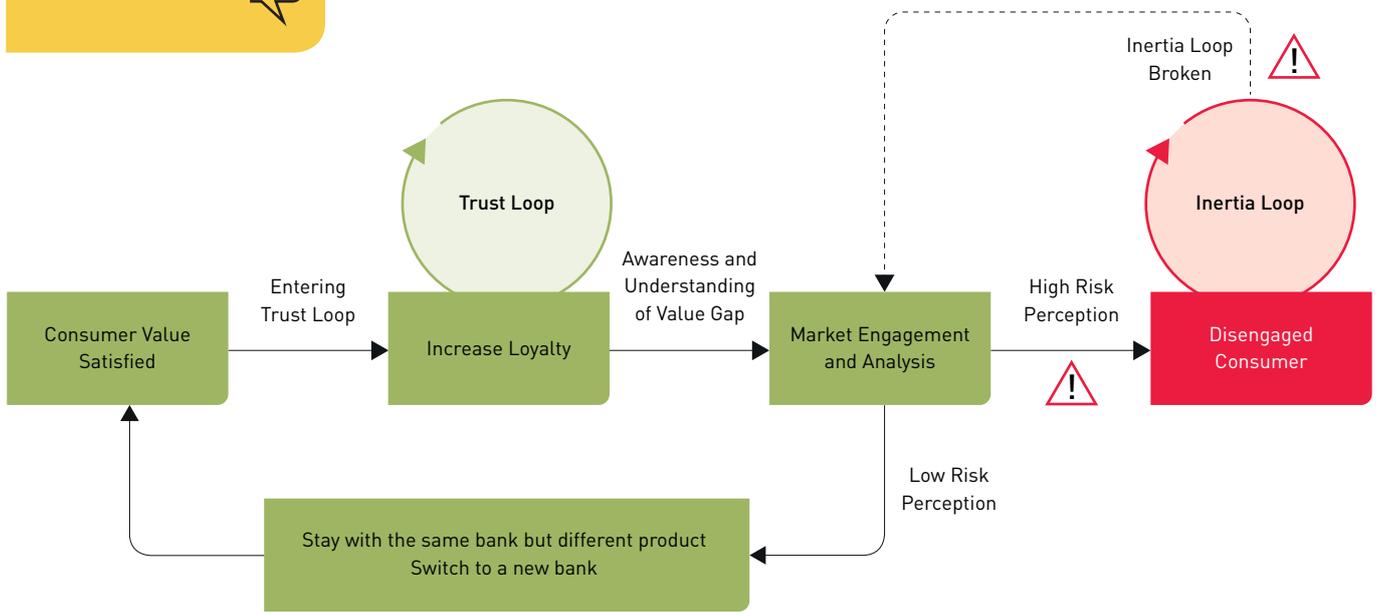


Figure 2: Consumer Learning Journey

4.1 WHAT IS VALUE TO A CONSUMER

In our research, we use 'value' to mean the degree to which a consumer perceives that the benefits they are receiving from the current account provider exceeds the costs to the consumer of realising those benefits. We identify three factors that are required to measure value:

- **Consumer values:** what is important to the consumer
- **Value proposition:** what the provider offers
- **Consumer perception:** how the consumer perceives what the provider offers.

1 CONSUMER VALUES

Consumer values are what, within a specific context, is most important to a consumer. In the context of current accounts, consumers prefer one current account product over another based on an assessment of which product could fulfil their purpose most effectively. Values are closely linked to purpose, that is the wider goals that the customer seeks to achieve through their current account. The learning journey in which a customer becomes able to assess value is shaped by their ability to access and interpret information about the product. For example, a 24/7 mobile payment facility could fulfil the consumer purpose of convenience, freedom or immediacy, and satisfy one understanding of value.

Consumer values can vary with context and time as they learn more, leading them to re-evaluate their concept of value. They are influenced by both intrinsic and extrinsic factors such as attitudes, life events, and a change of circumstances. For example, as a student, flexibility and speed may be of high value to the individual, however when seeking employment after graduation, financial security may become the more prominent value.

2 VALUE PROPOSITION

The product value proposition defines the way in which a current account provider seeks to offer value through their products and services. For current accounts the value proposition is described through three factors:

- **Functional** – such as debit card and cash withdrawal facility;
- **Financial** – such as charges and interest on balances; or
- **Relational** – such as customer service and familiarity associated with the provider.

3 CONSUMER PERCEPTION

This is the extent to which consumers perceive that a provider's value proposition matches or fulfils their own values. For this report, this is defined as Consumer Perception. The perceived value proposition could be different from the intended value proposition of a provider due to a consumer's individual experience with the provider. How a consumer's perception develops and changes is driven by the provider's various interactions with current and prospective consumers.

4.2 CONSUMER LEARNING JOURNEY: 6 KEY COMPONENTS

The Consumer Learning Journey is the process through which consumers define and develop their understanding of value, and are thus able to compare product offerings. The learning journey comprises six key components:

- 1. Purpose:** Those things most important to a consumer in the context of the journey e.g. the consumer's financial goals and how they are best met through convenience.
- 2. Experience:** Events that arise during the relationship between consumer and supplier, such as service availability or customer service in a branch, or exposure to other suppliers and their products or branches.
- 3. Awareness:** There are two aspects of awareness in the context of the learning journey. First, the value a consumer places on the service that they receive from their current provider and the perceived gap between that and the value they require from their account. Secondly, the consumer's awareness of other product choices in the market, how these compare with required value and their ability to address the perceived gap.
- 4. Consumer capacity to act:** Although a consumer may identify a value gap that could be filled by an alternative provider there may still be barriers to them taking action to switch. For example they may be discouraged through a lack of knowledge of the switching process, or the effort needed to complete the transaction by visiting a branch.
- 5. Consumer behaviour:** Where a consumer identifies a value gap they may act in a variety of ways. They could choose to act immediately and complete a switch, or they might seek further information to support a decision to move. Alternatively they may actively decide not to progress, or passively lapse into inaction.

6. Performance: In the context of the learning journey, performance represents the degree to which the consumer has achieved their purpose, reaching an optimal value delivered by their chosen provider against their defined purpose.

These six components and their interaction form the foundation of both the Trust Loop and Inertia Loop and can be considered alongside identifying what factors influence consumer behaviour and decision making along their individual learning journey. This determines a consumer's position on the Consumer Behaviour Dynamics Map.

The next section focuses on the stage in the journey where consumer value is satisfied, how consumers enter the Trust Loop, and how subsequently they may become aware of a new value gap emerging.

5 THE TRUST LOOP

At the heart of the Trust Loop are two consumer states, Satisfaction and Trust, which form a positive feedback loop which reinforces behaviour. Satisfaction refers to the degree to which a consumer perceives that their provider has satisfied their values in the past and is currently satisfying their values. Trust refers to the degree of certainty perceived by a consumer that their provider will continue to satisfy their values in the future. If everything else remains equal, the positive feedback between these two consumer states will, over time, increase the level of trust and satisfaction a consumer has with their current account provider. This mechanism increases the level of consumer loyalty, and, in turn reinforces their level of satisfaction. This positive feedback effect acts to reduce, and ultimately eliminate the consumer's desire to switch.

REINFORCING FEEDBACK LOOP

"A reinforcing loop is one in which an action produces a result which influences more of the same action thus resulting in growth or decline. The reinforcing loop is one of the two foundational structures of systems thinking"

Systems-Thinking.org

Consumers who find themselves in the Trust Loop are content in the context of their current account; they perceive that their values are being met by their provider and they expect this to continue for the future.

So how does the Trust Loop shape the consumer journey through the Consumer Behaviour Dynamics Map? As explained in our previous publication¹, the Trust Loop implies an ideal market where consumers are satisfied with the current account products and services they receive from their provider and feel that they are able to trust them. However, there are a number of circumstances that could break the Trust Loop, which lead to a consumer believing that their values are no longer being met. The three main areas are:

- **Current provider perception** – an event may occur that leads the consumer to re-evaluate the appropriateness of their current provider
- **Other provider perception** – the consumer may become aware of alternative value propositions in the market that may better match their needs
- **Life event** – an event that may change their purpose and underlying values and hence lead to a revised value statement.

These three drivers influence the level of satisfaction and are essential both to the maintenance of, or breaking out from, the Trust Loop and thus the potential of a consumer to consider switching.

Figure 3 illustrates the relationship and interaction between the Trust Loop and these three main drivers. In the figure, the arrows indicate the direction of influence between two directly linked mind-sets, the associated drivers of behaviour and other influencing factors. The positive feedback loop indicates that related factors change in the same direction, and the negative feedback loop indicates that they change in opposing directions. The "+/-" symbols mean that the influence could be either positive or negative. These elements of the Trust Loop are examined in detail in the following sections.

¹ "Consumer Engagement in the Current Account Market – Why people don't switch current accounts", Bacs, March 2016

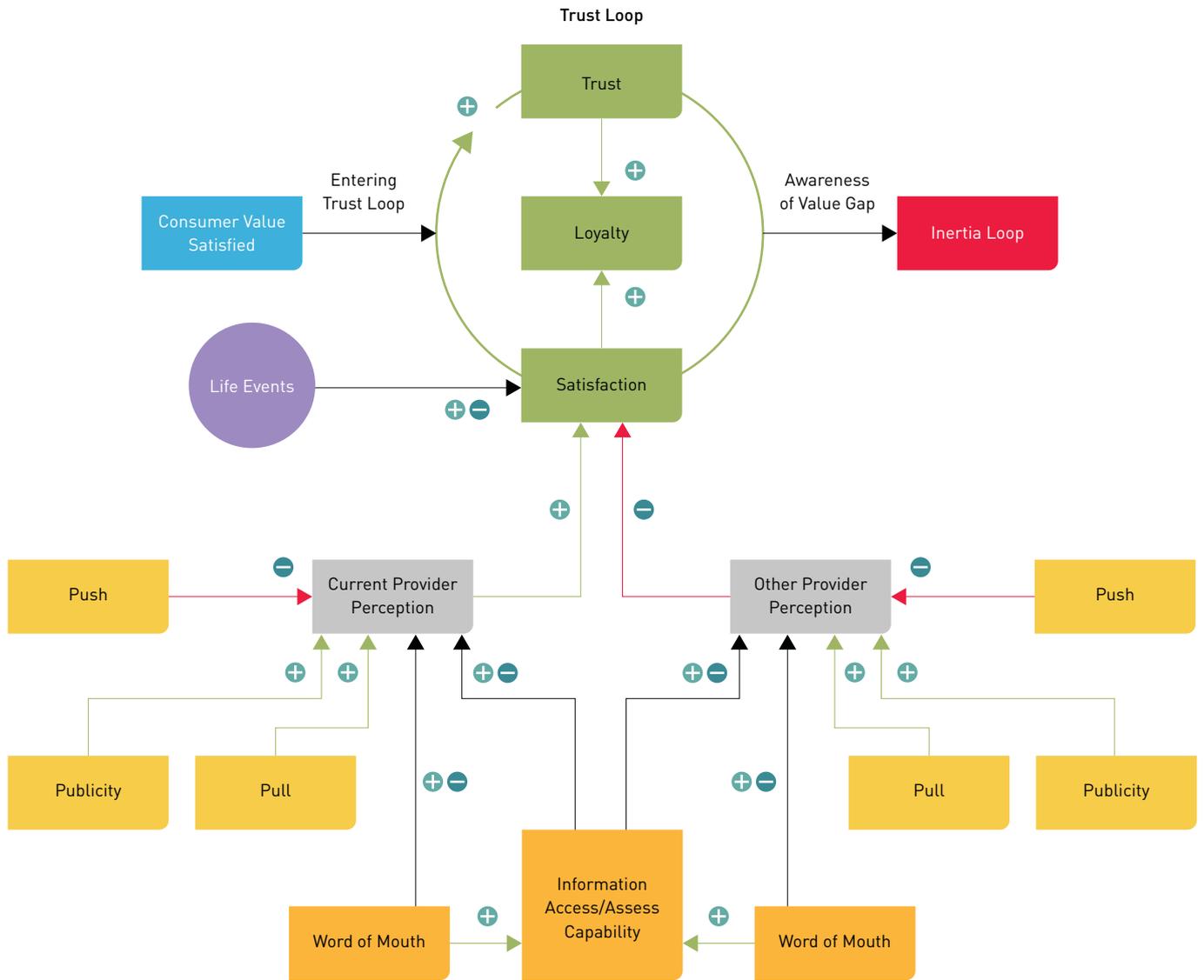


Figure 3 – Trust Loop and its Drivers

PUSH AND PULL FACTORS

The most cited reasons for those who switched in the last year were related to better terms offered by competing banks, including:

- Better interest rates elsewhere (25%)
- Better products/deals/account conditions elsewhere (25%).

And reasons related to the terms and service offered by their current bank including:

- Poor customer service (19%)
- Charges/fees too high (12%)
- Branch was closing/no local branch (15%).

"Personal Current Account Investigation", CMA, April 2015

TOTAL MEDIA SPEND IN
THE CURRENT
ACCOUNT CATEGORY:
£10.1 MILLION IN
NOVEMBER 2015.

CASS TRUSTMARK USE
UPDATE, FEBRUARY 2016.



5.1 PROVIDER PERCEPTION

Current provider perception

In the Trust Loop, satisfaction is defined as the degree to which the consumers' current provider has been fulfilling their values in the past and is currently satisfying their values in the present. Consumer perception on the current provider is therefore critical in determining the consumer satisfaction level. The higher the current provider perception, the more satisfied the consumer will be, and as a consequence the stronger the Trust Loop will be. A consumer's perception of their current provider is affected by five factors which can be split into two groups, broadly categorised as provider driven and consumer driven.

Provider driven:

- Push factors, such as a poor service experience
- Pull factors, including product innovation or service enhancements
- Publicity, in the form of advertising and promotion by alternative providers.

Consumer driven:

- Word of mouth, long recognised as a powerful influence on behaviour
- Information access and assess capability, through the availability of information and the consumer's ability to acquire and assimilate the information necessary to make choices.

Other provider perception

These factors also impact a consumer's perception of other providers. The main difference being that a consumer is likely to become less satisfied with their current provider if their perception of another/other provider(s) is more positive, and vice-versa. Even if the consumer currently perceives that their values are being fulfilled by their current provider, their consumer value could change as they become aware of alternatives that they may not have considered before and currently do not receive.

The two types of factors that affect both consumers' perception of their current provider and their perception of other providers are **Provider-Dominant Factors and Consumer-Dominant Factors**.

1 PROVIDER-DOMINANT FACTORS – WHAT THE PROVIDER DOES TO INFLUENCE PEOPLE'S PERCEPTION ON CURRENT ACCOUNT PROVIDERS

Push and Pull factors impact on a provider's value proposition to their consumers, while Publicity is defined as positive public relations such as a marketing campaign or positive news articles.

Push factors

Push factors relate to events that lead to negative consumer experience such as bad consumer service, payment transaction failures, local branch closure or the end of a promotion such as a bonus interest rate. It negatively impacts the current provider perception and could potentially **push consumers away** from the provider.

Pull factor

Pull factors relate to events that generate positive consumer experiences such as better credit interest rates, free gifts and cash incentives, longer branch opening time or better overdraft facilities. It positively impacts the current provider perception and could potentially **pull consumers towards** the provider.

DESPITE HIGH LEVELS OF SATISFACTION, LOW NUMBERS OF SWITCHING MEANS THERE IS LIMITED WORD OF MOUTH TO SPREAD REASSURANCE.



Publicity

Publicity **positively** impacts the current provider perception, as it results in consumers having more confidence that the provider is currently satisfying their values and will continue to do so in the future. This would usually be as a result of positive public relations, targeted advertising or affirmative brand recognition.

2 CONSUMER-DOMINANT FACTORS – WHAT THE CONSUMER DOES TO INFLUENCE PEOPLE’S PERCEPTION ON CURRENT ACCOUNT PROVIDERS

The factors described in the previous section are provider led and are triggered mainly by the consumer’s interaction with their current provider. Conversely, consumer-dominant factors that influence the consumer’s view of their current provider are driven by factors generally not in the direct control of the current provider. These include word of mouth, information access and assess capability.

Perceptions of other providers are more dependent on consumer-dominant factors than perception of the current provider. Since consumers tend not to interact with other providers, provider-dominant factors have relatively less impact on their understanding and behaviour. Consequently word of mouth and information access/assess capability are much more important in shaping perceptions of other providers.

Word of mouth

Word of mouth is defined as information conveyed through non-official communication channels. Typical examples include review websites, conversation between friends and families and, increasingly social media. Word of mouth can either have a positive or negative influence on consumer perception depending on the information involved.

Word of mouth is recognised as an important source of information in several research papers^{2,3,4} and for some people greatly increases their information access and assess capability. It is normally associated with more trustworthy parties such as friends and families and carries more weight in decision making process, particularly when a consumer is assessing service quality.

Information access and assess capability

Information access and assess capability relates to how much information a consumer can access and is able to assess. It can be affected by:

- Consumer education level, age or income level. People who are younger, with higher education or higher income may be more able to gather and assess information to use in decision-making⁵; and,
- Information availability; the amount of information regarding current account providers and current account products which is available to consumers.

Information access and assess capability has a direct influence on how consumers receive information about current account providers, either their current provider or other providers in the market, and form their individual perceptions towards providers. However, a higher degree of information access and assess capability does not necessarily have a positive impact on current or other provider perception, and vice versa. It all depends on the information received, and how it is processed by an individual. For example, for someone who is confident in using price comparison websites to gather and assess different current account providers, he or she might find more negative reviews regarding a specific provider and therefore forms a more negative perception.

² “CASS-The Consumer Reality”, Tesco Bank, July 2015

³ “Towards World Class: The Consumer view of Current Accounts and Payments”, Barclays, June 2015

⁴ “Small and Medium Enterprise Customer Research into the Retail Banking Market (Qualitative Research Report)”, CMA, July 2015

⁵ “Energy Market Investigation- Summary of Provisional Findings Report”, CMA, July 2015

A BETTER FUNCTIONING MARKET MAY NOT LEAD TO INCREASED SWITCHING LEVELS BUT WILL INCREASE ANY CONSUMERS' CONSIDERATION TO SWITCH.



5.2 LIFE EVENTS

Life events, such as getting married or moving house, can change consumers' needs and their assessment of what is important to them. This subsequently leads to a change in the consumer value. The impact of the change can be positive or negative, depending on if the current provider's value proposition can still fulfil the new consumer value. If the current provider can no longer fulfil the new consumer value satisfaction levels will decrease and the Trust Loop could be broken. It is important to recognise that life events present a potentially strong trigger point, which increases the effects of other factors, such as push, pull, publicity and word of mouth.

5.3 RELATION TO THE INERTIA LOOP

A consumer's evaluation of the benefit of switching is widely cited in academic and industry publications as a factor that influences consumer engagement in the current account market. Although not explicitly indicated in Figure 1: Consumer Behaviour Dynamics Map, this factor is seen as part of the relationship between satisfaction and risk perception. Consumers believe that there would be less benefit from switching when they have high levels of satisfaction with their current account provider, leading to a higher perceived risk of switching since any benefit assessment is tested against a higher threshold. This is because consumers are uncertain if a new provider will be able to meet their current needs and as a result they may perceive that they have more to lose by switching.

These findings imply that providers who look to develop and maintain high levels of consumer satisfaction by improving their Current Provider Perception will re-enforce the Trust Loop. Analysis using our CASS Market Dynamics Model suggests that this result can best be achieved by increasing a provider's propensity for developing and promoting positive publicity or strong pull factors.

This does not mean that a provider should simply focus on publicising their existing products and services. Our analysis suggests that a provider's emphasis on driving the quality of the propositions both to new and existing consumers and fulfilling consumer values is just as important. Our analysis of the functioning of the Trust Loop suggests this will naturally drive up consumer satisfaction and re-enforce loyalty. Although it may act to suppress switching, this is not necessarily a poor result. Provider action to enhance account offerings and reinforce consumer satisfaction is a positive outcome, to the extent that the consumer's purpose is met.

Whilst provider perception (Current and other) are key to the Trust Loop and competition in the current account market, CASS is crucial to breaking the Inertia Loop because it reduces consumers' risk perception to switch their current accounts, and therefore lowering the hurdle at which people will actively consider switching.

A loop in which consumers' values are satisfied, trust is re-enforced and loyalty is present, combined with the effectiveness of CASS in increasing consideration to switching their current accounts, creates a better functioning market. Our findings from trialling our CASS Market Dynamics Model, which enables us to investigate the drivers that impact on consumer consideration of switching, has informed us that a better functioning market does not necessarily lead to increased levels of switching, but should be represented by an increase in a consumer's consideration to switch.

An increase in consumer consideration for account switching would demonstrate the consumers Learning Journey from Purpose to Performance as they would now have an active involvement in the product market.

Despite the level of disengagement that inevitably exists in **any** sector/market, CASS will continue to contribute to the reduction of this effect, and increase consideration to switch current accounts. It is the actions of the Provider's, in fulfilling consumers' values that will also play its part in an increasingly effective functioning market.

CURRENT ACCOUNT PROVIDERS ARE MORE LIKELY TO RETAIN THEIR CONSUMERS IF THEY KEEP THEM WITHIN THE TRUST LOOP - BY UNDERSTANDING THEIR VALUES AND OFFERING FULFILLING SERVICE PROPOSITIONS.



6 EXITING THE TRUST LOOP

All the factors described in Section 5 that negatively impact the satisfaction level could lead to the breaking of the Trust Loop and a consumer going back into a state of considering what else is in the current account market. For example, a life event leading to consumer value change that the current provider no longer fulfils, a series of banking errors with the current provider, or receiving a better offer from other providers. As much as Current Provider Perception can re-enforce loyalty and the Trust Loop, other providers can actively promote their products and target individual consumer segments, and drive active consideration for switching.

As these impacts accumulate to a certain level, consumers become more aware of the gap between their values and what they perceive their current provider is offering. With the awareness of other options in the market, consumers leave the Trust Loop and enter the next stage of the learning journey, where they begin to look at other providers and consider switching current accounts. Bacs is undertaking further research to consider developments in the market to understand more about what drives consumer behaviour, and we will present our findings in our future research reports.

Nevertheless we would like to reiterate here that the Trust Loop implies an ideal market where consumers are getting better product and service, as a result of a competitive market. The key finding is that current account providers may act to keep their consumers within the Trust Loop by understanding their values and offering value propositions that can fulfil them.

7 NEXT STEPS

Our third and final research report in this series will follow the consumer journey if the Trust Loop is broken. This is the point at which the consumer becomes aware and understands the gap between the value they place on their existing provider, their perception of the services they receive and their expectations of the service they want. In this final report we will look in-depth at how behaviour changes once consumers enter the Inertia Loop and what drivers and triggers can help consumers break out of the loop and consider switching.

Our future research with the University of Bristol will incorporate the findings we have reported in this research series. We plan to utilise the Consumer Learning Journey (Figure 2) concept and the Current Account Switch Service Market Dynamics Model developed by the University to further investigate and validate our initial findings on the factors that impact on consumer switching decisions. Our aim is to identify better and more effective ways to measure the impact and success of the Current Account Switch Service and how greater awareness of consumer behaviour can have a positive impact on competition in the current account market.

Our continued commitment to our conceptual dynamic modelling approach with the University will be further tested and enhanced with the application of a wider range of 'live' data sets, including information on current account market advertising and promotion activity, consumer service experiences, and attitudinal information. This will enable us to more accurately simulate different scenarios, and understand the relative effectiveness of different types of communication content on consumer decision making.

We welcome any comments or feedback. Please find our contact details below.

Public.Affairs@bacs.co.uk
Colin.Taylor@bristol.ac.uk
Ruth.Crick@uts.edu.au

Bacs Payment Schemes Limited
2 Thomas More Square
London E1W 1YN

Bacs.co.uk
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