

# CONSUMER ENGAGEMENT IN THE CURRENT ACCOUNT MARKET

A Better Functioning Market  
November 2016

A Bacs Research Paper





## 1 FOREWORD

I am delighted to introduce this third and final report in our series of research reports that looks at what motivates people to consider switching their current account. In our previous papers in this series the team at Bacs have introduced our work on the consumer learning journey that we have pioneered with the University of Bristol. We have shown that it is in the current account providers' own hands to deliver the knowledge and information that people need to enable them to make informed decisions on when and where to switch, and these actions will contribute to a better market and higher levels of switching consideration by consumers. We have also shown the critical role the Current Account Switch Service (CASS) plays in improving the functioning of the switching market. Ensuring that consumers are aware and confident that there is a simple and stress free service that makes switching easy is critical in addressing the perceived barriers to current account switching.

For society to get best value out of the CASS service we believe that it is critical to understand what motivates consumers and what drives positive attitudes to switching. This is why we launched our research programme to understand what drives switching volumes and what actions change consumer perspectives towards switching and the current account market. Our research findings and the application of our Market Dynamics Model contribute fresh insights that will enable Bacs, and the current account market providers more widely, to take the best actions and work effectively to deliver a dynamic, better functioning market where consumers possess the right information and motivations to consider how best to fulfil their banking needs.

Our next steps will be to apply our findings from this research to the market to help understand more deeply how the drivers we describe influence consumer consideration to switch. We propose to do that by first segmenting the market, to try to understand how different consumer attitudes differ and then to apply this new knowledge to help identify and create the services that people want in the future.

We believe our continued work will further contribute to the debate about what constitutes success in improving consumer choice, leading to a better functioning market.

**Anne Pieckielon**

Director of Product and Strategy, Bacs Payment Schemes Limited

## 2 A BETTER FUNCTIONING MARKET?

Our series of research reports has explored consumer engagement in the current account market to understand why more people don't switch current accounts. We have used the 'learning journey' concept pioneered by our colleagues at University of Bristol, and identified two behavioural loops that drive consumer engagement with current accounts. Understanding how the different influences and drivers in these loops interact with each other will enable policy makers and current account providers to create a better functioning market for personal and business current accounts, which is likely to lead to higher levels of choice and satisfaction levels across the entire Current Account market.

In our research and modelling work we have established that competition between current account providers creates differentiation between products and this drives consumer attitudes towards choice and ultimately a decision to stick with or switch current accounts. We have shown that a consumer's decision not to switch once they have explored the market for alternative products is an equally positive outcome of an effectively functioning market than a decision to switch, as long as that decision is underpinned with positive market awareness and an examination of the alternative options available. This is because it is the consumers preparedness to switch which motivates providers to create a more competitive market by creating diversification in products not just the act of switching in isolation.

In our second report of the series we showed how activity in the Trust Loop is very much focused on the product and service enhancement offerings that positively impact consumer satisfaction and loyalty. We also demonstrated that the dynamic functioning of the Trust Loop means these enhancements do not necessarily translate into increased switching rates. This is because current account providers are fulfilling current consumers' needs with a greater level of satisfaction and trust, a finding corroborated from survey data, leading to increased loyalty and a reduced predisposition to seek alternative products.

In this final report, we show how, without this underpinning knowledge of the product options available in the market, consumers can become trapped in an inertia loop. This is where a consumer's trust and confidence in their existing current account reduces but that switching is viewed as difficult and troublesome. The Current Account Switch Service (CASS) reduces this perception of risk and therefore lowers or completely removes the barrier that prevents people in the Inertia Loop from actively considering switching.

A key conclusion from our research is that it is important that providers don't only promote existing products but continue to drive the quality of their value propositions to **both** existing and new consumers. As we see from the Trust Loop, doing this drives up loyalty. This represents a positive outcome at a broader market level because, without it necessarily leading to increased switching volumes it increases the consumer's consideration to switch; allowing consumers not just to be aware of the different competitive offerings in the market but also to make a positive judgement to not switch because they are, in comparison, satisfied with their existing provider.

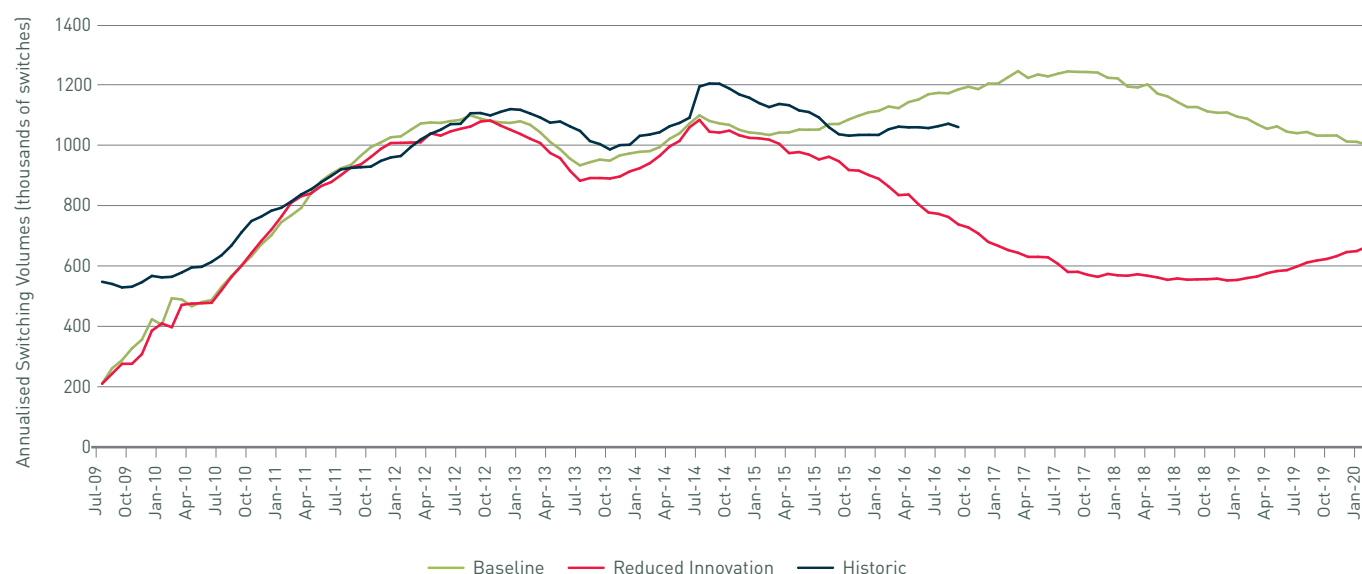
This effect, combined with the Current Account Switch Service's recognised success in lowering consumers' perception of the risk and effort involved in switching by making the switch process simple and stress free, represents a **better functioning market**.

This conclusion is supported by the CASS Market Dynamics Model, developed with the University of Bristol and based on their consumer learning journey principles which indicates that a better functioning market is demonstrated by increased consumer consideration to switch. These findings suggest that such a measure based on this could be more accurate at representing active consumer involvement in the market.

Therefore, while CASS still reduces the perceived risks that result in the Inertia Loop, by removing the 'too much hassle' barrier, there is also a supplementary role for CASS to actively encourage people to consider switching.

In this third and final research paper in this series we consider what interventions are likely to be most effective in influencing consumer behaviour as an individual travels along the Consumer Learning Journey. If consumers are actively considering switching and are engaged in the market, it is expected that providers will be encouraged to offer and deliver better products and services. We have used the Model to investigate what the market would look like without continual product development and product promotion by both new and challenger banks and to test the impact of the Trust Loop theory. The results are shown in Chart 1 below:

**Chart 1: The impact of reduced Innovation**



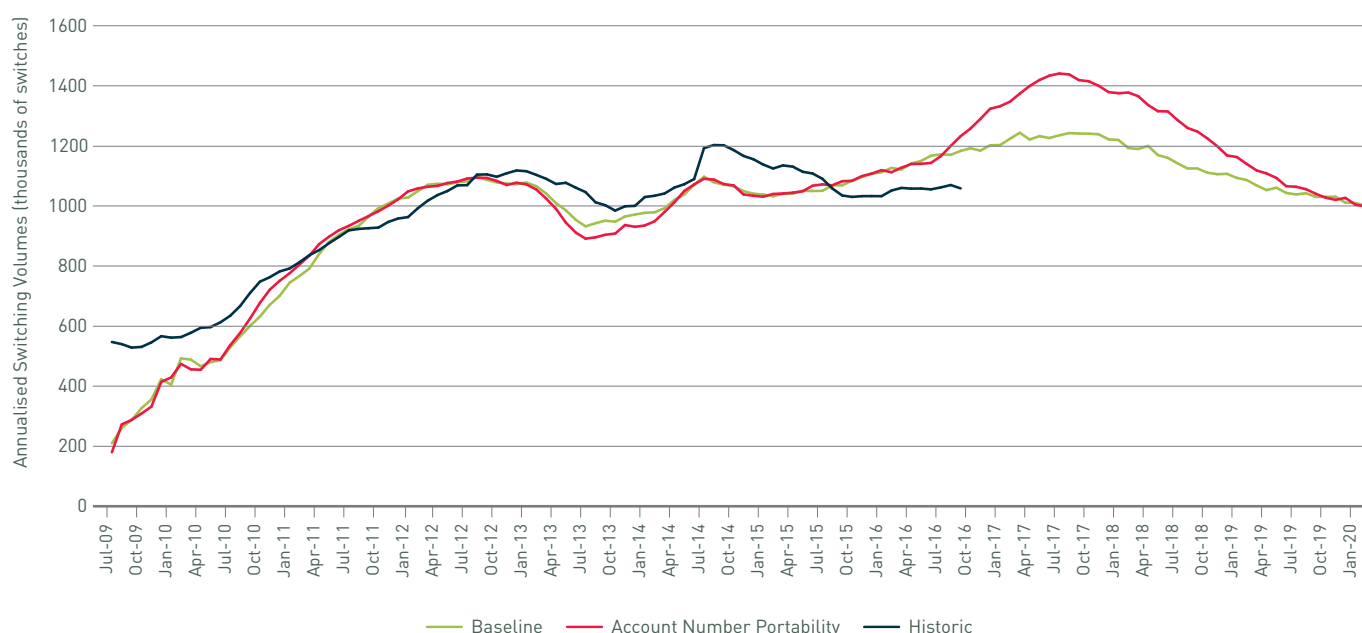
As illustrated above our modelling suggests that in the absence of innovation and promotion from the current account market, switching levels would fall to fewer than 600,000 annually, a level not seen since before market changes were introduced in 2008. This corroborates the dynamics of the Trust Loop concept. Our research and modelling clearly shows that **for an effectively functioning current account market, it is important that current account providers work collectively on consumer consideration and continued innovation.**

### Account Number Portability

Account Number Portability (ANP) has been considered as a potential solution by some commentators because it could provide some consumers with the ability to switch provider whilst retaining the same account number. We tested the potential impact availability of ANP could have on the market using the Market Dynamics Model<sup>1</sup>.

We found that the launch of ANP would have a minor and transitory impact on switching volumes. The launch of ANP resulted in an initial increase in switching but that this effect was not sustained. The model suggests that three years after launch the switching rate would have returned to the baseline level. Over the three year period the total incremental switches attributable to ANP would be approximately 360,000 switches as shown in the Chart 2 below:

Chart 2: the impact of Account Number Portability on switching volumes



In Chart 2, the model suggests the transitory impact of account number portability (shown by the red line) against the modelled expectations (green line)

Although initially introducing ANP causes a small increase in awareness across all consumers of the ability to exercise choice through switching, the subsequent decline in switching levels is because the singular impact of ANP will not have the same sustained effect on consumers that continued product and service innovation and promotion would have. This analysis suggests that the high level of investment required to implement ANP might have an adverse effect through diverting resources from investment in products and services, leading to a less competitive market. The conclusion from this analysis is that **without perpetual product innovation and promotion no amount of facilitating ease of switching will be enough to sustain an effective market.**

<sup>1</sup> "The Case for Account Number Portability (ANP) – Research and Bacs Customer Engagement Model Corroboration", The University of Bristol/Impact Dynamics, May 2016



### 3 THE CONSUMER LEARNING JOURNEY – THE TRUST LOOP AND THE INERTIA LOOP

Before looking in further detail at the Inertia Loop and introducing the theme of Risk Perception, we will recap on our previous paper, the Consumer Learning Journey concept and the Trust Loop.

In May 2016, we published “Consumer Engagement in the Current Account Market – Trust Loop”, and took a closer look at the Consumer Learning Journey and the Trust Loop. Our analysis established that consumers are unlikely to consider switching if they are satisfied with their provider when their values are perceived to be fulfilled by the provider’s value proposition. We found that if consumers are satisfied with their provider over a period of time, they enter into the Trust Loop, where their level of satisfaction, trust and loyalty increase over time. However, various drivers may change either what the consumer values or their perception of how their existing account compares with others in the market. As a consequence a value gap may be created, causing them to exit the Trust Loop as a result.

We will now focus on how the Consumer Learning Journey functions after consumers exit the Trust Loop. We examine why some consumers enter the Inertia Loop, and what can be done to make them re-engage with the market.

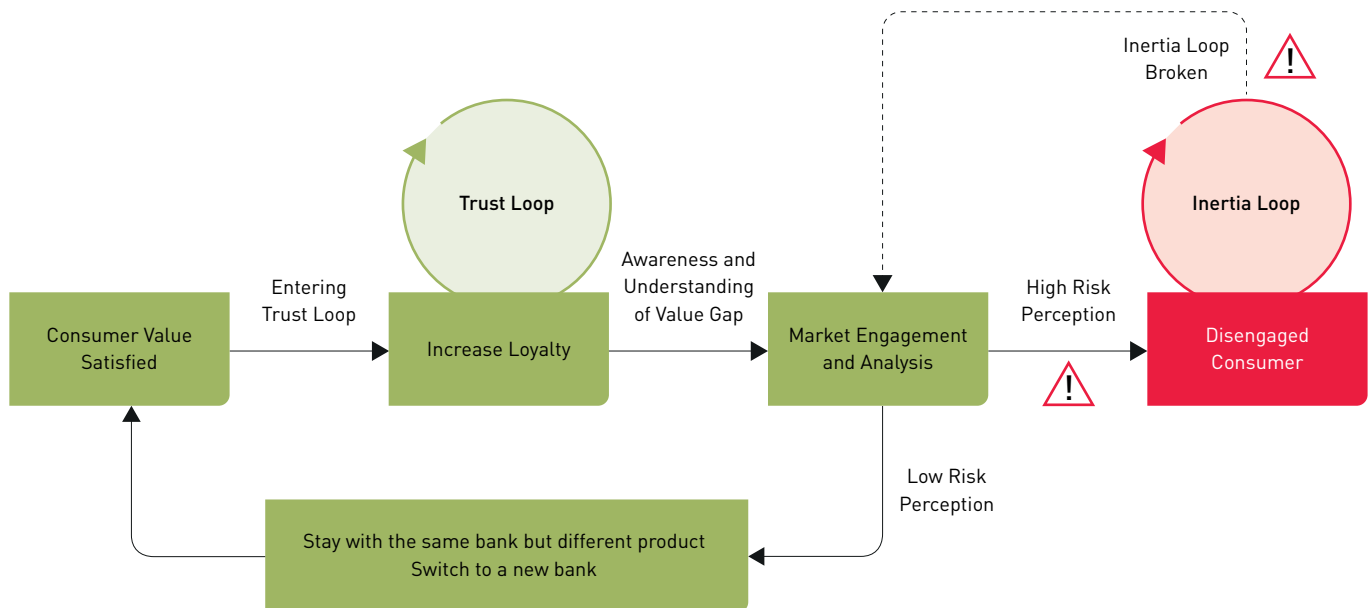


Figure 1: – Consumer Learning Journey through the Loops

## ENTERING THE INERTIA LOOP

We know that consumers in the Trust Loop have trust in their current account provider to deliver the services they want. We have shown what the consequences of a change in consumer perception has on their trust and confidence levels, and how this can lead to the consumer exiting the Trust Loop and entering into a stage in the consumer learning journey where they begin to engage with the market and consider switching. At this stage, if the perceived risk level associated with switching is too high, the consumer could potentially enter into the Inertia Loop. In contrast to consumers in the Trust Loop, consumers in the Inertia Loop are not fully satisfied and do not have a trusting relationship with their current provider. Nevertheless, due to the perception of the high risk of switching, these consumers are reluctant to take decisive action or invest any effort in changing their current account provider. The longer consumers stay in this state, the more disengaged they are likely to become with the market, due to a heightened perception of risk associated with many factors such as an increasing age of relationship with their current provider.

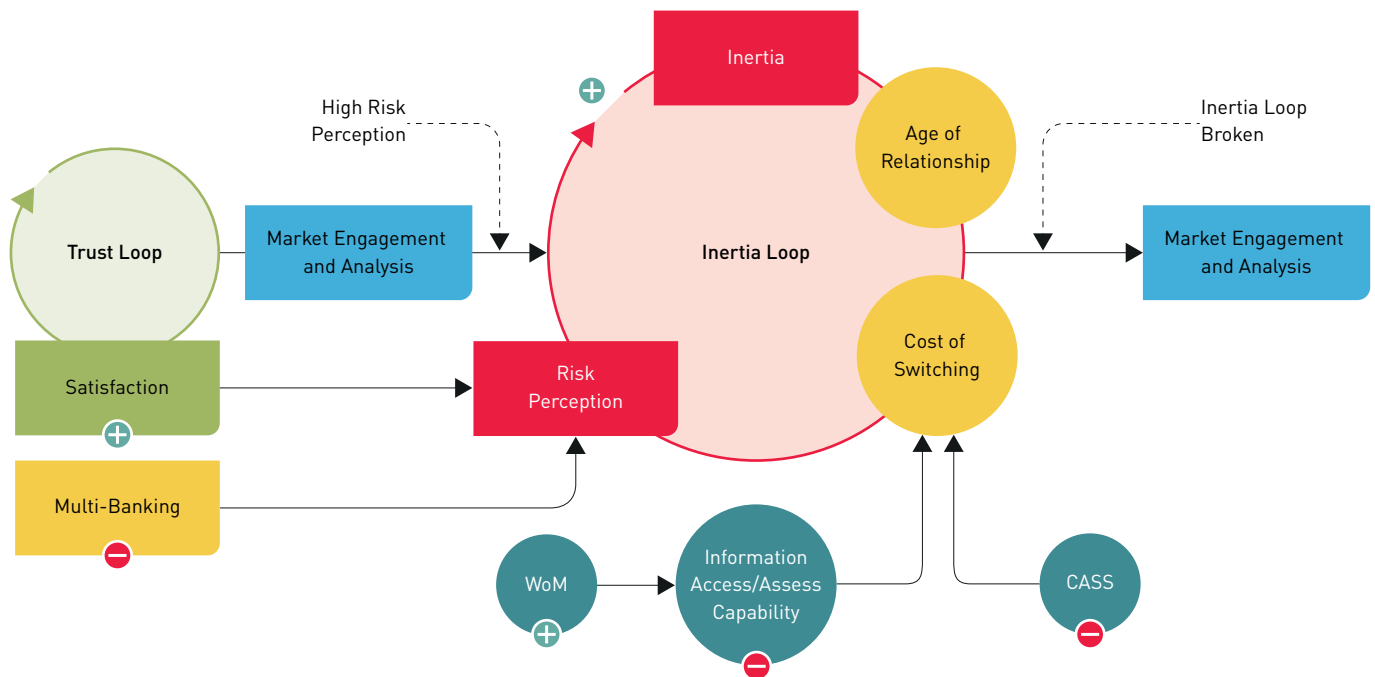


Figure 2: – Inertia Loop and its Drivers

## COST OF SWITCHING

THE PERCEIVED HASSLE AND RISK INVOLVED RELATES TO BOTH ACCOUNT OPENING AND ACCOUNT SWITCHING PROCESSES, AS CONSUMERS DO NOT TEND TO DIFFERENTIATE BETWEEN THESE TWO ELEMENTS, RATHER SEEING IT AS ONE PROCESS.



### 3.1 IT'S ALL ABOUT RISK PERCEPTION

We define Risk Perception in the context of the current account market as the negative impact or consequences perceived by consumers as a result of switching their provider, as well as the likelihood of their occurrence. It is identified by us, and other sources<sup>2,3,4</sup>, as a deciding driver on consumers' market engagement level. In our Consumer Learning Journey concept it also determines if consumers would enter or exit the Inertia Loop. The level of risk perception is mainly influenced by the following three factors:

- **Satisfaction;**
- **Cost of Switching;** and
- **Multi-banking capability.**

#### 3.1.1 SATISFACTION

Consumer satisfaction levels increase when consumers perceive that their values are being fulfilled by their current provider. The greater their level of satisfaction is with their current provider, the higher they perceive the risk of switching to an alternative provider. This is by reason of the uncertainty that a new provider would be as capable of fulfilling the consumers' own values as their current provider is previously able to.

#### 3.1.2 COST OF SWITCHING

The main risk perception driver is the cost of switching. A higher perceived switching cost leads to a higher perception of risk as it is not guaranteed that the result of switching to a new value proposition will be better for the consumer than their current provider. In our definition, cost of switching includes the level of switching cost determined by considering both the negative impact/consequence and the benefit of switching. There are three categories of switching cost:

- **Financial** – the potential financial loss/gain associated with the switching process;
- **Procedural** – the practical activities associated with the switching process, including the time and effort required. It is important to recognise that the act of account opening is considered by many consumers to be troublesome, and many consumers fail to distinguish this from the actual switching process<sup>5</sup>.
- **Relational** – the consumer's relationship with their current provider, including how accustomed consumers are with their current banking facilities such as a banking mobile app or online banking interface. Our research has indicated that the relational cost of switching is generally more significant than the financial or procedural costs<sup>6</sup>;

Depending on individual consumers and their values, the three categories will carry different weighting when consumers assess the overall cost of switching. For example, for SMEs the relational cost of switching may be more significant as Business Current Accounts are more tailored to individual businesses, and there may be a Relationship Manager involved<sup>7</sup>. It will be important for SMEs to maintain a good relationship with their Current Account Provider to facilitate wider financial requirements (e.g. loans). On the other hand, for individual consumers who may be technology 'savvy' and frequently use remote banking facilities, the relational cost of switching is more likely to carry less weight and other aspects may be the main consideration.

<sup>2</sup> "CASS-The Consumer Reality", Tesco Bank, July 2015

<sup>3</sup> "Engagement with current accounts and the switching process", FCA / Optimisa Research, March 2015

<sup>4</sup> "The Consumer Experience of 2014", Ofcom, January 2015

<sup>5</sup> "Engagement with current accounts and the switching process", FCA / Optimisa Research, March 2015

<sup>6</sup> "An empirical investigation of the relative effect of trust and switching costs on service loyalty in the UK retail banking industry", Journal of Financial Services Marketing

<sup>7</sup> "Retail Banking Market Investigation – Business Current Account and Personal Current Account Pricing Analysis", CMA, August 2015



## INFORMATION ACCESS AND ASSESS CAPABILITY

OF GREATEST CONCERN  
FOR CONSUMERS'  
CONFIDENCE IS THAT  
THE THREE MOST  
DIFFICULT THINGS TO  
COMPARE – CUSTOMER  
SERVICE, OVERDRAFT  
FEES/CHARGES AND  
CREDIT INTEREST ARE  
AMONG THE MOST  
IMPORTANT IN  
DETERMINING  
WHETHER THEY WILL  
BE BETTER OFF.



In Consumer Engagement in the Current Account Market – Trust Loop, we showed how consumer-dominant factors influence the consumer's view of their current provider and are driven by factors generally not in the direct control of their current provider. Information Access and Assess Capability, and Word of Mouth are two consumer-dominant factors that are influential in the Trust Loop but also contribute in the Inertia Loop to the "Risk perception" theme, either directly or indirectly. These factors have different impacts in the Inertia Loop than in the Trust Loop as the consumer is at a stage of the Consumer Learning Journey where they are disengaged.

### 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 segmentation such as education level, age or income level; and
- Information availability; the amount of information regarding Current Account providers and Current Account Product is available to consumers.

Information access/assess capability influences all three categories of cost of switching. However it has a more direct impact on the procedural cost of switching. As described above, procedural cost of switching concerns the effort and time involved in the switching process. In the context of switching current accounts, research shows that a major barrier is the time and effort required to compare different products and assess the associated benefit/cost<sup>8</sup>. However, research indicates that the consumers who would benefit most from switching their current accounts are normally the ones who lack Information access and assess capability. As a result, they are less likely to recognise the potential gain in switching or know which product(s) would best suit them. It is important to bear in mind that the Information access and assess capability also influences financial and relational cost of switching because it enables consumers to gather information and assess more accurately what the associated cost/benefit is. In general, higher levels of information access and assess capability leads to a lower perceived cost of switching.

### Word of Mouth

Word of Mouth is defined as information conveyed through non-official communication channels, such as conversations between friends and families. It is normally a more direct and more intimate form of information as it is generally derived from those around us who we inherently trust. Word of Mouth increases information access and assess capability as it could provide extra information that is not easily accessible by others. It could be more critical for consumers who do not have access to internet/TV or are less capable of finding and analysing information, as Word of Mouth between friends and families could be the only information source. In general, Word of Mouth increases the information access/assess capability. However, too much information could result in overload and make it more difficult for consumers to analyse the information and make informed decisions.

### Age of Relationship

Age of relationship principally impacts the relational and procedural cost of switching. The longer consumers stay with their current provider, the higher their perceived relational and procedural cost of switching is. On account of consumers being satisfied with their current provider, they become familiar with the way they bank with their current provider, including branch location, online banking interface etc. For example, consumers who normally bank in specific branches might gradually build up familiarity and relationship with the bank staff in those branches. In these circumstances, consumers associate higher costs to switching, as they will need to re-build the relationship, learn new tools and familiarise themselves with different banking facilities.

<sup>8</sup> "CASS – The Consumer Reality" – Tesco Bank, July 2015

## MULTI-BANKING

MULTI-BANKING MAY LOWER THE PERCEPTION OF RISK AND COST OF SWITCHING AND CAN BE USED AS AN INDICATION OF CONSUMER ENGAGEMENT IN THE MARKET.



It is worth noting that age of relationship is the only factor that increases with time and rarely decreases, unless the provider drastically changes the way they interact with their consumers. For this reason age of relationship forms an important part of the Inertia Loop which cannot readily be mitigated because, unlike other sectors, there is no trigger to switch.

### 3.1.3 MULTI-BANKING

Multi-banking includes two different types of relationship:

- **Narrow multi-banking** – where a customer has more than one current account held with different banks
- **Broad multi-banking** – where a consumer has more than one product, not limited to current accounts, with different banks.

It is believed that an increased level of multi-banking capability lowers the risk perception as consumers can test the value proposition of the new provider before fully committing to it. This gives consumers the flexibility of trying something new without affecting their current state. However, as research into multi-banking is still at an early stage, its effect on consumer switching behaviour is something we plan to explore and research in more detail in the future.

## 3.2 HOW TO BREAK THE INERTIA LOOP

### 3.2.1 WHAT DOES THE CURRENT ACCOUNT SWITCH SERVICE OFFER?

CASS assists in decreasing the consumers' perceived financial and procedural cost of switching by allowing consumers and small businesses to move accounts between providers in a simpler and stress-free way.

#### Financial cost of switching

CASS is a free to use service for consumers and the Current Account Switch Guarantee ensures that any financial loss incurred due to errors in the switching process will be reimbursed. This significantly diminishes any consumer concern with regards to the financial cost of switching. However, currently CASS has no major influence in facilitating consumers to recognise the benefit of switching.

#### Procedural cost of switching

CASS guarantees a stress-free switching process where consumers can choose a specific switching date, and the balance and associated direct debit and bill payments instructions will be transferred within seven working days. As a result, the perceived effort and time required in the switching process is scaled down. However, CASS cannot facilitate the market analysis stage, which as described before is recognised as one of the major barriers to consideration. CASS also has no influence on the practical activities associated with the switching process, such as going into branch and dealing with staff, facilities and existing processes.

#### Relational cost of switching

The CASS guarantee goes a long way to reducing the perceived loss of relationship with the current provider, by removing the related obstacles of financial and procedural cost. In the case of high inertial consumers, their reluctance to lose the existing bank relationship is often more to do with 'the devil they know' rather than trust in a valued partnership.

THE CMA CALL FOR  
OPEN BANKING AND  
API'S WILL SUPPORT  
GREATER CONFIDENCE  
IN SWITCHING.



### 3.2.1 WHAT CAN BE DONE

Our research shows that the key to stopping consumers entering the Inertia Loop, or to facilitate them to exit the Inertia Loop, is to lower their perceived risk of switching.

#### Decrease cost of switching

We have identified a few significant ways to further decrease the consumer perception on cost of switching:

##### *More targeted promotion of CASS*

CASS has been focusing on educating consumers and increasing the informed awareness and confidence in the service. This includes targeting communication to consumers who have the most to gain from switching, such as consumers with high credit balances and the financially disadvantaged, as well as addressing people's concerns around the actual process or incoming/outgoing payment errors.)

##### *Increase Information access and assess capability*

This includes:

- Facilitating consumers to recognise the benefit of switching, including any financial benefits and other add-on services
- Facilitating consumers to compare different providers / products.

The nature of current accounts means that the benefit / cost of current accounts depend heavily on individual usage patterns. As a result, it is usually difficult for consumers to compare different products as many do not even understand their own usage patterns<sup>9</sup>. The advent of big technological changes in banking has seen the introduction of fresh Government initiatives such as MiData. MiData enables consumers to access their transaction data and past financial activities electronically to enable them to make more informed choices<sup>10</sup>.

In addition, regulations such as the EU Payments Account Directive and the CMA's call for banks to introduce an Open Application Programme Interface (API) standard in UK banking<sup>11</sup> will facilitate the sharing of consumer data. These initiatives will also help Price Comparison Websites (PCWs) to deliver more precise comparisons of different banking products for specific consumers and effectively increase the information access and assess capability.

##### *Improve account opening process (including overdraft arrangement)*

Our research found that consumers do not tend to distinguish between the account opening and account switching processes, rather seeing them as one process. The account opening process usually involves a visit to a branch, credit check and overdraft arrangement, if required. For SMEs, this could be a lengthy and onerous process, depending on the complexity of the business.

It is a recognised issue that for people with an outstanding overdraft, it might be difficult for them to switch providers. First, they might not be aware that they are eligible to switch, and secondly they are not sure if they will be granted the same overdraft facility with the new provider. Improvements and harmonisation of the account opening process offers opportunities to improve engagement with consumers who have overdraft arrangements.

<sup>9</sup> "Playing the Field – Consumers and Competition in Banking", The Social Market Foundation, July 2015

<sup>10</sup> "Retail Banking Market Investigation – Business Current Account and Personal Current Account Pricing Analysis", CMA, August 2015

<sup>11</sup> "Retail Banking Market Investigation – Provisional decision on remedies", CMA, May 2016

#### 4 NEXT STEPS

We recognise that there is more to be done in order to expand on our existing research results and fully utilise their potential. We continue our research into consumer behaviour in other countries and service sectors, as well as different consumer segments. As well as this we continue to make further developments to our Model, which would help us to simulate and identify switching dynamics in the market under different scenarios, as we have done for ANP. In partnership with the Social Market Foundation we have undertaken further research into innovation and changes in the current account market over time with the aim of understanding the extent to which the market has become more competitive. We continue to seek to understand the functioning of the current account market with the aim of maximising the value that can be derived from our continued investment in CASS through encouraging a more competitive market.

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

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