

CONSUMER ENGAGEMENT IN THE CURRENT ACCOUNT MARKET

Why people don't switch current accounts
March 2016

A Bacs Research Paper



CURRENT ACCOUNT
SWITCH
GUARANTEE

 **bacs**



1 FOREWORD

Since 2013 Bacs has operated the Current Account Switch Service (CASS) which enables consumers to switch from one payment account provider to another in 7 days. CASS is a successful, exemplar service of industry collaboration unique in banking across the world.

Following the launch of CASS we have publicised the service to increase consumer awareness and confidence in the process of switching. To support this we have launched a research programme so that we could find out more about why people choose to switch bank accounts and why some people don't; even when it is in their best interest to do so. These insights into consumer behaviour, particularly around what influences their decision making process, will help to ensure CASS continues to stimulate competition across the sector and deliver a simple and stress free service for people who want to switch bank accounts.

This is the first Research Report of a series of three that we will publish over the coming months. It is the result of our continued partnership with the University of Bristol - one of the UK's foremost research institutions. We are delighted to be working with Colin Taylor and Ruth Crick, and their teams at Bristol. Our research incorporates the 'learning journey' concept developed by University of Bristol.

We believe our research offers a fresh perspective on how people make decisions when considering switching. This has helped us to identify the behaviours that influence consumer switching decisions. We have embedded our findings into a consumer behaviour dynamics map which helps us to show how different drivers influence the consumer decisions and their learning behaviour. The dynamics map identifies two behaviour-reinforcing loops which are critical in determining a consumer's level of market engagement, and ultimately why some switch when others do not.

This initial report provides an overview of our findings, whilst the second and third reports in the series will consider the two behaviour loops in more depth. We believe our reports will provide policy makers with insights that will contribute to ensure that the UK retains its highly regarded, successful banking service. I hope you find the report informative.

Anne Pieckielon

Director of Product and Strategy, Bacs Payment Schemes Limited

AROUND 12-15% OF
PEOPLE MOVED
ENERGY SUPPLIERS
BUT ONLY 2-3% OF
CONSUMERS MOVE
CURRENT ACCOUNTS.



2 WHY PEOPLE DON'T SWITCH CURRENT ACCOUNTS

Very few consumers switch their current accounts. Research¹ shows that only 2-3% of personal consumers move their accounts each year, with similar levels of switching amongst small businesses. By contrast 12-15% of us move energy suppliers and 7-9% our mobile phone contracts. Why do these markets behave so differently?

Two theories are commonly advanced. First is that the market for current accounts is not sufficiently competitive. The competition authorities have conducted a number of market enquiries over the years with the latest study, by the Competition & Markets Authority (CMA), due in the next few months. Secondly, some consumers have a perception that the switching process itself is complex and prone to errors, a belief that acts as a barrier to consumers considering switching. The Independent Commission on Banking (ICB) identified this concern in its report² published in 2011, recommending the introduction of an improved process to switch accounts for consumers and small businesses.

In response the Current Account Switch Service (CASS), was launched in September 2013. Bacs, the company behind Direct Debit has responsibility for delivering CASS and since then more than 2.5 million people have successfully switched accounts, benefiting from the simple and stress free process it provides. The Service is supported by the Current Account Switch Guarantee, which ensures any payments accidentally made to a consumer's old account will be redirected to the new account. Nevertheless the switching rate has not materially increased.

As the company behind CASS, we have invested heavily in promoting the service and want to know whether that investment is delivering value for the UK economy. To that end we are seeking to understand what really drives consumer behaviour.

This report outlines the initial outcomes of our research programme, undertaken jointly with the University of Bristol. We looked first at the established academic and commercial research into switching behaviour across a range of products and services. From that we have developed a model of consumer behaviour that allows us to investigate ways of increasing market engagement. In the following sections of this Report we will begin with an overview of our research findings, followed by an introduction to our consumer behaviour dynamics map.

Following this report we plan to publish two further research papers with in-depth evaluations of two features of consumer behaviour that appear to reduce the likelihood of switching:

- First we will focus on the Trust Loop, where consumers' level of trust and loyalty to their current providers increases over time;
- Secondly we will focus on the Inertia Loop, where consumers become more disengaged from the market.

We will explore how these loops could be broken and what that might mean for potential switchers and current account providers. We will also take a closer look at the drivers of consumer engagement with their current account using the 'learning journey' concept pioneered by our colleagues in the University of Bristol, and consider its impact on consumer decision making and switching.

We do not claim that this work will dramatically increase the level of switching. However we do believe that it provides insights that can inform policy-making and practical action to enhance the value delivered by current accounts to the wider community.

¹ "The consumer experience of 2014 – research report", Ofcom, Jan 2015

² "Final Report – Recommendations", ICB, Sept 2011

UNDERSTANDING
CONSUMER BEHAVIOUR
PROVIDES A ROUTE
TO STIMULATING
COMPETITION.



3 CONSUMER BEHAVIOUR DYNAMICS

Our research programme focuses on the consumer behaviour in the current account market and what factors influence decisions to switch providers. To give a comprehensive view of our research outcome, we have structured this first report into three parts:

- First we look at the high level findings from our review of academic and industry publications. This paints a picture of the commonly recognised issues in the current account market;
- We then introduce our consumer behaviour dynamics map, which identifies five key consumer mind-sets and their associated drivers, as well as the dynamics between them, including two reinforcing feedback loops;
- Finally we apply the University of Bristol's consumer learning journey concept to the map, which shows how consumer behaviours are influenced by drivers and mind-sets when consumers go through various stages and decision points before they make a final decision on whether to switch their provider.

3.1 RESEARCH FINDINGS

Many academic and industry publications have examined consumer switching behaviour across a wide range of sectors and from different perspectives. We have systemically reviewed over 40 such publications and distilled their findings to help us reach our conclusions.

We found that the switching drivers are common across the sectors but have different weightings, as shown in the table below:

DRIVERS	CURRENT ACCOUNT	CASH ISA	ENERGY	INSURANCE	MOBILE
Inconvenience	Primarily linked to branch location, but spread of remote access channels and highly automated nature of payments limits relevance	Primarily linked to branch location, but spread of remote access channels has reduced relevance. Some product differentiation on access and switching conditions	Not a significant consideration	Not a significant consideration	Driven by perceived network coverage and resultant reception quality
Core Service Failures	Very infrequent both in central services and individual market participant	Very infrequent both in central services and individual market participant	Infrequent and generally not linked to the service provider but to distributor	Only required in emergency so little experience. Service experience more significant	Infrequent but may be perception of poor network coverage
Response to Failed Service	Area for differentiation. Impact limited by very low level of errors in the core payments product	Area for differentiation although limited by infrequent failures	Potentially major area for differentiation	Potentially major area for differentiation	Potentially major area for differentiation
Pricing	Lack of price transparency for most consumers. Weak pricing mechanisms	Primary driver for selecting supplier. Relatively weak in current market owing to depressed interest rates and introduction of fixed term multi-year offers	Primary driver for selecting supplier. Introduction of fixed term tariffs may reduce switching. Increasing energy costs may drive up switching	Primary factor in selecting supplier. Call to action with annual renewal. Highly transparent pricing through price comparison sites	Primary factor in selecting supplier. Call to action for contract consumers at end of term. Sophisticated relationship and bundled pricing strategies
Other	Life event driven	Interest Rates	Driven by house move	Change of car or house	Market driven by rapid innovation in mobile devices with market expectation of regular selection of new device giving switching opportunity

Table 1: Switching Drivers across Sectors

INCREASING THE LEVEL OF CHOICE AND COMPETITION IN THE CURRENT ACCOUNT MARKET IS A PRIORITY FOR THE INDUSTRY, GOVERNMENT AND REGULATORS.



Some further key findings on the current account market are:

— **INERTIA**

There is a high level of consumer inertia in the market, possibly due to the lack of product differentiation and a lack of 'trigger points' such as a contract end date that in other industries may act as a motivation for consumers to reconsider their providers;

— **COMPLEXITY**

There is a high complexity in current account products due to their associated add-on services and products, such as insurance and loan facilities, which makes it difficult for consumers to compare different products from different providers. Consequently consumers find it difficult to see the potential advantages of switching;

— **ENGAGEMENT**

Consumers who are likely to benefit the most from switching are usually those less engaged in the current account market, for a variety of commercial, educational and societal reasons;

— **FINANCE**

Overdraft arrangements can act as a barrier for consumers to switch their current accounts;

— **UNDERSTANDING**

There is a lack of consumer understanding of CASS which diminishes consumer confidence in using CASS to switch.

These general observations are in line with the CMA's provisional findings report³ published in 2015. Whilst they point to a number of factors that might lead to lower levels of switching compared to other markets they do not provide a full explanation of the differences seen. For example, the developing market for integrated broadband, home entertainment and mobile services is equally complex, and no other market has a comprehensive, branded and guaranteed switching service.

³ Retail banking market investigation - provisional findings report, CMA, 22 October 2015

3.2 CONSUMER BEHAVIOUR DYNAMICS MAP

In order to better understand the complex picture outlined above we recognised the need to look in more detail at consumers' experience of using their current account in the context of the wider relationship with their bank. Recognising that many factors influence these relationships, such as life events and trust level, we looked for methods that went beyond conventional market research techniques. We decided to work with the University of Bristol's Systems Centre which has pioneered the use of systems thinking and the 'learning journey' concept to analyse how people make decisions in complex situations. With the Bristol team we have developed a model of consumer behaviour that allows us to explore how consumer decision making is influenced by product offerings, advertising, communications and other relevant factors.

SYSTEMS THINKING

"Systems Thinking enables you to grasp and manage situations of complexity and uncertainty in which there are no simple answers. It's a way of 'learning your way towards effective action' by looking at connected wholes rather than separate parts. It's sometimes called practical holism"

OPEN UNIVERSITY

Our research has helped us to identify five key consumer mind-sets and various behavioural drivers that influence consumer decision making. By analysing the interactions between the key consumer mind-sets and drivers, we have explored consumer behaviours and their decision to switch. This informed the development of our consumer behaviour dynamics map, as shown below.

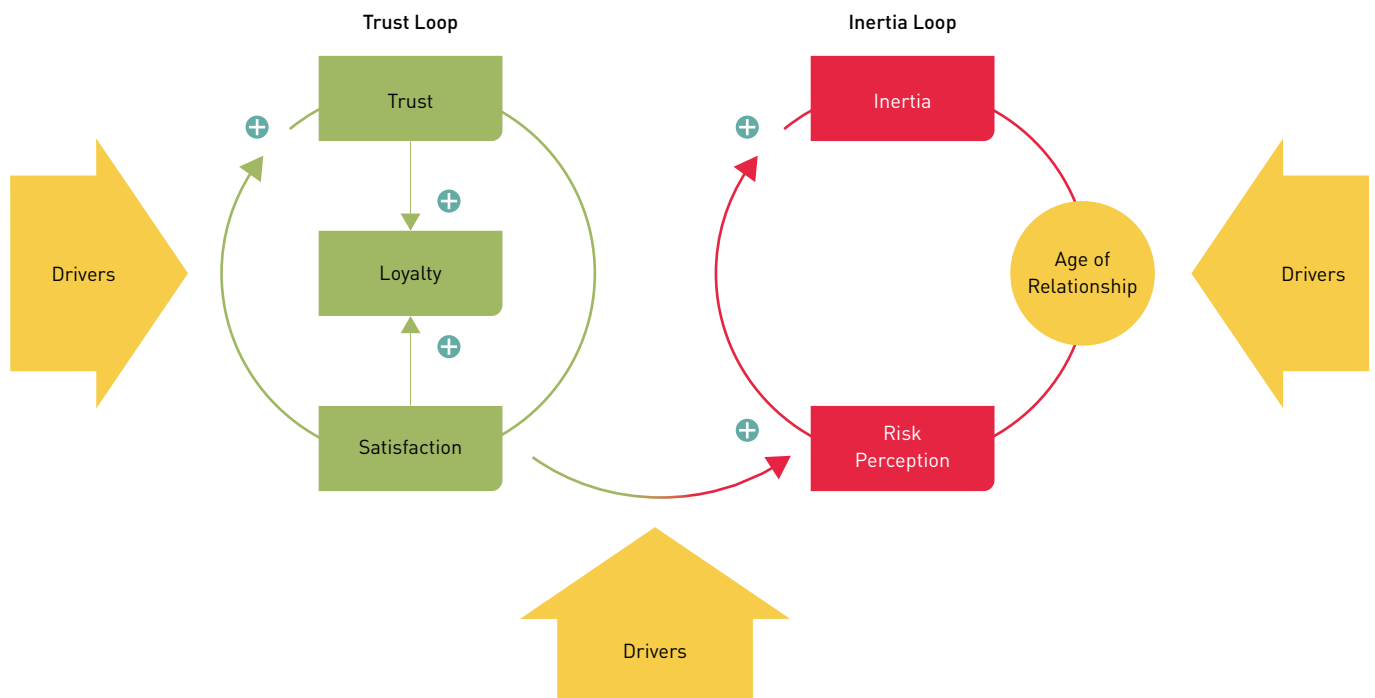


Figure 1: Consumer Behaviour Dynamics Map

The map is built to complement the consumer learning journey concept on switching providers. The initial stage of the journey is where consumers are unaware that their needs are not satisfied, and it ends after reaching an 'intended result' where consumer value is satisfied. The map is a valuable tool that contributes new understanding and helps to explain the lack of consumer switching activity in the current account market.

IF CONSUMERS LEVEL OF PERCEIVED RISK TO SWITCH IS TOO HIGH, THEY WILL BECOME INERT AND LESS LIKELY TO SWITCH BANK ACCOUNTS.



3.2.1 KEY CONSUMER MIND-SETS

The map is centred on two feedback loops, the Trust Loop and Inertia Loop, which consist of five key consumer mind-sets:

- **Satisfaction:** The degree to which a consumer perceives that their provider has satisfied their needs in the past and is currently satisfying their needs;
- **Trust:** The degree of certainty perceived by a consumer that their provider will continue to satisfy their needs in the future;
- **Loyalty:** The propensity for a consumer to remain with a provider as a result of that provider satisfying their needs;
- **Risk Perception:** The negative impact in relation to values and likelihood of occurrence of consequences perceived by a consumer of changing their provider;
- **Inertia:** The propensity for a consumer to remain with a provider even when that provider fails to satisfy their needs.

Our research indicates that the higher the level of these five consumer mind-sets, the less likely it becomes for the consumer to look actively for a better deal in the market and to take action to switch. The level of these mind-sets is influenced by different drivers, but they are also interdependent, as illustrated in the Consumer Dynamics Map. In the map, the arrows indicate the direction of influence between two directly linked mind-sets. The plus sign indicates an increase in the level of mind-set.

The interactions between these drivers and consumer mind-sets will be detailed further in our subsequent reports exploring the fundamental drivers we have identified. These include, but are not limited to, **cost of switching, age of relationship, information accessibility** and **word of mouth**.

3.2.2 FEEDBACK LOOPS

The five key consumer mind-sets outlined above form two separate but consequential feedback loops; the Trust Loop and the Inertia Loop. These loops are the key to explaining the lack of consumer engagement and relatively low switching rate in the current account market.

- **Satisfaction** and **Trust** form a reinforcing feedback loop, and termed the **Trust Loop**. If everything else remains equal, consumers' trust and satisfaction levels with their current account providers increase over time. These two factors reinforce each other, increasing the level of **Loyalty** – reinforcing consumer satisfaction and negating the desire to switch;
- **Inertia** and **Risk Perception**, along with the driver, **age of relationship**, form another reinforcing feedback loop called the **Inertia Loop**. As the age of relationship increases, consumers become more accustomed with their current banking facilities such as banking apps or online banking interfaces. This leads to an increase in the perceived hassle of switching, and hence an increase in the perceived risk. This in turn increases the consumer inertia and eventually leads to even longer age of relationship. Consumers who enter the inertia loop experience reinforcing drivers that deepen their insulation against alternative products and reduce the likelihood that they will consider switching.

3.3 CONSUMER LEARNING JOURNEY

The consumer learning journey through the feedback loops is shown in Figure 2. With different combinations in the level of the consumer mind-sets, consumers are in different stages on the dynamics map. A consumer might be at the start of the Trust Loop, while others might be in between the two loops, and some might already be trapped within the Inertia Loop.

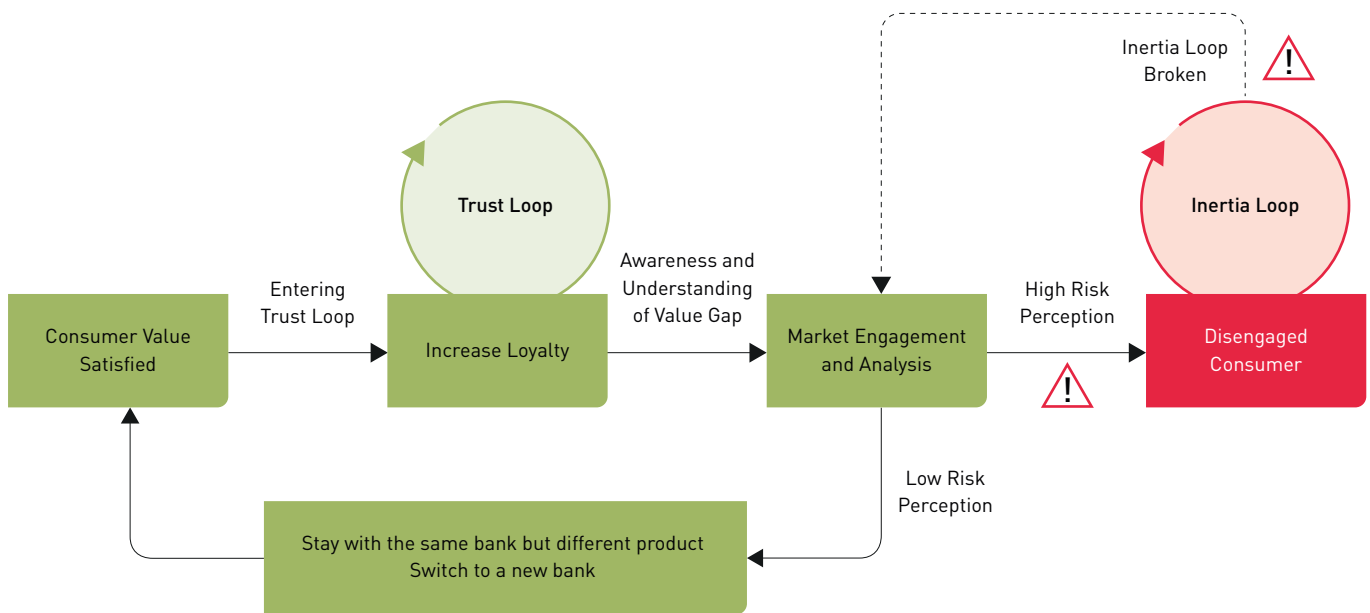


Figure 2: Consumer Learning Journey through the feedback loops

Consumer satisfaction derives from their value/needs being met, or perceived to be met, by their current providers. If this scenario persists, the consumer sits within the Trust Loop and is unlikely to have significant motivation to switch provider. At this point the trust loop resembles an ideal market, where consumers receive satisfying products/service from their providers and have trust in them.

If the trust loop is broken due to the influence of certain drivers, such as peer recommendations, or a poor experience/perception of the consumer's existing provider, the consumer could move between the two loops. Such a movement is a critical point where the consumer begins to be aware and understand 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. At this stage, if the consumer's level of Perceived Risk to switch is too high, they are likely to move into the Inertia Loop. The longer consumers stay in the Inertia Loop, the less engaged they are likely to be with the market – and the less likely they are to switch.

Our research suggests that the market in its current state might fail to:

- stop consumers from moving into the Inertia Loop; and,
- could not effectively break the Inertia Loop once a consumer is there.

Only when the Inertia Loop is broken will the consumer become more likely to take action to switch provider, and revert back to the Trust Loop. This issue will be discussed in more detail in our April research paper.

LEARNING JOURNEYS REFER TO THE TRANSITION BY A CONSUMER FROM A CURRENT STATE WHICH FAILS TO MEET THEIR PURPOSE TO AN INTENDED STATE WHICH DOES.



4 NEXT STEPS

In our subsequent research papers, we will examine the Trust Loop and the Inertia Loop in more detail, along with their relevant drivers. Our analysis of the Trust Loop will be published in March and the Inertia Loop in April. These papers will also explore how the associated consumer learning journey develops and influences behaviour.

We aim to evidence the findings and identify strategies to avoid consumers entering into the Inertia Loop and, for the consumers who are in that loop the strategies to equip consumers with the best chance of breaking out. We believe our research will not only give insight into the current account market but may also provide valuable information regarding other service sectors, where consumers can switch between different providers. We wish to work collaboratively with our stakeholders to help us further the research.

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

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