

Current Account Switching

The Consumer Reality



This report is based on the findings of a programme of qualitative and quantitative research carried out on behalf of Tesco Bank by TNS. The qualitative consumer groups and depth interviews were conducted amongst current account switchers and those considering switching in Scotland, North/Midland and London and the South East between 26th May and 1st June.

The quantitative survey was conducted amongst a nationally representative sample of 1061 current account holders between June 5 and June 15 2015.

Introduction

The CMA investigation into the current account market has been initiated to drive greater competition and deliver better outcomes for customers. As part of the investigation, the CMA is looking to achieve a better understanding of current switching levels and what steps could be implemented to create greater future competition and a more level playing field.

Insights derived from a recent programme of qualitative and quantitative research undertaken by Tesco Bank among 1100 current account customers suggest that this is a surprisingly complex topic. There are a number of current account customer considerations and a series of conditions which need to be in place.

We have called these the Five Steps to Switching and framed them as a series of questions, which consumers are typically asking. They represent the five conditions, which need to be in place to create consumer confidence in current account switching.

We hope the research provides a useful contribution to the debate around how to improve the current account market for customers.



Benny Higgins
CEO Tesco Bank

Executive summary

The five steps to switching

The consumer research has identified that the reasons why current account holders switch their current account are surprisingly complex and highly individual. Previous research conducted continuously by TNS over the first fifteen months since the advent of the Current Account Switching Service (CASS) identified that for one in four switchers the trigger was poor service. However, beneath this, there are typically five steps which consumers consciously or sub-consciously take prior to their final decision to switch.

The questions consumers seek to answer are deceptively simple but, in trying to answer them, consumers find themselves facing a number of rational and emotional barriers. This leads to current account switching levels being lower than for other 'serviced product' categories.

1

Openness to switching

Would I consider switching my current account?

Current accounts, along with mortgages, have the lowest levels of actual switching in either the last year or the last three years. This reflects a strong underlying level of emotional attachment, a relatively high level of importance in consumers' financial management and a general lack of re-assurance that switching current accounts is a well accepted behaviour.

2

Understanding the value of a current account

Can I determine the value of my current account?

Understanding current value is an obvious precursor to deciding whether to switch in any market. Without this, it is hard to be confident that switching is a worthwhile consideration. More than half of the respondents interviewed did not know how to determine the value of their current account and a further 23% were not certain. An indication that this condition is not met for the majority.

3

The benefits of switching

Can I be sure that I will be better off if I switch?

Even if the first two conditions are met, only 14% of consumers believe that there are large differences between current accounts. The differences they perceive are almost entirely financial and for many it is difficult to make meaningful comparisons on the most important elements of overdraft fees and charges and credit interest.

4

Ease of switching

Will it be easy and hassle free?

Even when consumers are satisfied that the first three conditions are met, there is considerable concern that it will be difficult and problematic. Whilst there is awareness of CASS, there was very limited understanding that it meant that the bank would make the switch for them and take responsibility if anything did go wrong.

5

Making the right choice

Can I be confident that I have made the right choice?

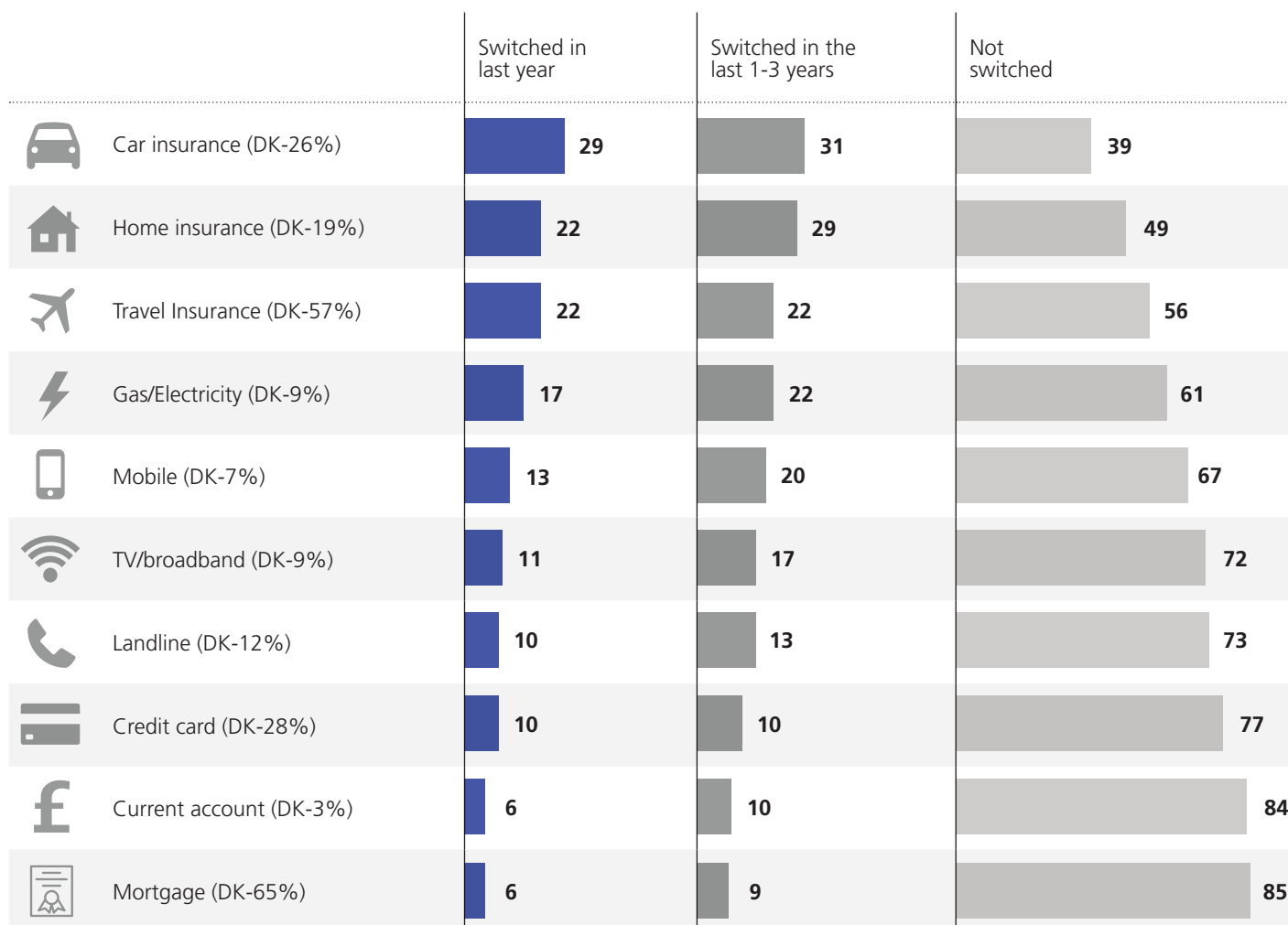
As for all significant decisions, consumers will look for re-assurance and the qualitative research showed the importance of personal recommendation. An outcome of the current low levels of switching is that there is very limited re-assuring word of mouth communication that the process is working well. This is ironic as TNS's own research suggest that satisfaction with the process is high at over 80% of switchers.

This comprehensive understanding that consumers are finding it hard to answer these questions satisfactorily suggests that there needs to be a more concerted industry approach if the desire for increased competition is going to be met.

1. Openness to switching

We began our investigation by confirming the current level of current account switching. We found that 6% of our sample of current account customers had switched their account in the last year and a further 10% between a year and three years ago. The lowest level for any of the 'serviced products' we covered.

Proportion of consumers that have switched product/service



Source: Q16. Have you changed provider for any of the following products/services?

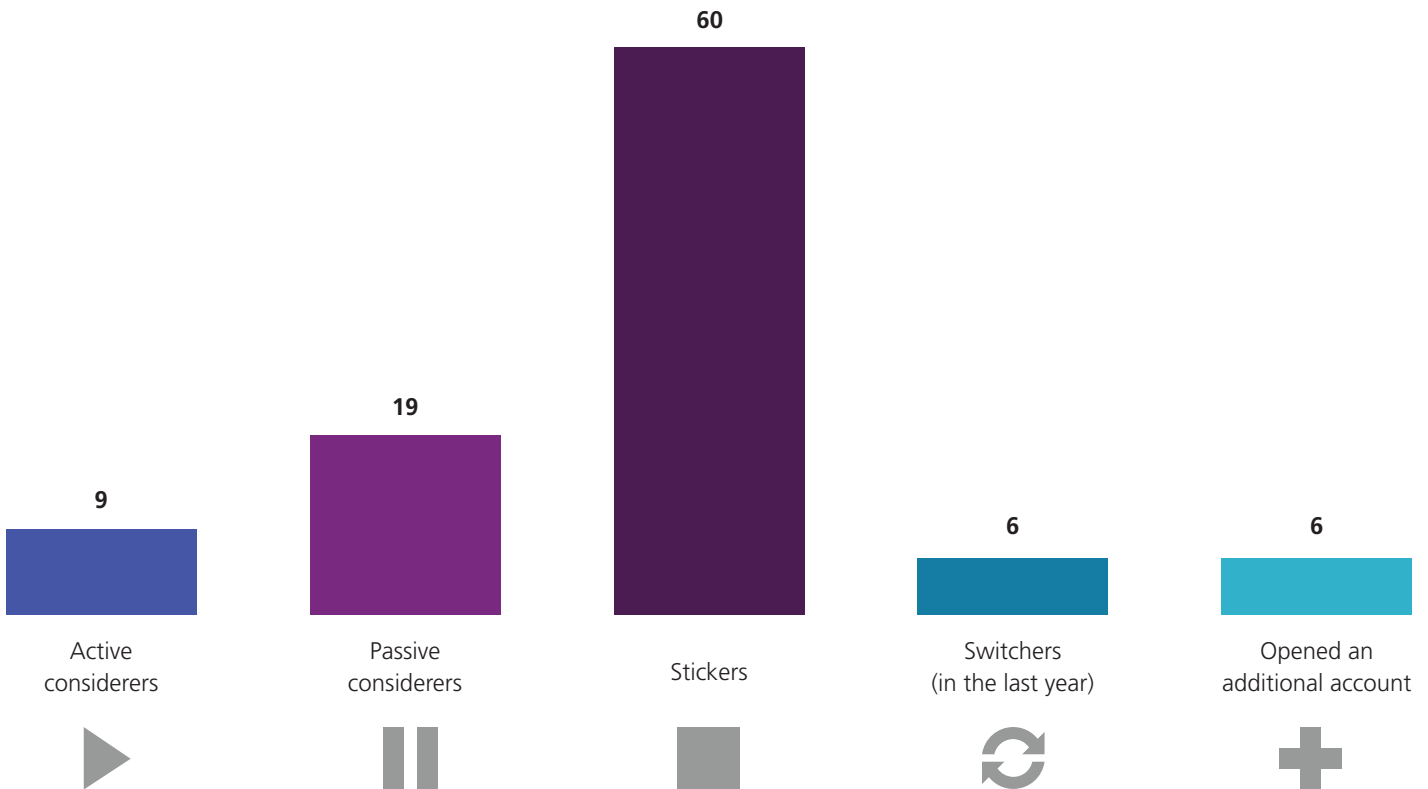
Base: All respondents (1061)

Whilst a further 28% classed themselves as considerers, only one third of them considered themselves to be 'active' considerers, who had actually engaged in researching the options. This was borne out by the qualitative research where it became evident that consideration time could extend into years even when the decision on which bank to switch to had been made.

"You've probably got tons to do before you can look at them or figure out what you want. I break them (accounts) down and figure out what I want, by that point it's months later."

Female, London

Consumer consideration in the last year towards switching current account providers %



Source: Q16. Have you changed provider for any of the following products or services? Base: all respondents (1061)

Consumers' relationship with their current accounts

The consumer groups have given us real insight into the relationship which customers have with their current account. What is on the surface, a basically simple transactional product is, in fact, anything but. It is invested with both historic and practical emotions.

Historic emotion

Traditionally a current account was the first opened product with their bank when beginning life as a young adult. The brand has associations with family/friends/long gone branch relationships. And the development of their current account has mirrored their progress in life. Emotionally this is not easy to leave even if those factors have been missing for many years.

Practical emotion

My life is tied up in my current account: It is too significant to change without serious consideration. Complex outgoings means risk of disaster should problems occur.

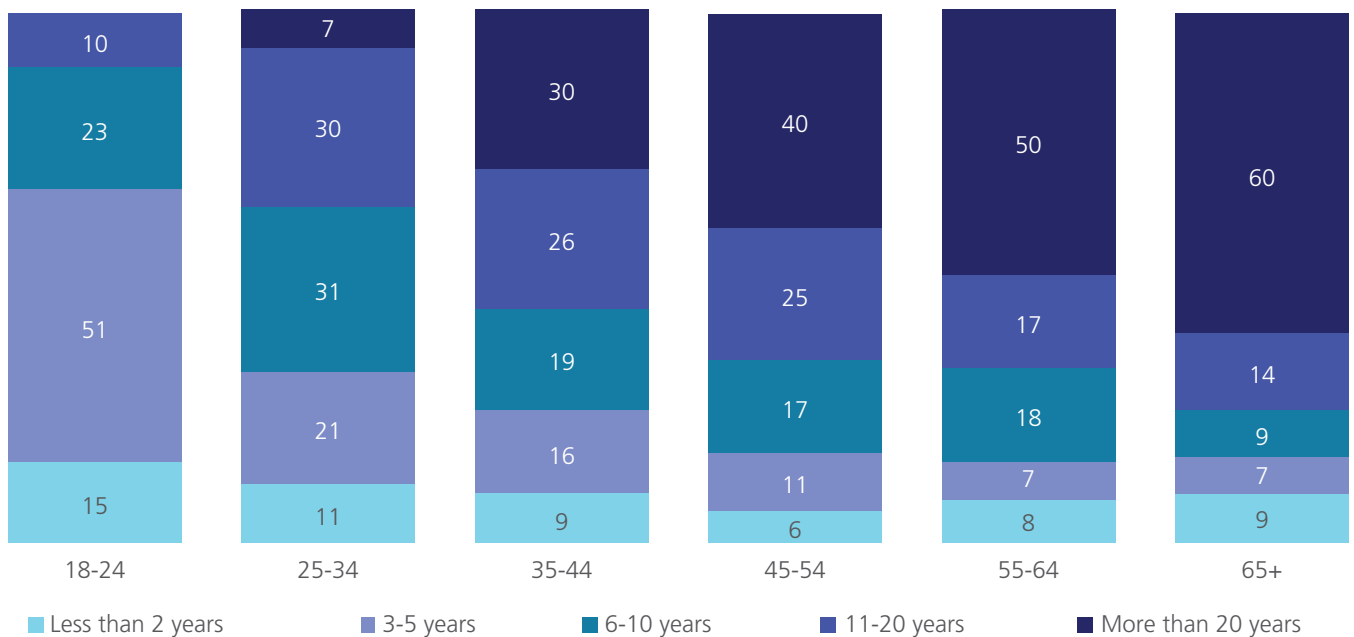
In support of this, customers have typically had their current account for a long time and in many cases for their lifetime. This leads to the sense that traditionally a current account is 'for life' and it assumes an importance which transcends its functionality.

It is probably not an overstatement to say, as one of our respondents told us, that for many 'my life is in my current account' so that switching is an important decision with potentially far-reaching consequences.

"It's your life your bank, everything you own, possess and pay for all comes out of one account so if they mess that up..."

Birmingham male

Length of time with main current provider (% by age)



Source: Q24. For long have you had your main current account? Q3. Which of the following age groups do you fall into?

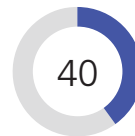
Base: All respondents (n=1061)

Putting the emotion on one side, for the majority, the current account is an important product in the management of their finances and for 40% it is the single most important product. This is particularly true for those with less financial experience.

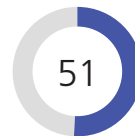
Beyond this, 55% have little motivation to switch as they are satisfied with their current account and TNS's own Current Account Switching Index (CASI) suggests strongly that the trigger for 1 in 4 is a poor service experience which pushes them away although there is some evidence that this has declined a little since CASS was introduced.

There are a number of other important differences between current accounts and other 'serviced products'. These result in lower levels of consideration, which will be covered in the next sections, and which collectively mean that current account switching is not yet an established behaviour.

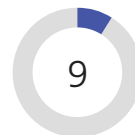
Overall current account engagement (%)



My current account is the single most important way I manage my everyday finances



My current account is one of the ways I manage my everyday finances



My current account is just something that I use but I don't pay much attention to it

Source: Q23. Most people use their current account quite frequently whether it's receiving salary, paying bills or making other everyday purchases. We'd like to know how you feel about your current account. Which of the following statements best applies to you? Q3. Which of the following age groups do you fall into? Q55. What is your household's total income before tax?
Base: All respondents (n=1061)

Consumer perceptions of why current accounts are different

	Current accounts	Other 'serviced products'
Need to do it yourself	Yes	No
Time required	Lots	Little
Tangible cost saving	No	Yes
Tangible product failure	Occasionally	For some
Comparison sites	Not salient	Salient
Time trigger	No	Yes, for many

Source: Qualitative group discussions and depth interviews amongst 54 switchers and considerers

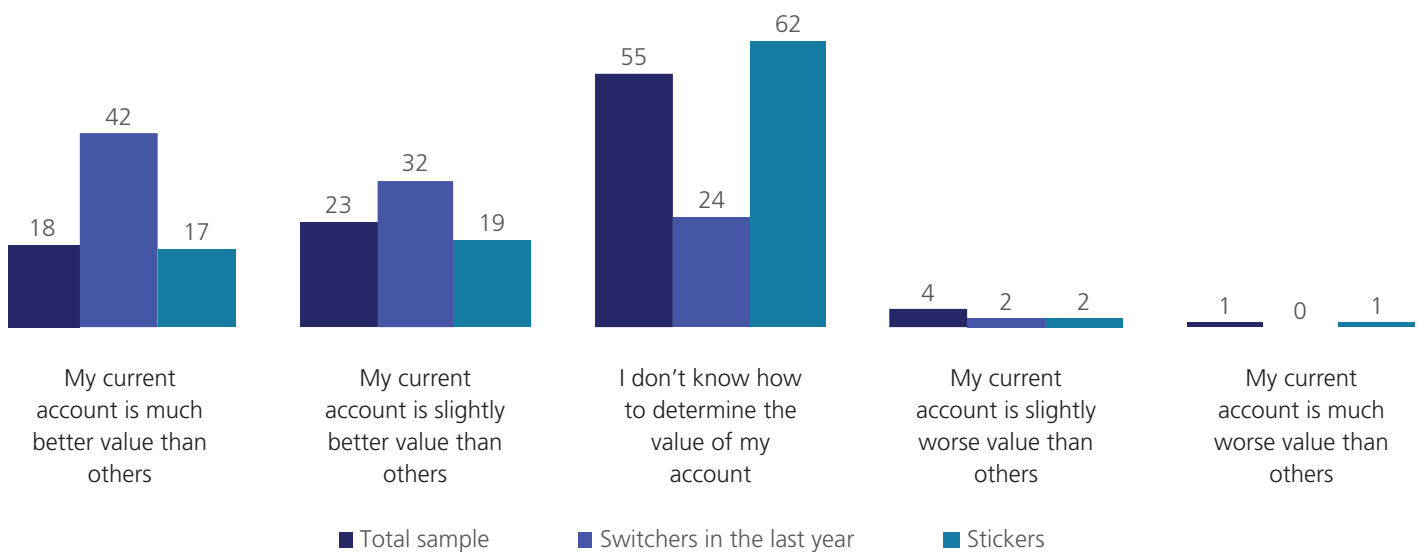
2. Understanding the value of a current account

Most informed and confident decision making begins with a clear understanding of what you have or where you are today. This condition is clearly not in place for current accounts. More than half of current account holders don't know how to determine the value of their current account and fewer than 1 in 5 are convinced that their current account is much better value than others. The significant differences seen between stickers, of whom 62% didn't know how to determine the value of their current account, and switchers, of whom 42% could say that the current account, the one to which they had switched, represented much better value.

This reflects the confusion at the core of current accounts that they are 'free' products and the received belief that 'what you don't pay for has no value'. The discussion in the qualitative research highlighted the lack of normal cues such as a bill or a statement showing fees or prices. Interest on credit balances tends to be small and sometimes hidden and, even when evident, it is not always expressed in ways which make it easy to determine the value of their current account.

The lack of understanding of the charges and interest paid on an existing current account means that consumers have no effective basis for comparison although this could be mitigated if they believe that there are big differences between current accounts.

Perceived value of main current accounts vs others in the market %



Source: Q25. How well do you think the value of your main current account compares to other current accounts?

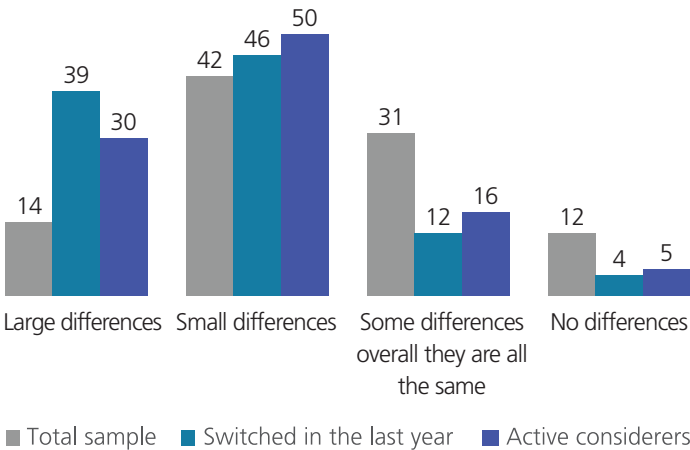
Base: All respondents (n=1061)

3. The benefits of switching

Although current accounts are less ‘vanilla’ products than they were with the introduction of credit interest and ‘rewards’ 43% of current account holders think they are all the same and a further 42% see only small differences between them. Unsurprisingly, switchers and active considerers are the most inclined to see large differences.

Where there are perceived to be large differences, they tend to be financial but some of these are not relevant and nor are they well understood.

Perception of difference between current accounts %



Source: Q26. Thinking about the current accounts offered by the various banks/building societies, would you say... Base: all respondents (1061), switched in last year (57), active considerers (93)

Most frequently cited reason of why there are large differences between current accounts %

Charges	26
Reward/benefit variations	25
Interest rate variations	18
Variations on interest paid on balance	12
Cashback incentives	8
Account features/terms and conditions	8
Customer service	6

Source: Q27. Why did you think there are some large differences between the current accounts offered by the various banks/building societies? Base: All respondents who stated that there are large differences between different current accounts in Q26 (n= 151)

“Some offer cashback incentives, some offer cash to switch, some offer both, some offer nothing.”

“Some have monthly charges for services I don’t need and others don’t but also pay interest on credit charges without any monthly fee.”

“Some offer large cash incentives to switch, others pay interest on credit balances. There are some that offer cash back or discounted services and there are those that charge a monthly fee for having the account.”

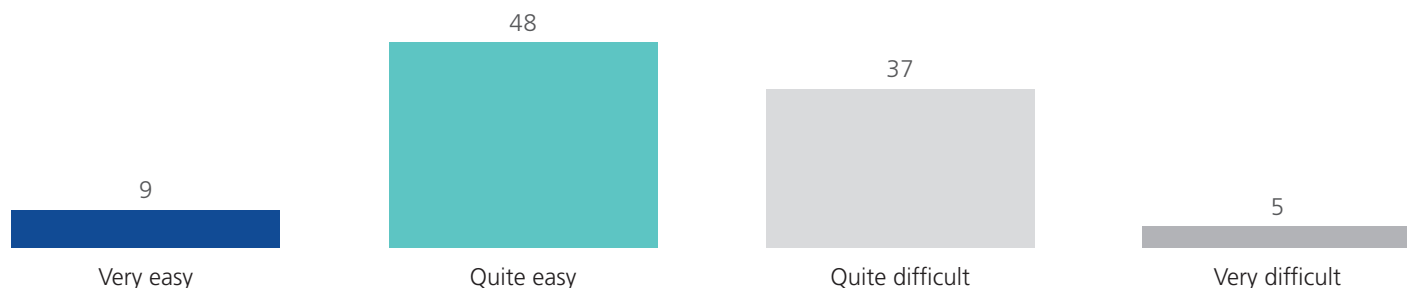
“Because some give you money back to switch to using them – others charge you for having an account with them + others are just too difficult to understand.”

The difficulty for consumers in comparing current accounts

The lack of perceived difference can be attributed to two main things. Firstly, consumers continue to believe that all banks are the same and the continued coverage of 'bankers behaving badly' fuels an underlying lack of trust. Significantly switchers and active considerers are the least likely to trust their banks but overall there is little evidence of very positive differentiation or customer commitment.

The real question for consumers is 'how do I know that I will be better off if I switch?' and it is very clear from our research that consumers find it very hard to compare current accounts. The vast majority are unconvinced 'fence sitters' who will only commit to it being either 'quite easy' or 'quite hard'. The tendency to find it hard to compare is strongest amongst stickers and conversely those who have switched are more likely to say that it is easy.

Claimed ease of comparison of current accounts %



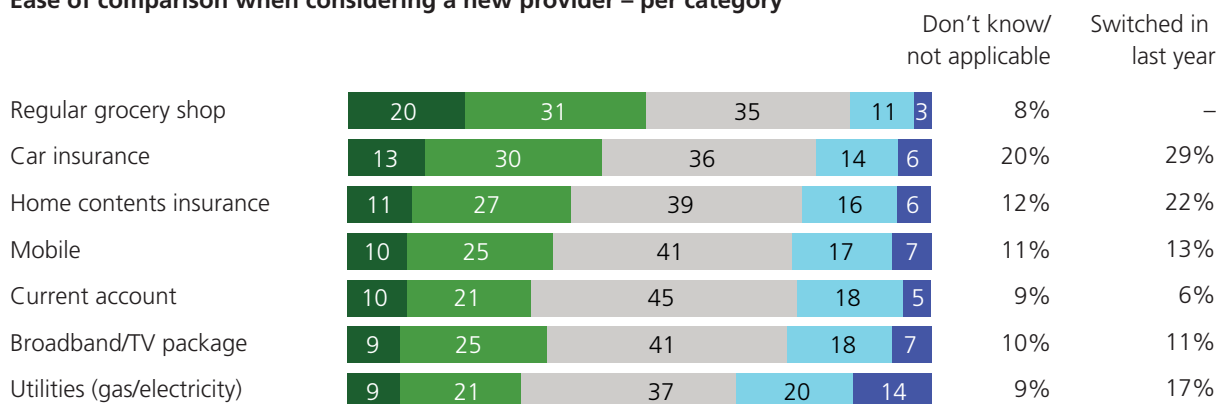
Source: Q28. How easy or difficult do you find it is to compare different current accounts?

Base: All respondents (n=1061),

A comparison of the ease of switching across a range of categories showed that consumers find current accounts among the hardest products to compare. Whilst probably an unfair comparison as frequency and familiarity are very different, less than one third of consumers find it easy to compare different current accounts compared to over 50 percent of consumers

finding it easy to compare their regular grocery shop. Only Utilities appear to be more difficult to compare and the fact that switching levels for utilities are three times higher than for current accounts indicates that consumers are more polarised in relation to utilities and this was evident in our qualitative research.

Ease of comparison when considering a new provider – per category



■ It is so simple to compare that I don't have to think about it (5)
 ■ 4 ■ 3 ■ 2 ■ It is very difficult to compare the cost and benefits (1)

Source: Q15. When choosing a new provider for the following products or services, how easy or difficult is it to compare the costs and benefits of the product/service?

Base: All respondents (n=1061)

The qualitative research yielded important further insight as consumers would initially claim that it wasn't difficult to compare current accounts but being able to compare like with like and to make comparisons which were relevant for them proved really difficult. Current accounts are not a one-dimensional product and, for this reason, comparison websites do not have the salience they have for other markets.

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.

Level of difficulty vs. level of importance to compare current accounts – top box %



Source: Q29. Which of the following do you find it most difficult to compare between banks? Please put this at the top of your list and rank each of the following from most to least difficult. Q30. Which of the following do you think is most important for you to be able to compare between banks? Please put this at the top of your list and rank each of the following from most to least important.

Base: All respondents (n= 1061)

“The fact is we don't know if there's one of these comparison things out there for current accounts, maybe moneysupermarket or Go Compare should be advertising the fact.”

Male, London

“If you compare individual websites they'll be advertising benefits not how much you get charged back on an overdraft. You're only comparing benefits not drawbacks.”

Female, London

“I've used comparison websites for insurance, house insurance, car insurance but I've never used it for bank accounts. It's something that I think would be really good, if you could compare it all in one page. Just like a simple table showing incentives, interest rates and comparing so we can go down each one and check them out.”

Female, Glasgow

4. Ease of switching

How easy will it be for me to switch has to be the most basic and most universal question but in spite of considerable investment in the CASS Switch campaign, consumers remain unclear and uncertain. Unlike gas and electricity where USwitch is understood to make the switch for you, there is no similar understanding that the banks will switch direct debits, standing orders and other regular monthly payments or transfers.

There is real irony here as TNS's own CASI monitor shows very high levels of satisfaction with the switching process with 85% being satisfied and 65% very satisfied but because of the relatively small number of switchers, there is limited word of mouth to spread this reassurance.

This leads to consumers believing that they need to do it themselves which leads to concerns about the time it will take and the risks of getting it wrong. These concerns are clearly identified as barriers to switching.

This is an issue, which needs to be tackled on an industry wide basis as this will provide re-assurance that the banking industry

will act collectively for the benefit of all customers. To date, the CASS campaign has achieved satisfactory levels of awareness at a little below 60% but this will only translate into confidence when there is understanding that the banks will make the switch for customers.

The guarantee is a further sign of commitment, which can provide important re-assurance:

“There is a risk involved in changing because all your money goes through the current account. If something goes wrong, even for a couple of days, you are in trouble.”

Glasgow, Male

Even among those who were considering switching, the barriers remain significant on both an emotional and rational level and on balance, for the majority, the risks outweigh the perceived benefits. The result of this, is a lengthy period of consideration, which frequently results in no action being taken.

Greater clarity and re-assurance would facilitate decision making particularly among those who are in consideration mode.

Considerers admit to a range of barriers to switching, covering both rational and emotional issues



Rational need/benefit

Not time critical

Lack of need, no desperate time or cost implications.

No life changing benefit

What is the tangible improvement that will be experienced post switch.

Time required

Takes time to identify which one is best for my personal circumstances.



Emotional fear/risk

Impact of mistake

Fear of the switch going wrong. SOs/DDs not being paid, impacting on mortgage, bills etc.

Committed to choice

Fear of getting the decision wrong.
An emotional fear, this is 'too big' to mess up

What the majority won't admit to is that the process of selection is difficult and therefore off-putting.

5. Making the right choice

Until current account switching becomes an established behaviour, those considering making a switch will require re-assurance. This is an immediate task for the banking industry. Higher levels of switching, the conversion of considerers into switchers and consequent increased word-of-mouth re-assurance will combine to create a more conducive environment.

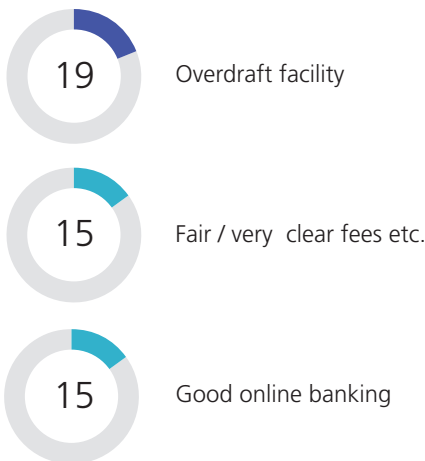
Beyond this, it is important for consumers to feel that they have made the right choice for them personally. This is where understanding different personal context and preferences is important.

To demonstrate that different aspects of the current account were important to different types of customer, we analysed what the important considerations were for four different customer typologies. Using 'max diff' techniques we identified four different groups with different priorities in their switching decision making.

It will be up to individual banks to determine their own targeting strategy but it will be important for all to communicate their current account offer clearly to enable consumers to make informed decisions and to feel confident about the choices they are making.

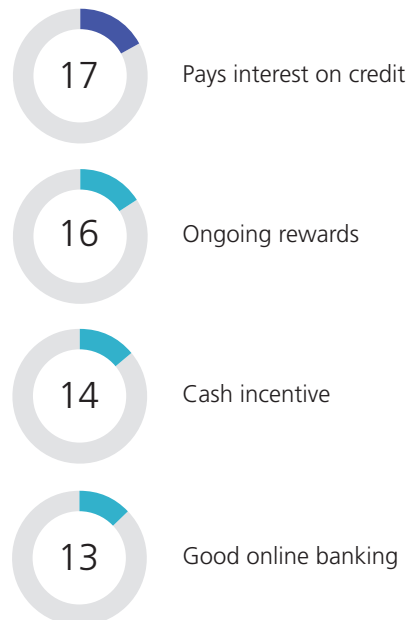
The most important drivers of choice

Overdraft operators %



Base: Overdraft operators (135)

Financially incentivised %



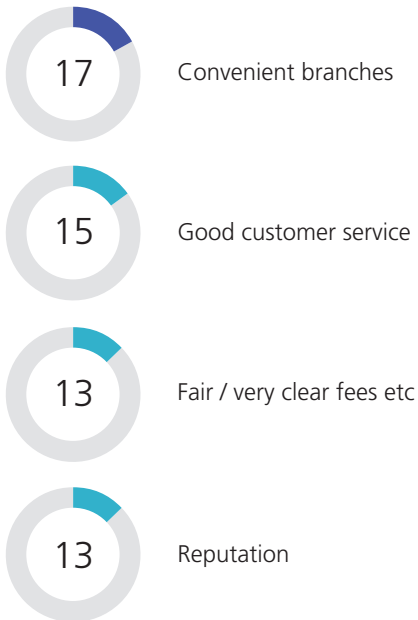
Base: Financially incentivised (304)

Source: Q20. Which one of these would be the most important reason in your choice of new bank for your current account?

“I don’t know anyone who has switched their current account. To me, your banking is such a major part of your life that you have to think about it.”

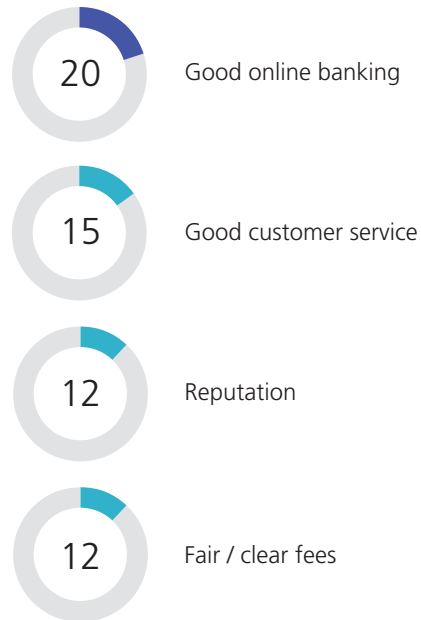
Male considerer, London

Personal service seekers %



Base: Personal service seekers (224)

Modern service seekers %



Base: Modern service seekers (314)

A current account should only be 'for life' if consumers want it to be

The banking industry should help consumers to answer the five questions with confidence so that they can make an informed decision to switch or stick.

The focus of the Current Account Switching Service (CASS) introduced in September 2013 is on making switching easier, which addresses the fourth question for consumers. While this is certainly a valuable initiative in supporting increased levels of switching, our research shows that there are other important considerations, which occur at an earlier stage in the consumer's consideration process which the industry must address before we will see a significant increase in switching.

In our view and based on this research, the industry needs to take a more 'longitudinal' view, which more closely replicates the consumer switching journey, and addresses the barriers at each of these five steps.

1

Would I consider switching my current account?

2

Can I determine the value of my current account?

3

Can I be sure that I will be better off if I switch?

4

Will it be easy and hassle free?

5

Can I be confident that I have made the right choice?

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