ISSUE 8 - March 2013

harris financial
INTERACTIVE

viewpoint

Keeping you connected to today's UK financial services market

Welcome to the eighth edition of *viewpoint*, Harris Interactive's UK financial services newsletter.

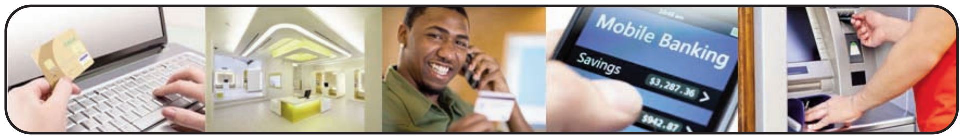
Arguably, over the next two to three years the UK Personal Current/Bank Account market is going to face its biggest shake up since the introduction of 'free banking' in the 1980s.

In this edition of viewpoint we investigate how the sway of public opinion alongside the financial crisis brought legislative change, gauge the true threat of both the challengers and new entrants, and consider how 'free banking' has stifled both consumer engagement and switching.

*This edition was researched and written by **Philip Brooks**, Director, Financial Services Research*
pbrooks@harrisinteractive.com

MRS Evidence Matters™
MRS Awards 2012
Winner
Financial Services Research

Bank Accounts - A New Order



Legislative change - the impact of negative public opinion

There can be no doubt that Personal Current Accounts (PCAs) play an extremely important role in everyday consumers' lives, both rationally and emotionally. When some of the banks aggressively raised their unauthorised overdraft charges by approximately 50% back in 2005[1] who could have known where it would lead?

First customers started to complain and James Coney of the Money Mail highlighted the issue in a series of articles. Websites such as 'This is Money' and 'moneysavingexpert.com' then started producing straightforward guides and complaint template letters for customers to follow and as the media's interest deepened the burden grew on the courts and the Financial Ombudsman Service.

Some of the banks started to hand money back to customers, either settling straightaway or failing to contest court cases in the fear of setting a precedent. As public opinion intensified, it was no surprise that the OFT launched a review of the market.

The resulting 2008 report identified a number of concerns, in particular around the complexity and lack of control consumers had with unarranged overdraft charges. Although the banks went on to win their case in the Supreme Court, the ruling still left open a number of questions around the transparency of charges and fees ('free banking') and switching.

After the financial crisis, the government established the Independent Commission on Banking[2] (ICB) to make recommendations on how the market should be reformed to promote financial stability as well as competition. As part of this process, the ICB recommended a 7 day switching process (due to be launched in September) alongside recommendations to improve the transparency of fees and charges thereby helping to overcome some of the original concerns of the OFT.

harris interactive financial

viewpoint

Continued from page 1...

The threat of challengers and new entrants

So once we have a more straightforward switching process and tell people ONCE a year how much their bank account has cost them, alongside increased competition – the market will resolve itself right?

I wish it was so simple.

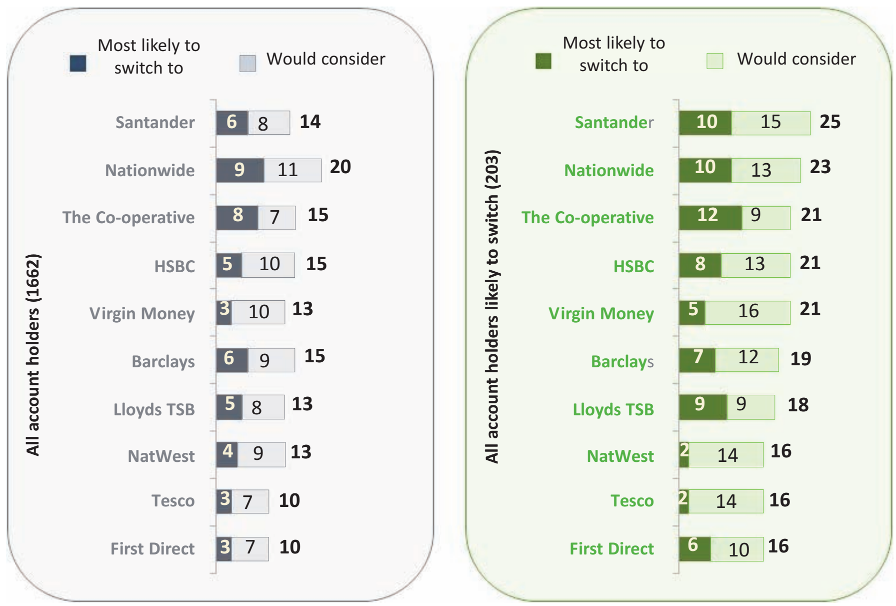
Our own Harris Poll shows that just 6% either opened a bank account for the first time or switched their account in the last 12 months and just 11% of all account holders say they are likely to switch in the next 12 months. This is on the back of the high profile RBS and NatWest service failures and new scandals such as LIBOR and money laundering.

Although Metro and M&S have entered the market, it is fair to say that the last three years have been a bit of a hiatus as we all eagerly await the 'branch sell offs' and the arrival of both Tesco and Branson, especially if Virgin Money manages to pick up the RBS branches.

What is clear is that consumers are also waiting for change. Alongside Nationwide and the Co-operative, our research indicates that Virgin Money will be very strong indeed and Tesco will hold their own, particularly when you consider neither has a product to switch to yet!

Significant proportions of those likely to switch would also consider Sainsbury's (11%) and John Lewis (8%). If this appetite grows then other, well known 'trusted' consumer brands could enter the fray – who next – Apple? Google? One thing all of their success indicates is that a swelling number of consumers are looking for something different.

Q: If you were looking to switch... which of the following companies would you consider?
Q: If you were looking to switch... which of the following companies would you most likely switch to?



What does 'different' look like?

It is fair to say there is little difference between the majority of bank accounts on offer. Some may argue for the Santander 123 account and clearly it does appear to have had some impact, but ultimately the key differences come down to perceptions of both service and brand. It is on both these counts that the challengers and new entrants will continue to threaten the establishment.

We all know the industry has an image problem, but ultimately it is up to each organisation to understand how they can benefit from the current state of play and it is clear that the majority of challenger and new entrants have the brand positioning which allows them to do this.

harris financial INTERACTIVE

viewpoint

Continued from page 2...

The diagram below shows the brand territory occupied by the traditional banks and the challengers. As can be seen, the challenger banks already occupy the area of the map that matters most i.e. acting responsibly, treating customers fairly, trustworthy, excellent service and demonstrating they really care about customers. All these attributes are what we call conscious drivers, i.e. attributes which both consumers tell us are important and are also statistically important in driving choice within the market.

The challenger banks are also known for being ethical, relevant to you personally and a good fit of how you see yourself – these are attributes we call latent motivators, i.e. attributes which the statistics tell us are important but in consumers' minds they have less of an impact.

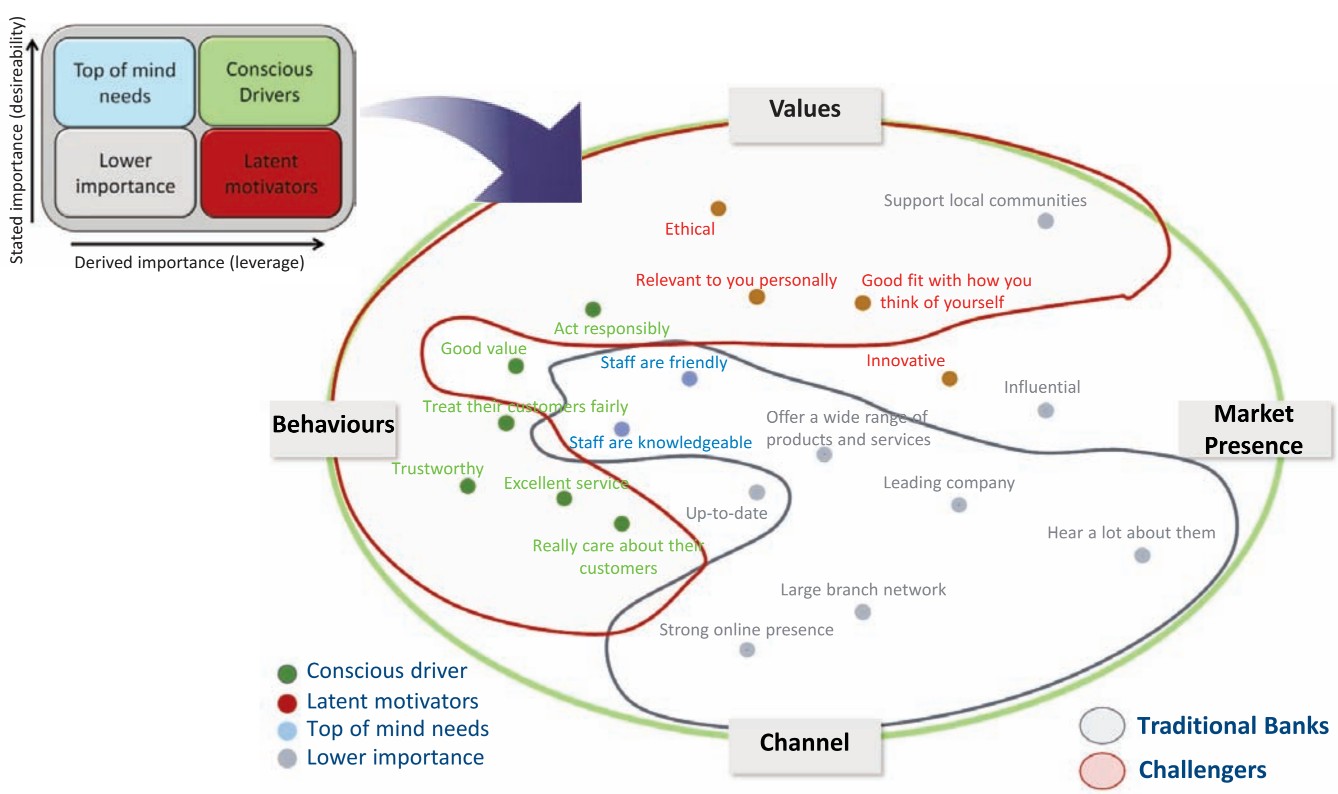
In stark comparison, the only attributes of any note which traditional banks stand for are friendly and knowledgeable staff. We call both these attributes 'Top of mind needs' as consumers say they are important to them, but the statistics tell us they have less of an impact upon choice. All the other attributes the traditional banks stand for are deemed to have a lower importance, particularly considering human interactions and branch visits are declining.

So clearly, the challengers have the behaviours and the values that the public desire – they have a personality and are creating a differentiation in the market. As long as they keep pace with technology, their greatest challenge will not be developing an appealing proposition, it will be actually motivating people to switch and change behaviour.

Encouraging switching and greater engagement

It is fair to say that consumers today have a greater opportunity to engage with their finances more

Traditional vs. Challenger Banks



harris financial INTERACTIVE

viewpoint

Continued from page 3...

than ever before, the growth in online banking and now mobile is certainly testament to that.

However, do consumers really take the time to fully evaluate their banking needs or do consumers simply accept the service levels and benefits they get from their bank without ever challenging or comparing them?

Given how historically low switching has been within the market (just half of us have ever switched), I think there is certainly a strong argument for apathy and the old adage that people don't value what they don't pay for. So how can we get more customers more engaged with their account and potentially encourage more to switch?

Making small changes to the switching process or showing how much customers have paid every 12 months will have little impact. Portable account numbers is another nice idea in theory, but fundamentally impractical given the associated IT implications and cost.

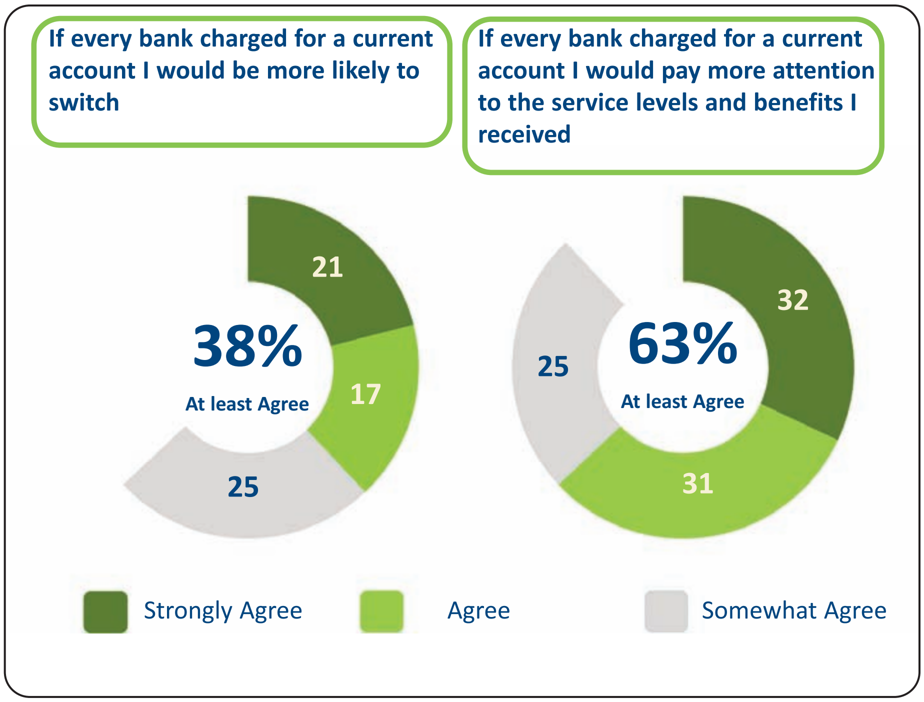
Organisations clearly need to develop compelling propositions that meet consumers' rational and emotional needs, but given the low levels of engagement consumers have with the sector I believe the market would truly benefit from a more radical stimulus that will speed up change.

Free banking is a "dangerous myth"

When Andrew Bailey, then executive director of the Bank of England, described 'free banking' (free if in credit) as "a dangerous myth"[3] it certainly set the cat amongst the pigeons and whilst his terminology may have alarmed some I do believe if we really wanted to encourage greater levels of engagement and increased levels of competition then ending 'free banking' could prove to be the true 'disruption' the sector needs.

As indicated in our latest Harris Poll, the 'free banking' system stifles competition. If every bank charged for a bank account, 38% of all account holders agree they would be more likely to switch with a further 25% somewhat agreeing.

The biggest benefit of removing 'free banking' is not the increased levels of 'claimed' switching it's the fact that almost two-thirds agree that they would pay more attention to service levels and benefits they received from their bank, with a further 25% somewhat agreeing. Imagine what could be done if people actually had a bank account tailored to their needs, and which fitted in with their lifestyle. Imagine the additional support, at both ends of the market, which could be provided.



As consumer finances become increasingly complex, the 'free banking' system is fast becoming both out dated, as well as increasingly unfair.

The current system clearly disadvantages those on low incomes and those who struggle to manage their finances, but the system was never designed to consider their needs. Back in the 1980s customers like these were less likely to have a bank account in the first place and credit was much harder to attain.

harris financial INTERACTIVE

viewpoint

Continued from page 4...

Design new products and services

Whilst it may sound strange to say charging would be a fairer system, it would at least mean that more products and services would be designed around different customer segment needs and concerns rather than the range that we have today.

For example, research by both Social Finance[4] and Consumer Focus[5] uncovered consumers concerns with 'charges' and having 'a lack of control' when payments are made.

If you are a shift worker or casual labourer automated payments / direct debits can be a lot more difficult to manage, especially if they vary from month to month.

Although there is no doubt the basic bank account (BBA) has been a success story, growing significantly since 1998 and now accounting for 20% of all bank accounts, they still do not meet the needs of those who struggle with budgeting as account holders are still penalised/charged for unpaid items.

An alternative to the BBA is a 'Jam Jar' account. A 'Jam Jar' account helps account holders to stay on top of their finances by effectively splitting their money into two accounts – one for bills and payments, the other for spending.

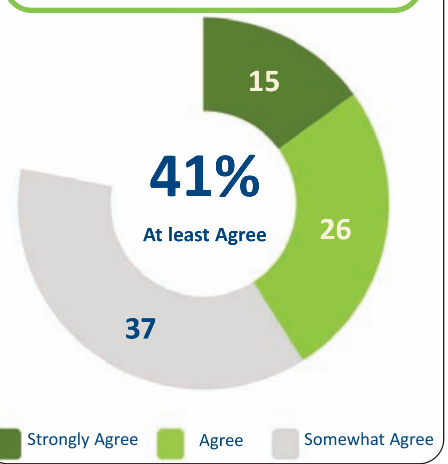
Account holders also benefit from the support of Money Managers who identify potential problems as well as providing ongoing advice and support on budgeting. However, perhaps the biggest benefit of this sort of account is that there are no fees for unpaid items.

The major disadvantage of course is that quite rightly a fee needs to be charged. Unfortunately the current 'free banking' system and the lack of transparency of fees and charges, means that many consumers who would benefit struggle to see the value of this type of account. Similar issues exist at the other end of the market as well with people holding significant sums in their bank account which could be earning interest.

A step too far

Removing 'free banking' would certainly open up the market, as well as help ensure consumers hold more suitable products and services. In reality, however, it would cause uproar and politically it is too hot for the regulator to handle. Just look at some of the comments made on a report written by Phillip Inman of the Guardian[6]. Though from a consumer perspective, is it any worse than what is happening to the Lloyds TSB customers because of Project Verde; where customers are being 'forced' to switch without really being given a choice?

The current system for funding current accounts is fair?



Our latest Harris Poll also helps to demonstrate a similar sentiment as 41% of account holders agree that the current funding system is fair, with a further 37% somewhat agreeing and just 23% disagreeing.

Interestingly, as propensity to use an overdraft facility increases the more disenfranchised people become with the current system. Amongst those who never go overdrawn, 47% agree the current system is fair compared to just 27% of those who are overdrawn most months.

Ending 'free banking' is probably a step too far, therefore we need to improve the transparency of fees and charges in other ways. Laying out what a bank account has cost once a year in my mind does not go far enough.

We must continuously strive to improve the knowledge and understanding of customers, doing our best to ensure they are being treated fairly. Even if that's just building upon what is already in place for example, why only communicate their total costs and fees once a year? Why not quarterly or monthly, i.e. as a reminder why not state the 'average' monthly cost over the last 12 months alongside the total cost?

In the same statement, marketing messages can be placed that recommend more suitable accounts for them based on their banking habits. At least this way we are providing people with the information and hopefully educating them, so they can make an informed choice rather than continuing to trade on their lack of understanding.

Issue 8 | March 2013

harris financial INTERACTIVE

viewpoint

Continued from page 5...

Q: If you were looking to switch your **primary bank/current account**, why would you be most likely to select?

I feel they care more about their customers, other banks these days are just out for their own gain

Co-operative, Likely to switch

They are local and mutual

N&P, Extremely likely to switch

Highly recommended and good internet banking

First Direct, Likely to switch

Trusted brand, new and potential to be innovative in their approach to customers

Virgin Money, Likely to switch

Image of quality and (unlike any other bank to date) a reputation for customer service

John Lewis, Quite likely to switch

Because it has a good offer on their cashback current account

Santander, Likely to switch

Because they are a stable, global bank. They are offering a good promotion on their 123 current accounts, with cashback against regular household bills

Santander, Unsure

Good consistent policies and customer service

Nationwide, Very likely

Big company and seems very reliable

HSBC, Quite likely to switch

Familiar, local, everywhere, accessible online, UK company

Barclays, Likely to switch

Links to referenced articles:

1. *A timeline of the bank charges fight*
2. *The Financial Services (Banking Reform) Bill*
3. *Free banking a dangerous myth, says Bank official*
4. *Extending the use of Jam Jar accounts in the UK*
5. *The Best of British Banking*
6. *This call to ending free banking is an insult*

This edition was researched and written by ***Philip Brooks****, Director, Financial Services Research*
pbrooks@harrisinteractive.com

Join our research syndicate

"Maximising potential in the bank account market"

Interested in understanding consumer behaviours, needs and attitudes towards bank accounts? Our analysis will allow you to explore and better understand different consumer segments, alongside optimising your brand positioning.

For more information or to register your interest email or call:

Adrian Wooldridge
awooldridge@harrisinteractive.com
+44 (0)161 242 1369

Read our latest blogs:

- Zombies in our midst
- Can I have some money please Dave?
- The key to trust

Follow us on Twitter

For further information related to this article, such as the background data, or to suggest new topics for inclusion please email financial@harrisinteractive.net or call +44 (0)161 242 1360