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The Anatomy of Consumer Switching Behaviors

Solving the Stumbles that Prevent Profitable Engagement

Executive Summary

Driving consumer account-switching behavior is a key objective for financial institutions, yet few are completely successful at converting newly acquired accounts into profitable, long-term relationships.

To explore the challenges financial institutions face in cultivating long-term, profitable relationships with account-switchers, Digital Scientists, on behalf of Deluxe, conducted in-depth, online interviews with 1,013 consumers, ranging in age from 18 to 54. Conducted in December 2014, the survey polled consumers who held checking accounts with a bank or credit union, and who participated in household finances.

In this report, we will share key findings from the survey, including:

- Consumers are more likely to switch financial institutions if the financial institution has failed to motivate them to stay, rather than because the financial institution has done anything to motivate them to leave.
- Availability and quality of digital tools is an increasingly important factor in consumer switching behaviors, especially among Millennials.
- A consumer's experience with other financial institutions – whether directly through a secondary account or through a referral from others – opens the door to account switching.
- When onboarding fails to facilitate ease of switching, new account-holders become disengaged, unprofitable customers.

We'll conclude this report with recommendations for how financial institutions can maximize the profitability of their account-switching efforts and onboarding programs.

Contents

Anatomy of a switcher: Who's switching accounts?

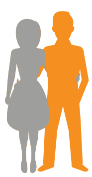
The study found that more than 17% of account holders switched their primary financial institution within the past 12 months. This number appears higher than what we often see in the market because it reflects the number of consumers who actually did switch, rather than those who say they plan on switching. In this statistic, many of the switchers acted out of necessity, and not because they were unhappy with their current primary financial institution.

An interesting profile of likely switchers emerges from this research (see Figure 1).

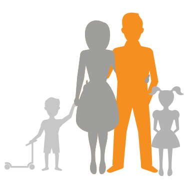
Figure 1

A probable switcher is:

Typically male. Men are more likely than women to switch banks or credit unions by a three-to-two margin.



Married. Nearly 67% of surveyed switchers were married, while just 28.2% were single and only 5.1% were divorced.



Raising a family. More than a third had children younger than 5 at home, 13.1% had children between 5 and 11 years of age, and 24% had children 12-17 in the household.

- **Millennial.** A significant majority of surveyed switchers were between the ages of 18 and 34, with 16.6% aged 18-24 and 58.9% aged 25-34.
- **Earning $75,000 to $100,000 annually.** People in this income range were nearly twice as likely to switch as those earning $25,000 to $50,000, and nearly 12 times more likely to switch than higher-earners in households with annual incomes exceeding $150,000.
- **College educated.** Nearly 40% of those who had switched financial institutions in the past 12 months held college degrees, and 26.3% had done graduate work or achieved graduate degrees. Just 12% of switchers had only a high school education, and 22.9% had done some college coursework but not completed their degrees.

Source: Digital Scientists, June 2015

They are commonly switching away from large national banks to large regional credit unions and online banks. Rarely are they migrating from smaller financial institutions to larger, national banks. The flow of business illustrates the strong influence of Millennials who apparently have greater bias against larger, national institutions and a greater affinity for digital relationships.

THE TAKE-AWAY

Financial institutions looking to grow their accounts should target consumers who are most likely to switch. Financial institutions have access to numerous tools to refine their targeted marketing. For the best success, target your efforts based not only on demographic traits but also on internal and external indicators from data in the marketplace.

What motivates switchers?

Popular belief is that life circumstances such as a relocation, changing jobs, change in marital status, or extreme dissatisfaction with a consumer's current primary financial institution are the strongest motivators of switching behavior. Yet Digital Scientists' research reveals that the primary impetus for consumers to move accounts actually stems from financial institutions, and it's related to what they're not doing (motivating people to stay) rather than what they are doing (motivating people to leave).

Figure 2

Top Ten Reasons for Switching Financial Institutions – Past 12 Months

Source: Digital Scientists, June 2015

1. Secondary accounts with other financial institutions

In our survey, 30.3% of consumers cited the fact that they already had an account with a secondary financial institution as a leading factor in their decision to switch all their business to that secondary financial institution (see Figure 2).

Having a secondary account shouldn't be an immediate cause for concern. There are many reasons why a consumer would have accounts with multiple financial institutions: Household members managing their own income and expenses, failure to close out an old account, and maintaining a business account.

It is, however, something to monitor as unhappy account holders will find an easier path to leave when they have a strong secondary banking relationship. These consumers may already have a foot out the door at your financial institution. Spend time trying to understand why your account holders have secondary relationships and if there is anything you can do to remove the necessity for this secondary relationship to exist.

2. A desire for digital

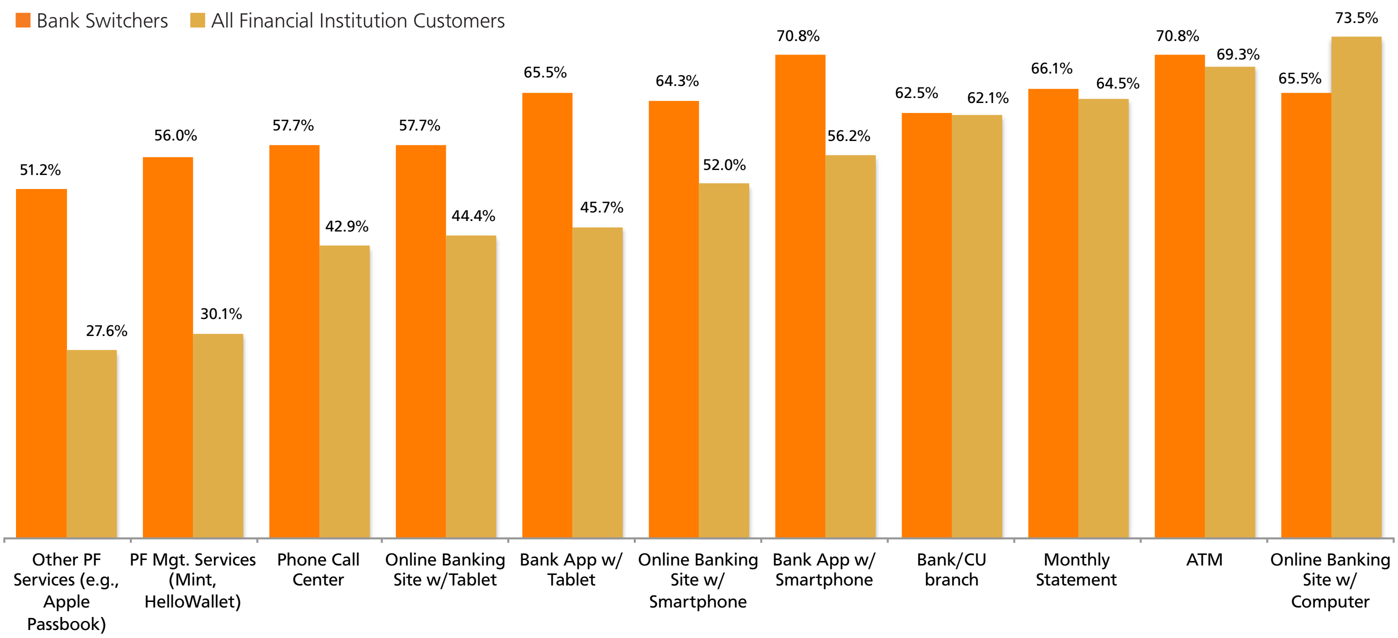
A desire for better digital services is also a strong driver of switching behaviors. Among the top reasons for switching, consumers cited a desire for online bill payment (28.6%), mobile banking (23.4%) and online banking (21.1%). Interestingly, two of these motivators are also factors a Javelin Strategy & Research banking study[1] identifies as leading to deeper engagement: use of online bill pay and online banking (see Figure 2).

Once they'd switched, consumers exhibited the most satisfaction with their new bank or credit union's digital capabilities. Nearly 71% were pleased with the smartphone app, 64.3% liked the mobile-friendly website, and 65.5% said they were pleased by the ease of access when logging on to the main website from a computer (see Figure 3).

Figure 3

Satisfaction with Methods of Accessing Bank Accounts (Top 2 Box Scores 4+5)

Among Recent Bank-Switchers vs. All Financial Institution Customers



Source: Digital Scientists, June 2015

Millennials, who are among the consumers most likely to switch, especially demonstrate a high affinity for digital tools. This age group is more prone to access the Internet through mobile devices like smartphones and tablets than are their Gen X and Baby Boomer peers. And although use of virtual/online banks was low across all age groups, Millennials still represented the highest percentage of users at 8%.

In fact, they were almost twice as likely to use an online bank as consumers in Generation X. Further, the majority of Millennials (54.4%) cited the mobile app as the most important way they receive information about products and services (see Figure 4).

Clearly, digital tools are important to nearly every age group, and banks or credit unions specifically targeting Millennials would do well to improve their mobile offerings.

3. Customer experience

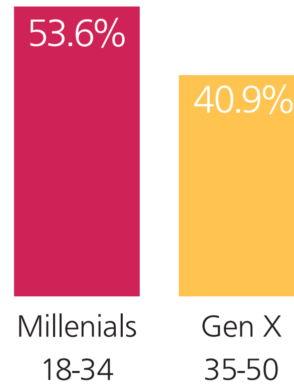
It's no surprise that an unsatisfying customer service experience with their current financial institution could motivate consumers to switch institutions. But the impact of customer experience on switching decisions is far more multi-layered. Both negative and positive customer experiences impel consumers to consider migrating their business.

Our research shows that nearly 27% of switchers say fees prompted them to make a change. Some undoubtedly left their current financial institution to escape what they perceived as high fees, while others were lured away from their current financial institution by the promise of low introductory fees (see Figure 2).

Customer service was a motivator for approximately 27% of consumers as well. While a poor experience certainly does nothing to convince a consumer to stay with a financial institution, a positive customer experience in making a simple inquiry about products and services could sway customer perception in favor of switching to a new financial institution. Nearly 23% also cited the quality of advice they received as impetus for switching financial institutions. Clearly, financial institutions need to ensure that every interaction with customers is a positive one, since a single poor experience can have a profound effect on a relationship (see Figure 2).

Figure 4

Importance of Mobile App when learning about bank products and services



Source: Digital Scientists, June 2015

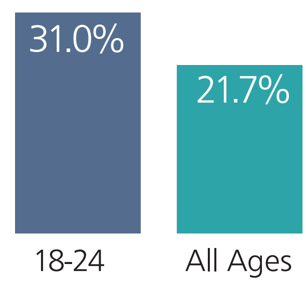
4. Other considerations

Other factors, while less influential, also impact switching behaviors.

Although the industry frets perennially over the fate of branches, strong evidence suggests that the branch is not dying out. Our research indicates that the 18-24 age group perceived branch location to be of greater importance than did those in other age groups. For example, college students relocating said having a nearby branch was important to them. Overall, just under 22% of respondents said they switched to secure more convenient branch and ATM locations. However, nearly a third (31%) of 18-24-year-olds cited the location of branches and ATMs as a contributing factor in their decision to change their bank or credit union. Even though they may walk into a branch only once or twice a year, consumers still prefer to do business with financial institutions that have locations near them (see Figure 5).

Figure 5

Importance of Branch/ATM locations



Source: Digital Scientists, June 2015

Consumers who feel that the products and pricing offered by their current financial institution don't meet their needs are more inclined to switch. About 25% of those said rates that didn't fit their expectations inspired them to switch, while 20% cited a lack of loan products (see Figure 2).

Multiple studies show that referrals, the opinion of family and friends, and where loved ones do their banking all heavily influence decisions to switch. Slightly more than 22% of people in our poll cited a referral as a driving factor in their movement from one bank or credit union to another (see Figure 2).

THE TAKE-AWAY

Financial institutions need to shore up the factors their customers value most. Some are universal – strong online and mobile capabilities and outstanding customer service. Be cognizant of customers' secondary relationships; those are openings that could allow a customer to slip away. Learn what your gaps are so you know where to focus your efforts.

Securing switchers is imperative

Many financial institutions do a credible job of acquiring switchers. They are often less efficient, however, at securing them. After the initial switch, new account holders are in a honeymoon phase and are likely to be most receptive to frequent, relevant communication. In fact, Digital Scientists found that switchers valued all types of communication from their financial institutions significantly more than did established account holders (see Figure 6).

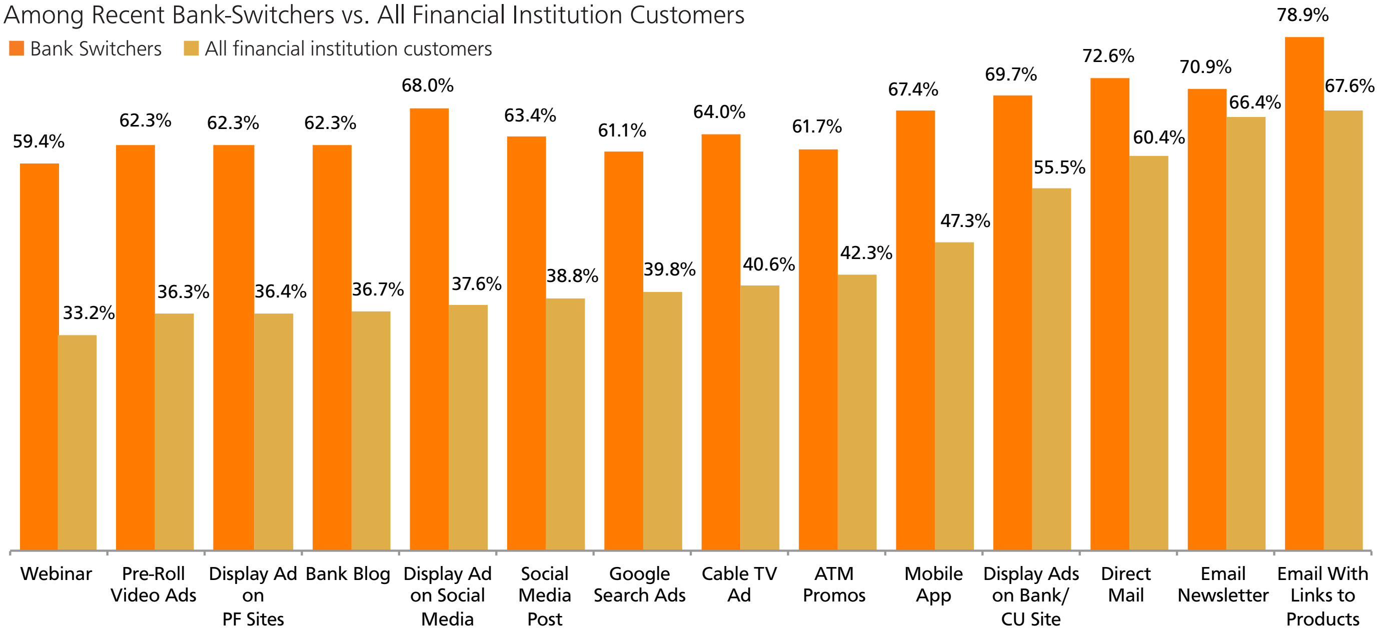
Digital experiences weighed heavily among recent switchers, who demonstrated a marked affinity for and satisfaction with digital experiences. Switchers also gave high scores to traditional channels of communication, including branches, statements and ATMs.

Communication through these preferred channels can help a financial institution secure a new relationship, and set the stage for future growth and profitability of the account.

Figure 6

Types of Communication Importance Scores (4+5 Ratings)

Among Recent Bank-Switchers vs. All Financial Institution Customers



Source: Digital Scientists, June 2015

THE TAKE-AWAY

Acquisition efforts are wasted if a financial institution fails to deliver a rock-solid onboarding experience for new account holders. Consumers will never be more open to your communication than they are at the outset of the relationship. Once new customers have been successfully onboarded and your position as their primary financial institution is secure, you will have greater opportunity for successfully cross-selling these fully engaged customers. 1. How to Convert ‘Silent

Switchers open significantly more new accounts

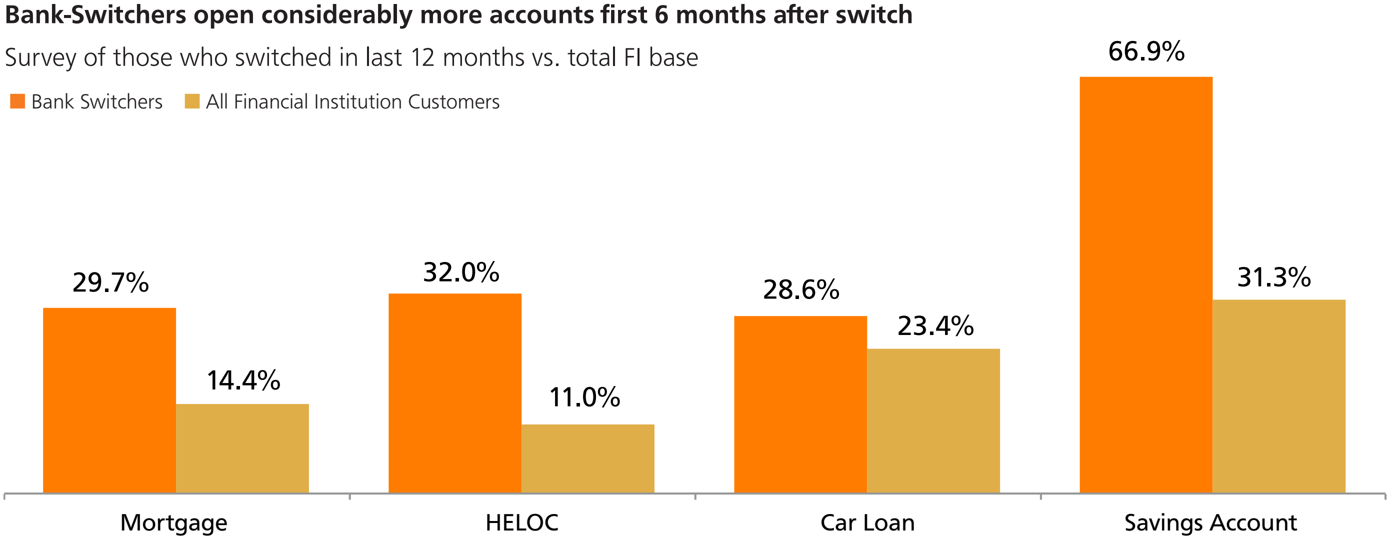
Financial institutions generally agree that the account holders who have the most accounts open with an institution are more profitable than account holders with fewer accounts. So the challenge for banking executives and marketers is to identify that group of account holders who are more likely to open additional accounts.

The Digital Scientists study results offer that answer. The study shows those individuals who recently switched accounts compose the group most likely to open additional accounts. The numbers are significant. (see Figure 7).

Figure 7

Bank-Switchers open considerably more accounts first 6 months after switch

Survey of those who switched in last 12 months vs. total FI base



Source: Digital Scientists, June 2015

Switchers have an interest in high-value products like mortgage loans and HELOCs. They open three times as many HELOCs as the standard account holders and twice the number of mortgage loans. A new switcher is well over twice as likely to open a new savings account than any other account holder at the same institution.

Significantly, all this activity takes place in the first six months after the switcher opens an initial account with the financial institution. Reasons may vary (see Figure 2), but whatever the individual account holder's reasons, the study results show the effect is real.

THE TAKE-AWAY

New switchers are an important group of new account openers. Not only do they open an initial banking account, but they open a significant number of additional accounts in the first six months compared to all other banking customers. A financial institution that focuses recruitment efforts on the new switchers group can find success and increase profits.

Key Recommendations

Maximizing profitability of new accounts requires financial institutions to change how they think about acquisition and onboarding processes. Many financial institutions with churn issues aren't using sound marketing techniques to acquire customers, nor are they doing an effective job of onboarding newly acquired customers.

A shotgun approach to marketing is ineffective.

At a bare minimum, financial institutions need to understand the types of people who are most likely to leave their current primary financial institution, including consumers who have accounts at other financial institutions, those seeking better digital services, those seeking better rates or lower fees, and those looking for a superior customer service experience. For example, rather than promoting a new mobile app to consumers in every age group, financial institutions should target their marketing efforts toward Millennials, who exhibit a high preference for digital tools.

Messaging should be audience-specific and focused on the experience, digital solutions, and locations. Ideally, banks and credit unions who struggle to do this should partner with a marketing agency that has an intimate understanding of the industry, and that can use both internal and external data to target those with the highest priority to buy in the institution's market.

Onboarding must not be overlooked or underserviced.

Onboarding is a crucial step in which many financial institutions fail to adequately invest. Financial Institutions need to help new account holders overcome initial hurdles to switching by providing a strong digital switching experience that anchors them. Incent them to use mobile and online tools and introduce them to free services and advice. Consistently communicate, applying a personalized touch through preferred communication channels. Consumers who feel engaged and cared for are less likely to switch again.

Act to minimize churn by identifying potential switchers.

Develop a model for identifying at-risk consumers, based on demographics – e.g., males and Millennials are more prone to switching. Decrease attrition through customer outreach and a feedback discovery process that begins with the opening of the account and continues throughout the onboarding phase. For example, knowing that a consumer who has accounts at a another institution is more at risk of switching, query enrolling customers on what other accounts they may have at other financial institutions.

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Appendix A: Methodology

- In-depth, online interviews with 1013 Bank and Credit Union consumers to assess appeal of new forms of bank/CU communications and promotions
- Field Dates: December 1-8, 2014
- Sample: 1013 18-54 year-olds with checking account and participation in household finances

Appendix B: Endnotes

1. Convert Silent Attrition into Banking Engagement and Profits, Javelin Strategy & Research, December 2014.