Personal current account switching:

Why don't more people switch and what could encourage them to do so?

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A report by

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Foreword by
Andy Caton

The UK current account market isn't working well for customers – a commonly shared view among organisations who represent consumers, government, academics and building societies like our own, as well as many of the challenger banks. If it isn't working, and is broken – that leaves open the question, how can we fix it? In order to build our understanding, we asked the Personal Financial Research Centre at the University of Bristol to undertake this review.

At a fundamental level, as this research shows, what people want is their current bank to treat them well; ensuring reliability that their account will always work, receiving high levels of customer service, and without costs or charges they view as unwarranted or unfair. As a mutual organisation, it is our customers who own the business as members of the Society – and are therefore at its heart. There is no need to compromise service, or take short term decisions designed to generate a profit to pay a dividend to shareholders. High quality service is implicit to the mutual model and goes beyond a simple business objective – based on the closer relationship to customers and awareness of their interests and needs. Mutuality provides a clear choice and alternative, but in current accounts the PLCs dominate more than in the other major personal retail banking product types.

Competition has been proposed as being the solution to address problems in the market. The problem is that switching, the Competition and Markets Authority (CMA) mechanism of choice to drive this better market, has a bad track record of delivery. The customer who simply wants a decent product, service and price may have changed gas and electricity supplier, and had the experience that service was just as bad, or worse. The grass is not always greener on the other side. The idea that constant changing of provider, when the marginal gains to the individual may be small, is the route to market wide fairness seems to be flawed. The smaller player, such as a building society or challenger bank, relies on switching to attract new customers, but if it attracts those customers based on a better customer service or product offering it would be justified in expecting to retain them through long-term loyalty and contentment. Yet in line with the theory of switching under pinning competition, there is a constant flux which must become an essential habit for the individual consumer.

Throughout the current CMA inquiry we at the Yorkshire Building Society have engaged positively, to make the best of this opportunity to get a better deal for consumers across the UK. Undoubtedly, any change in this market will yield some progress – which we would welcome.

The simpler world – where the individual can rely on their existing bank or building society to do a better job - will be difficult to achieve. Challenger banks, for example, will take up to a decade to become large enough to achieve substantial scale, and some may be acquired by incumbents before that happens.

This research shows that it will take more than a better functioning market to get consumers what they actually want. The challenge is more complex, and harder to resolve, than just chipping away at domination by the top few, PLC banks. As a mutual, we would call for real choice. It will require greater emphasis on encouraging diversity of business models and offerings which reflect innovation and meeting needs differently. However, it may be that current accounts are already trapped in a cycle where competition has very limited chances of operating fully as it should – inhibiting the diversity which does exist and any real chance of meeting consumer needs better.

Andy Caton
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Executive summary

Levels of switching

Despite the introduction of the Current Account Switching Service in 2013, switching rates have remained stubbornly low at between four and six per cent a year. The main beneficiaries of switching have been Santander, Halifax and Nationwide, with small gains by other challenger banks.

The UK is not alone in this respect and is close to the average for other European countries where comparable figures exist. This includes countries such as Sweden, Ireland and the Netherlands where regulators have also designed initiatives to stimulate switching.

Nor are low switching rates limited to banking. In general switching rates are slightly higher for utilities, but even here they are only about double those for banking. Rates are highest for insurance policies that have to be renewed annually, ranging from 20 to 30 percent for different types of policy.

Barriers to switching

Research into the barriers to switching has consistently identified a high level of passivity among current account holders, the great majority of whom have never considered switching. The main reason for this appears to be contentment with their current arrangements and the lack of any good reason to make changing necessary, which results in inertia or preference for the status quo. The longer a customer has been with their bank the stronger their 'mooring' to it. Indeed when such 'mooring' is strong, customers do not switch even when they are dissatisfied with the service they receive.

The main triggers for people considering switching are either high levels of dissatisfaction (often linked to an error or penalty charge) or a change in circumstance that disrupts their existing banking arrangement (e.g. moving home or a bank branch closure). The attractiveness of offers from other banks does not seem to encourage people to consider switching. Even then many of the people who consider switching do not actually switch to another provider. The key barriers are switching costs (and perceived costs) including the loss of a valued relationship, hassle of the process and the fear of things going wrong.

Those who *do* switch are 'variety-seeking' people who are more price-sensitive than other customers and are more likely to have switched in other markets too. Pull factors (principally better offers from other banks) have the greatest impact on this group of people, but this may be more important in determining which bank they switch to than in determining the decision to switch at all. They tend to be people with higher incomes who are unlikely to be in overdraft.

Procedural switching barriers

The Current Account Switching Service (CASS) was introduced in 2013 to simplify and speed up the process of switching and, in doing so, to address the real (and perceived) barrier that the process itself poses to switching. It seems to have achieved the first of these aims, albeit with little impact on switching levels.

Switching times have fallen substantially. Potential switchers find it easy to access the information they need – often using the internet to do so. The majority of them do not, on the whole, find it difficult to compare different accounts, although the areas where this is most difficult are also the ones that consumers rate as most important to know: overdraft fees and charges; credit interest rates and customer service levels. It has also been suggested that the Free-if-in-credit model of UK current accounts impedes transparency and, in doing so, inhibits switching. Certainly it helps to create an impression that 'all banks are the same' among people who have never considered switching. However, the fact that switching rates are no higher in countries where bank charges are more transparent suggests that it is not, in practice, an important barrier.

Those who have actually switched bank accounts since the introduction of CASS report that the process was quick, straightforward, error free and under their control. Nevertheless, even after they have switched their bank account once, they are no more likely than others to say they would switch again in the future.

However, the perception that switching will not be easy or error-free persists in the minds of those who have not actually tried switching. In part this is due to lack of awareness of CASS. Only half of consumers seem to be aware of its existence and most of those who were did not have any real understanding of it. Tackling this could encourage more of the people who consider switching to actually do so. But it is unlikely to encourage more people to consider switching in the first place.

Account Number Portability has been mooted as a further step in removing procedural barriers to account switching, both in the UK and overseas. But no country has yet gone down this route primarily because of the cost and uncertain gains in terms of switching.

Behaviour change research insights

People, including customers of PCAs, do not always act rationally and follow Rational Choice Theory in making optimal decisions. In relation to current account switching the most salient aspects of learning from behaviour change theories are:

- The Stages of Change model: different interventions will be required at different stages of behaviour change process.
- The process of behaviour change needs to be manageable with stages in the process broken down into a succession of smaller, manageable steps.

- The perception of a threat can trigger behaviour change, but in the case of PCA switching it may be that switching itself is seen as the threat preventing people from undertaking it. This relates to the behavioural biases, identified in behavioural economics, of risk, loss and disappointment aversion.
- How information is presented is important and information overload is a barrier to behaviour change. Policy makers need to think carefully about limiting the amount of information presented to people, such as when comparing current accounts. Messages need to address uncertainty and fears, and to be persuasive they need to come from a credible source.

Conclusions

With the introduction of CASS in 2013, the key procedural barriers to switching bank accounts have been addressed and the process is swift, error free and straightforward from the consumer's perspective.

The CMA has proposed a set of remedies that are designed to promote higher levels of switching by current account holders. These focus on barriers such as the need for triggers, for better information on price and service quality and to raise awareness of CASS. The evidence reported in this study suggests that these will all assist the minority of customers who are dissatisfied with their existing bank and would like to switch, but are deterred by lack of information and fears that the switching process will not be straightforward or error free.

But the great majority of account holders (perhaps as many as eight in ten) seem unlikely to consider switching. These remedies will not (and are not designed to) address the inertia that keeps the great majority of customers 'moored' to their existing provider. While many of these people may not be entirely satisfied with the service they get, their level of dissatisfaction is not great enough to trigger consideration of switching. Indeed, they express a desire for regulators to tackle the culture and service standards of banks and do not think that customers should be expected to switch to get a better service.

So, although there is still some scope for increasing levels of current account switching it seems very unlikely that they will rise appreciably as a result of the CMA's proposed remedies. Whilst the personal current account market does not appear to be working well in terms of competition, as measured by switching rates, most customers would rather that poor levels of service in the banking industry were addressed, rather than the solution be their having to switch providers in order to get this.

1. Introduction

1.1 Background

The impetus for this report is the CMA investigation into the retail banking market, looking into concerns that the market is not competitive and is not working in the best interest of consumers (CMA, 2015a). Their investigation covers retail banking services to both personal current account customers and to small and medium-sized enterprises. The investigation explores three hypotheses or 'theories of harm' that restrict competition in retail banking:

1. Impediments to customers' ability to effectively shop around, choose and switch products and suppliers results in in weak incentives for banks to compete for customers on the basis of price, quality and/or innovation.
2. The level of concentration is giving rise to market power for some banks leading to adverse outcomes for customers.
3. There are barriers to entry and expansion for providers.

In Great Britain retail banking is dominated by four banks - Lloyds Banking Group, HSBC Group, Royal Bank of Scotland Group and Barclays – who account for around 70 per cent of active personal current accounts (PCAs) and 80 per cent of active business current accounts. The next largest are Santander and Nationwide. In addition to these, the retail banking sector is made up of a large number of smaller banks and building societies. Whilst the number of fee-charging personal current accounts is rising, three quarters of PCAs follow the free-if-in-credit (FIIC) model, where fees are only charged for additional services such as overdrafts and foreign transaction fees, and services are paid for indirectly through foregone interest on credit balances (CMA, 2015a).

The focus of this research is on the personal current account market and on the first 'theory of harm': the ability of customers to shop around, choose and switch products and providers. Of particular concern is the low level of switching by personal customers with switching rates at around just four per cent per year (Ofcom, 2015)

In response to concerns over the lack of competition in retail banking and low switching rates, a number of changes have been introduced, including the establishment of the Payment Systems Regulator and the Prudential Regulation Authority and the introduction of free basic bank accounts (CMA, 2015a). Of most interest to this research study are the Current Account Switching Service (CASS) launched in September 2013 to make current account switching easier, and discussions on account number portability (ANP) where customers take their account number with them when they switch.

The CMA's framework for understanding why customers do not engage with the current account market covers three key issues: **access** to information and transparency of information on PCA charging structures; ability to **assess** and compare alternative offers on bank account features, prices and service levels to choose the best product and provider for them; and the extent to which customers **act** on this information to switch products or providers. Access to information and the ability to assess and compare alternatives can be described as 'searching' behaviours; and the extent to which customers act on this information can be described as 'switching' behaviour.

1.2 Research aims, methods and scope

The overall aims of this research study were to:

- understand the barriers to switching personal current accounts from the consumer perspective;
- to recommend potential solutions that would increase switching rates; and
- assess the likely impact of the provisional remedies put forward by the CMA (CMA, 2015b).

The research comprised a targeted evidence review of empirical studies covering both UK and international evidence. The aim was not to conduct an exhaustive review, but to identify and review the evidence that was most relevant. To provide a wider context to understanding the barriers to PCA switching and potential solutions the scope of the review also included (where particularly relevant) evidence on PCA switching in other countries, consumer switching behaviour in other markets and a review of the wider behavioural change literature.

1.3 Report Structure

Chapter 2 presents an analysis of PCA switching rates in the UK and compares these to switching rates in other countries, and to switching rates in other consumer markets. Chapter 3 explores the barriers to switching among people who have never considered it and those who have considered switching, but not gone ahead and done so. It also explores the triggers for switching covering both push and pull factors. In Chapter 4 we focus on procedural barriers to switching and in particular on the impact of the Current Account Switching Service. To explore switching barriers from a wider perspective, in Chapter 5 we examine behaviour change theories and how these relate to the low levels of switching seen in the PCA market. Finally, Chapter 6 draws together over-arching conclusions as to the key barriers to current account switching and assesses the CMA's provisional recommendations for raising switching rates.

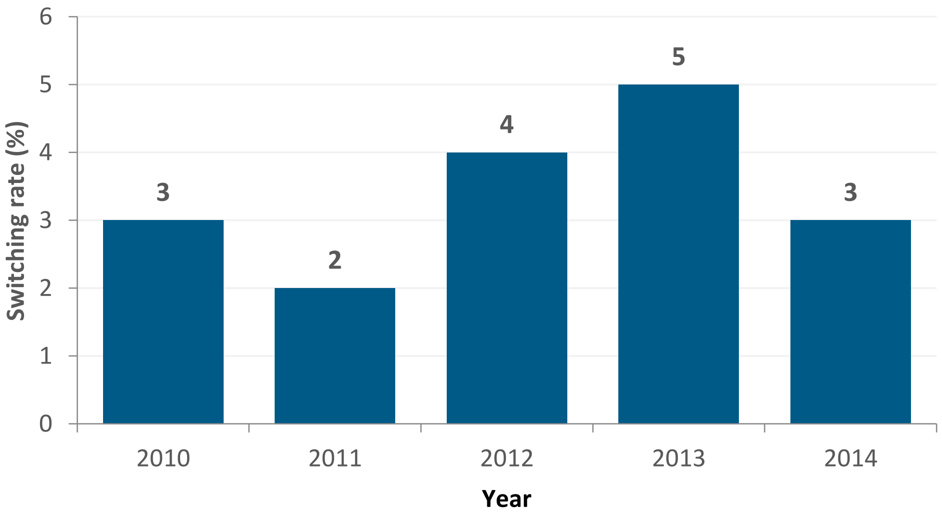
2. Overview of switching behaviour in the UK

This chapter provides an overview of switching behaviour in the UK's PCA market over the past few years. We begin with an in-depth look at recent PCA switching rates, before considering how the PCA market in the UK compares with other countries and with other markets in the UK. We then examine the characteristics of those who do and do not tend to switch PCA provider. Lastly, we consider the destination of recent switchers, in terms of which banks and building societies are gaining and losing the most switchers.

2.1 UK PCA switching rates over time

The UK PCA market has long been seen as a market characterised by high levels of customer loyalty and therefore particularly low rates of switching. This is evidenced by Ofcom's 'Switching Tracker', an annual survey of switching behaviour amongst consumers in a range of markets (Ofcom, 2015). Over the last five years the proportion of consumers switching bank account provider has never exceeded more than five per cent. Indeed, in most years the rate has fallen well below this number, as demonstrated in Figure 2.1. To put this into perspective, of the eight markets featured in the Switching Tracker in 2014 only one other market (Digital TV) had a lower rate of switching, as discussed below.

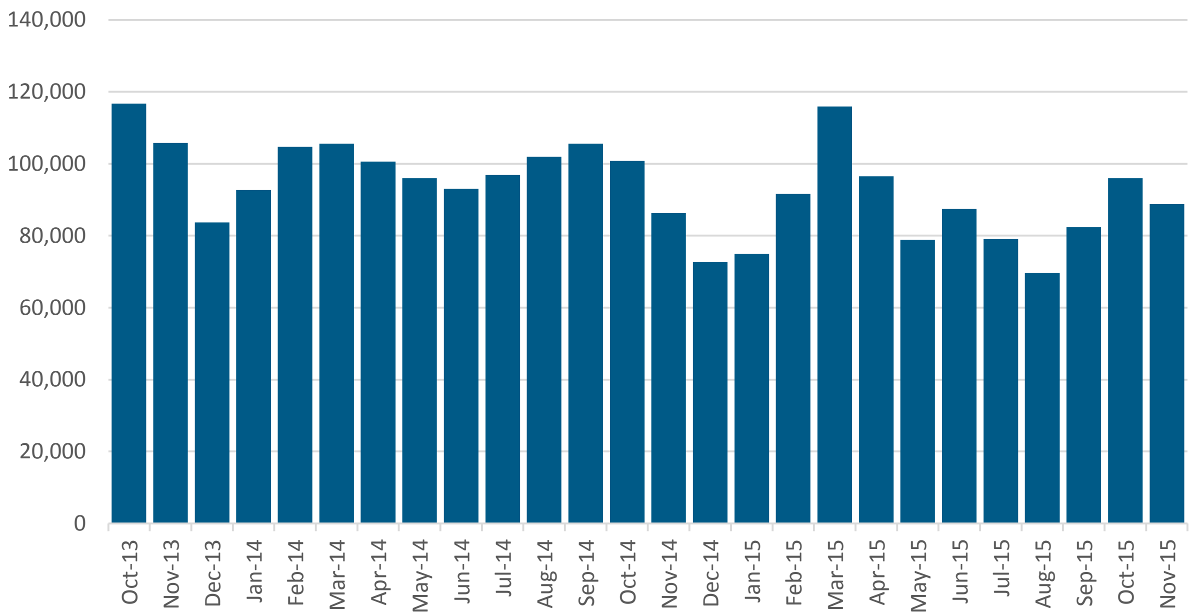
Figure 2.1 – Proportion of consumers who had switched bank account provider in the past 12 months, by year (Data source: Ofcom, 2015)



Research highlights the fact that consumers tend to stay with one bank for long periods of time, rather than switching to competitors (CMA, 2015a). Over a third (37 per cent) of consumers had been with their bank for 20 years or more, over half (57 per cent) for more than ten years and nearly three-quarters (72 per cent) for more than five years. Only eight per cent of consumers were found to have switched bank in the last three years, falling to just three per cent in the last year.

Despite the introduction of the Current Account Switch Service (CASS) in September 2013, a service designed to make it easier for consumers to switch PCA providers, little, if any, rise in the level of switching has been seen. The Current Account Switching Index, introduced to measure the impact of CASS one year on from its launch, shows that there has been little change in switching levels since its introduction; switching rates remain in the region of three to four per cent (TNS, 2014). This is corroborated by monitoring records published by Bacs, the company responsible for administering CASS (Bacs, 2013-15) whose data (Figure 2.2) reveal that absolute levels of switching have not risen since the service's introduction and, if anything, may have even fallen slightly.

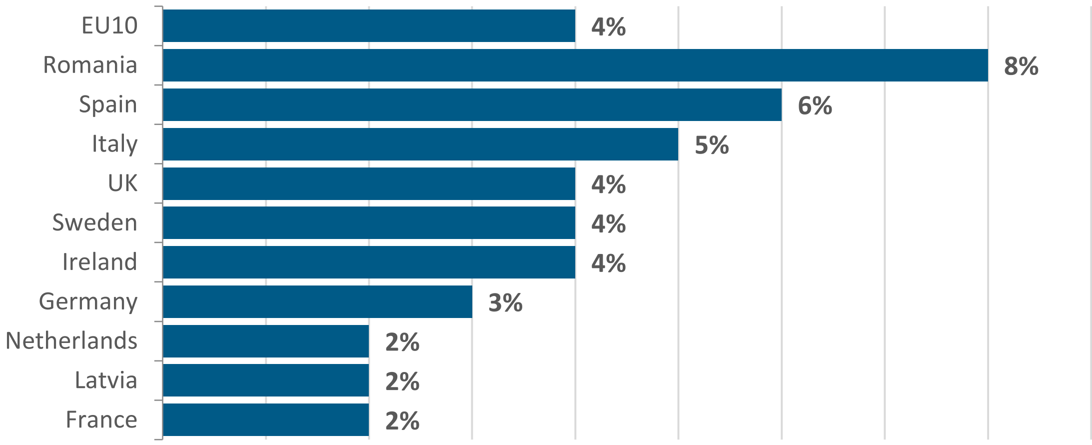
Figure 2.2 – Total monthly levels of switching: October 2013 - November 2015 (Data source: Bacs Payment Schemes Ltd., 2013-15)



2.2 How does the UK compare to other countries?

The UK is not alone in experiencing low levels of switching in the PCA market. A European-wide survey found that the UK switching rate over a two year period was in line with the overall rate for the ten countries sampled (see Figure 2.3). France, Latvia and the Netherlands were shown to have the lowest rates at two per cent, whilst Spain and Romania were highest at six and eight per cent respectively. Respondents to this survey were also asked whether or not they were considering switching in the near future: again, the UK was exactly average, with seven per cent saying that they were (Directorate-General for Health and Consumers, 2012).

Figure 2.3 – Proportion of customers who have switched bank within the last 2 years (Data source: Directorate-General for Health and Consumers, 2012)



A number of countries, including Sweden, the Netherlands and Australia, have taken steps to address low levels of switching but none seem to have found a way to significantly improve switching rates. As shown above, in 2012, just four per cent of Swedish consumers were found to have switched current account provider in the previous two years (Directorate-General for Health and Consumers, 2012), rising only to 12 per cent when asking about the previous five years (European Commission, 2012). Research from the Netherlands, where customers typically are charged monthly fees for their current account, also found low levels of switching: 73 per cent of adults surveyed had never voluntarily switched banks, while 24 per cent had done so just once (The Netherlands Authority for Consumers and Markets, 2014). Indeed, in 2012, just ten per cent of Dutch consumers were found to have switched provider in the previous five years (European Commission, 2012). Figures from Australia meanwhile estimate annual rates of switching at between eight to ten per cent (Australian Government, 2011).

2.3 How does the PCA market compare to other markets?

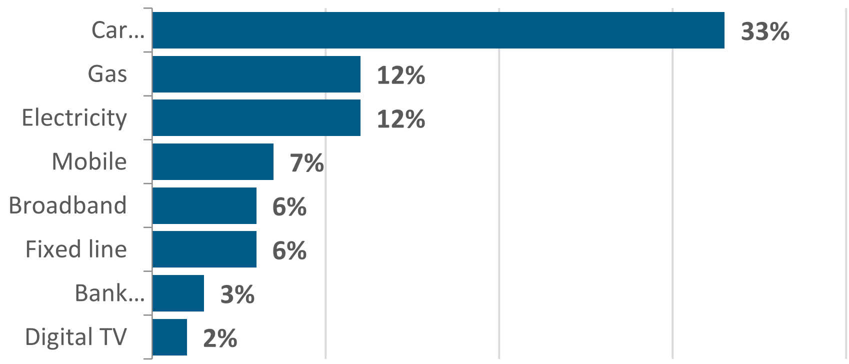
When compared with other similar markets in the UK in 2015, levels of switching within the PCA market tend to be at the lower end of the scale. One survey, for example, found that switching was considerably higher within the insurance, energy and communications industries compared to the financial services sector, as shown in Figure 2.4 (Tesco Bank, 2015). Whilst the survey suggests that the same proportion of consumers switched their mortgage provider in the previous year as switched their current account provider (six per cent), this rises to as much as 29 per cent when looking at car insurance. The gap is even wider when considering switching over the past three years: 60 per cent switched car insurance provider whereas just 16 per cent switched PCA. It should, however, be noted that insurance is sold as an annual policy that needs to be renewed and that this almost certainly helps to explain the higher switching rates for these products.

Figure 2.4 – Proportion of consumers that have switched product/service. (Source: Tesco Bank, 2015)

	Switched in last year	Switched in the last 1-3 years	Not switched
Car insurance (DK-26%)	29	31	39
Home insurance (DK-19%)	22	29	49
Travel Insurance (DK-57%)	22	22	56
Gas/Electricity (DK-9%)	17	22	61
Mobile (DK-7%)	13	20	67
TV/broadband (DK-9%)	11	17	72
Landline (DK-12%)	10	13	73
Credit card (DK-28%)	10	10	77
Current account (DK-3%)	6	10	84
Mortgage (DK-65%)	6	9	85

Ofcom's Switching Tracker also compares annual switching rates in the UK PCA market with a range of other markets, as shown in Figure 2.5 (Ofcom, 2015). As mentioned earlier, of the eight markets surveyed, just one (Digital TV) had a lower rate of switching in 2014, while car insurance is the market in which customers were found to be least loyal, followed by the energy market (CMA, 2015a; Tesco Bank, 2015).

Figure 2.5 – Proportion of customers in 2014 who had switched supplier in different markets in the past 12 months (Source: Ofcom, 2015)



Similarly, research conducted on behalf of the CMA, confirms that consumers are less likely to have switched provider in the PCA market than in other similar markets. Whilst the switching rate over the last three years was just eight per cent for the current account market, this rose to 31 per cent within the energy market and up to 45 per cent for car insurance (CMA, 2015a). Although these figures are lower, the ordering remains almost identical. Interestingly, the three financial products included in this survey – current accounts, mortgages and savings accounts/cash ISAs – all had the lowest three year switching rates, at eight, nine and 13 per cent respectively. This may indicate that there are deeper underlying barriers to switching in the financial services sector. Indeed, low levels of switching in the cash savings market was the focus of a review by the Financial Conduct Authority (FCA, 2015a) that concluded consumers were put off switching by the perceived hassle and low gains of doing so. However, a review of the credit card market by the FCA (FCA, 2015b) found that approximately 14 per cent of customers take out a new credit card each year and concluded that 'competition is working fairly well for consumers' in most segments of the market. This implies that, while certain financial products do have low levels of switching, the issue is not necessarily with financial products *per se*.

It should be noted that, whilst compared to certain markets (such as insurance) the PCA market has a very low level of switching, when compared with others the situation looks less abnormal. As the aforementioned surveys have shown, certain financial markets have equally low rates of switching and a number of telecommunication markets are only marginally higher. Indeed, of the markets commonly asked about, it is only the market for insurance products which seems to be vastly different. This may suggest that low volumes of switching are not an issue that is particular to the PCA market and that other, not sector-specific factors account for consumers' apparent loyalty to their current provider.

2.4 Characteristics of consumers who switch

Research commissioned by the CMA provides an indication of the typical characteristics of people who switched their current account provider in the last year (GfK, 2015). The profile of switchers and non-switchers was similar in terms of age and gender, but switchers tended to have higher incomes: 54 per cent of switchers had high incomes, compared to 41 per cent of non-switchers. Switchers were also less likely to be overdrawn than non-switchers: 79 per cent of switchers were not overdrawn, compared with 70 per cent of those who had not switched. Additional qualitative research to explore this found that some overdrawn consumers felt unable to change bank because they do not think they would be able to receive the same overdraft facilities with a different provider.

Those on lower incomes were also less likely to have even contemplated switching: 80 per cent of non-switchers on low incomes had never considered switching, compared with 74 per cent of non-switchers overall. Furthermore, over two-thirds (69 per cent) of low income consumers felt they lacked the knowledge necessary to choose the right provider for them (OFT, 2008).

Those who switch provider in other markets are slightly more likely to also switch current account provider. In one survey (GfK, 2015) 74 per cent of those who switched PCA provider in the past year had also switched in other markets in the last three years. There are two possible explanations for this: familiarity with switching processes in other markets may encourage consumers to switch their bank account as well, or other underlying factors may make some people more likely to switch in all markets.

2.5 Destinations of switching consumers

Examination of switching patterns since the introduction of CASS in 2013 suggests that the biggest banks have recently been losing ground to some of the slightly smaller banks and building societies on the high street (TNS, 2014). Banks such as Santander, Halifax and Nationwide accounted for the highest proportion of customers switching in, whilst Lloyds, NatWest and HSBC saw the biggest net losses. Gains for other 'challenger' banks though have been relatively few and far between; with the exception of Metro Bank, none of the other new entrants to the market gained even one per cent of the overall number of switchers.

CASS switching data (Bacs, 2015) similarly showed that the companies making the biggest net gains in the first quarter of 2015 were Santander and Halifax, followed by Clydesdale Bank and then Nationwide. The remaining banks and building societies for which data was available had all made net losses, with Barclays, NatWest and Lloyds Bank losing the most customers.

2.6 Summary

Despite the introduction of the Current Account Switching Service in 2013, switching rates have remained stubbornly low at between four and six per cent a year. The main beneficiaries are Santander, Halifax and Nationwide, with low gains by other challenger banks.

The UK is not alone in this respect and is close to the average for other European countries where comparable figures exist. This includes countries such as Sweden, Ireland and the Netherlands where regulators have also initiatives designed to stimulate switching.

Nor are low switching rates limited to banking. In general, switching rates are slightly higher within the utilities markets, but even these are only about double those for banking. Rates are highest for insurance policies that have to be renewed annually, ranging from 20 to 30 per cent for different types of policy.

3. Barriers to switching

This chapter explore the reasons why customers do or do not switch their current account provider. Firstly, it examines the reasons why the majority of customers have not even considered switching. It then looks at those who have considered switching and the factors that influenced their decision to switch or to stay with their existing provider. Lastly, this chapter looks at customer segmentation models that have analysed the motivations and characteristics of switchers, potential switchers and non-switchers.

3.1 Engagement with the current account market

There is a high level of consumer passivity in the personal current account market. Surveys of UK consumers show that the majority, between 75 and 89 per cent, have never considered switching their current account provider (Payments Council, 2014; GfK, 2015; Consumer Focus, 2010). This represents a key barrier to raising switching rates as a means of increasing competition in the current account market.

Research consistently shows that the main reason why PCA customers say they have not considered switching is because they were satisfied with their current provider. Other reasons for not having considered switching include: customer loyalty; the perception that switching would be too much 'hassle', too complicated or time consuming; concerns that something could go wrong; lack of knowledge over whether there would be financial gains and how much these could be; and the perception that all banks are the same and so there is nothing to be gained from switching (OFT, 2013; Optimisa 2015; GfK, 2015; Consumer Focus, 2010; TNS, 2012). High levels of satisfaction, combined with perceptions that switching is too much 'hassle' with relatively little to gain from it, means that most PCA customers have no incentive to think about switching their account.

Some of the studies reviewed described this lack of consideration of switching and looking for possible alternatives as customer **inertia** and had explored this in more detail. Qualitative research (Optimisa, 2015) found that customers who had not considered switching had long-term relationships with their existing provider, felt content with the service they received and were used to the way they managed their accounts through their bank's services. Satisfaction with their current provider was not necessarily in any active sense, but rather an absence of any cause for dissatisfaction. The research concluded that a strong trigger was required to overcome this inertia and the perceived effort of switching against the relatively minor perceived gains. Another qualitative study (Davies et al., 2016) found that most customers wanted their existing provider to deliver a good service and did not want to have to switch providers to get this.

Instead they felt that addressing poor service was a more important issue than the encouragement of switching.

Similarly a study that compared switchers with non-switchers in New Zealand (Clemes et al., 2007), using logistic regression, identified ‘customer commitment’ to maintaining a relationship as having the strongest influence on people’s decisions on whether to switch provider, over and above the quality of the banking service they received and their satisfaction with it. Customer commitment, similar to customer loyalty, relates to the desire (or not) to maintain a valued relationship.

A study on customer switching in other markets (Bansal, et al. 2005) introduces the concept of ‘mooring’ factors (taken from population migration modelling) to help understand switching behaviour. Mooring factors are personal, social and cultural factors that hold people to their place of origin and include: unfavourable personal attitudes to switching, unfavourable subjective norms (cultural norms), high switching costs (financial, time and effort), infrequent past switching and low variety-seeking tendencies. The analysis found that mooring effects were the strongest drivers of switching intentions. So when mooring effects were weak customers were more likely to switch, but when mooring effects were strong customers stayed with their current service provider, even when they received low levels of service quality or were dissatisfied with the service they received. Even though this study was based on switching behaviour in other consumer markets (hairdressing and car repairs) the findings resonate with what has been found in the banking sector and also relate to wider behavioural change issues that are discussed in chapter 4.

3.2. Triggers for engagement

Thus, around just one in five PCA customers have considered switching their current account provider. CMA analysis (2015a) found that 17 per cent of customers had looked for a new PCA in the last 12 months. The research evidence identifies a number of reasons for why people consider switching, some of whom do actually switch their PCA provider (Consumer Focus, 2010; CMA, 2015a; Davies et al., 2016; Optimisa, 2015; TNS, 2012). These comprise both push and pull factors.

Push factors are negative factors that push people to leave or consider leaving their current provider, research shows that they include:

- poor service and service failures such errors in delivering banking services and dissatisfaction with the way problems are handled;
- dissatisfaction with the price or perceived value of banking services such as penalty fees and interest rates;
- enforced switches such as because of the closure of a local branch; and
- changes in personal circumstances such as moving home or getting a new job and choosing a more conveniently located bank.

Pull factors are positive factors from other providers that encourage people toward them. These are more financially related than service driven and include switching bonuses, more attractive fees and interest rates and the incentive to save money and get a better deal.

The evidence varies as to whether push or pull factors are the main determinant of switching behaviour. Studies also vary as to whether the samples on which the analysis is based are only those who have considered switching, only those who have actually switched, or both. It is possible that those who consider switching, but do not follow it through are motivated by different factors to those who actually switch. However, it appears from the evidence, as discussed below, that push factors are more pertinent in the decision to engage in the market and consider a switch, whereas pull factors play more of a role among those who actually switch.

A quantitative study of the factors that influenced switching intentions in Canada (Levesque and McDougall, 1996) found that the primary drivers of intentions to switch bank were core service delivery - such as providing an accurate, error-free service and keeping customers informed, and whether customers had experienced a problem and complained in the last six months. This is supported by qualitative research where those who were considering switching their account were more influenced by push factors as a result of dissatisfaction caused by failure to meet banking needs, than by pull factors (Optimisa, 2015)

Evidence from the other markets also shows that motivations for engaging with the market with a view to switching are led by push factors. A study of switching in the Dutch energy market found, using logistic regression, that relationship quality (covering perceptions of the quality of both the product and service of their existing provider) had the greatest impact on switching intentions, more so than the attractiveness of other providers (Wieringa and Verhoef, 2007). Qualitative research for Ofcom on switching in the communications sector also found that the key motivations were reactive, and largely centred on push factors such as service failures, substantial price increases, poor customer service, worsening service delivery, but did also include as a response to better offers from other providers (a pull factor) (Futuresight, 2015).

The evidence suggests that pull factors play a more significant role when looking at the behaviour of those who go on to switch. A survey of UK switchers (Consumer Focus, 2010) showed that the main reason for switching was the pull factor of getting a better deal (58 per cent), followed by push factors of low service (47 per cent) and dissatisfaction with price or value (36 per cent). Similarly, a European study of bank switching behaviour (TNS, 2012) found that among switchers the main motivation was to obtain a better product or service: amongst switchers 40 per cent did so because another provider offered better fees or interest rates, and 32 per cent did so because the new provider offered a better service, as compared to 18 per cent who were dissatisfied with their current provider, or had experienced a problem (11 per cent). It also found that current switchers had significantly higher sensitivity to fees and interest rates, compared to less recent switchers, indicating that price becomes a less important feature once customers have switched provider and established a new relationship.

3.3. Switching barriers / costs

A key issue is that even when people engage in the current account market few of them actually switch. CMA analysis (2015a) found that of the 17 per cent of customers who had looked for a new PCA in the last 12 months, only 14 per cent of those who had looked actually switched. Below we consider why intentions to switch do not materialise. Understanding these barriers is of key importance to identifying how switching rates might be increased.

Research on UK consumers who have thought about switching, but not gone ahead with it highlight two main reasons: the perception that it is too much hassle, and fears that it could go wrong and so is not worth the risk. In one consumer survey (conducted before the introduction of CASS) 62 per cent of people who had considered switching thought it was too much hassle. Fears about mistakes being made in the switching process were also common, reported by a third of respondents, but fears about mistakes being made in transferring Direct Debits was more widespread with 48 per cent of non-switchers concerned about this. Fears were also reported in relation to the effect switching would have on their credit rating (Consumer Focus, 2010). In a more recent survey (after the introduction of CASS) although mentioned by only a quarter of people, the perception that it was too much hassle was still the most commonly cited reason for not switching (GfK, 2015).

Other reasons reported for not switching include: being happy with their current provider and account product, being unable to find a better deal, the perception that all banks are the same, having higher levels of trust in their current provider compared to alternative providers, and the perceived benefits of being a long-term customer and having a track record such as access to better deals and easier access to new products (GfK, 2015).

Factors that discourage customers from switching their PCA provider are known as 'switching costs'. Switching costs include: financial costs or monetary loss, procedural costs such as the time and effort involved, and relational switching costs that can result in psychological and emotional discomfort (Matthews et al., 2008). It also relates to the perception of risk (Colgate, et al., 2007).

To understand these factors in more depth and the role they play we draw on evidence from three New Zealand studies that have examined which switching costs have the most impact on people's decisions to switch or stay with their current provider. Analysis by Matthews et al. (2008) confirmed a positive relationship between people's desire to change bank and their likelihood of switching, but that this relationship was less positively correlated when switching costs were perceived to be high. The switching costs that had the greatest impact on deterring customers from switching banks were:

- the loss of benefits such as reward schemes, discounts and other privileges;
- the loss of the personal relationship customers had with bank staff; and
- financial costs incurred in moving from one bank to another such as fees.

Other switching costs that deterred people from switching, but to a lesser extent included: the effort spent searching for an alternative provider and assessing their suitability; and the hassle and inconvenience of actually switching from one bank to another.

In Colgate et al's. (2007) analysis of the New Zealand service industry as whole (that included banking), survey respondents were asked to think about their most recent switching dilemma and the reasons why they stayed. The most important reasons that influenced people to stay with their existing provider (in order of importance) were:

- confidence – this included trust, satisfaction, familiarity and not having experienced a critical incident;
- social bonds – this covered positive aspects of the relationship that people had with their provider such as staff being friendly and understanding; and
- the time and effort involved in looking for and switching to a new provider.

Other factors also influenced people's reasons to stay, but to a lesser extent, including: the view that alternative options would not be better than their existing provider, loyalty, financial switching costs, concern over switching problems and whether their current provider convinced them to stay.

As mentioned earlier, Clemes et al's (2007) comparison of switchers and non-switchers in New Zealand identified 'customer commitment' (or loyalty) as having the strongest influence on people's decisions on whether to switch provider.

Overall, these three New Zealand studies suggest that the procedural costs of switching i.e. the time and effort involved in searching for a new provider, assessing their suitability and then actually switching, are less important than relational switching costs, such as the direct relationship customers have with bank staff, as well as more general feelings of familiarity and trust.

Research in other UK markets sheds light on the factors influencing switching behaviour more generally. Qualitative research on barriers to switching in the UK communications sector (covering landline, broadband, mobile phones and pay TV services), among people who were actively looking to switch found a large drop-out rate during the searching and switching process (Futuresight, 2015). Some people dropped out and decided to stay with their current provider because they could not find a better alternative that met their needs, but most people who dropped out did so because they accepted a better offer from their existing provider.

Their main motivation for searching was to enable them to negotiate a better deal with their current provider and avoid the risk and hassle of switching to a new provider. Under these circumstances new providers could not offer them a sufficiently better deal to compensate them for the hassle and risk of switching. Whilst the communications sector is not directly comparable to the banking sector, these findings highlight the issue of inertia or status quo bias (discussed further in Chapter 4) and people's underlying resistance to switching provider and preference for staying put.

Furthermore, the experience of customers in the UK energy market finds that a quarter of those who switched (26 per cent) would not do so again (Consumer Focus, 2013). Positive reasons for this were because they were happy with their new supplier. Negative reasons included finding the switching process too difficult or off-putting, finding that their new supplier was more expensive than their old supplier, or that they their customer service was worse.

3.4. Propensity to switch – who switches?

As discussed in Chapter 2 consumers who switch typically have higher incomes and are less likely to be overdrawn than those who have not recently switched their current account provider. Those who switch in other markets are also more likely to switch current account provider. Research also suggests that switchers are more price sensitive than non-switchers (Consumer Focus, 2010) and similarly that more recent switchers are more price sensitive than those who switched some time ago (TNS, 2012). Looking beyond the socio-demographic characteristics of switchers to their attitudes and motivations, the review identified two studies that had explored this and conducted segmentation analysis of customers, comparing switchers with non-switchers.

A European-wide study of bank switching behaviour (TNS, 2012) used a segmentation model based on four key switching behaviour influences: overall satisfaction; intentions to stay with the existing provider; likelihood of recommending their existing provider; and comparison of the existing provider against other providers. The analysis identified four customer groups:

- Apostles: had high levels of commitment and satisfaction with their current account provider. They represented the largest proportion of non-switchers and were not influenced by the removal of switching barriers.
- Hostages: had higher levels of dissatisfaction, but could not find suitable alternatives e.g. a local branch, good advisors, better fee. They were also more risk-averse.
- Shoppers: had higher variety-seeking tendencies, higher risk tolerance and were driven by short-term price considerations. The segment included the second largest proportion of intending switchers.
- Rebels: were dissatisfied with their existing provider and included the highest proportion of intending switchers. However, they also faced higher levels of switching barriers, were less informed and confident in financial

matters and were more risk averse. This group would be more likely to switch if barriers were removed.

Analysis in the Netherlands of the switching intentions of Dutch energy customers (Wieringa and Verhoef, 2007) segmented customers using Latent Class Analysis based on four factors: overall perceptions of the quality and price of their suppliers products and services, their level of trust in them and extent to which they would recommend them – termed 'relationship quality'; the perceived attractiveness of other energy suppliers; perceived switching costs (or risk) and the extent to which problems were expected; and energy usage. This analysis identified four customer groups.

- Relationship-inertia customers: were fairly loyal and their switching intentions were only affected by relationship quality. They were the largest segment representing 71 per cent of customers and may be considered as a group who stay with their current provider without considering other alternatives.
- Relationship-oriented customers (representing 14 per cent of customers): were also loyal, but their switching intentions were significantly influenced by switching costs and usage whereby higher usage resulted in lower intentions.
- Alternative seekers (representing nine per cent of customers): were also fairly loyal. Their switching intentions were sensitive to both switching costs and the attractiveness of other providers, so they could be interested in looking for a better deal.
- Disloyals: comprised customers who were most likely to switch (a switching rate of 77 per cent), but their switching intentions were not correlated with any of the four factors, suggesting that they like to switch independently of these factors. In other words they are the variety-seekers discussed earlier. They were the smallest group representing just six per cent of customers.

These segmentation analyses support earlier findings in this chapter, and show that the majority of banking customers are loyal and satisfied (or perhaps more accurately not dissatisfied) with their existing provider and are not influenced by switching costs. However, there are customers who are interested in switching, either because they are dissatisfied with their existing provider or because they are looking for a better deal, but who are put off from doing so because they are risk-averse or because of switching costs. There is also a small customer group who have a high likelihood of switching. These may be people who are less risk averse and have higher variety-seeking tendencies. Qualitative research on switching behaviour in the communications market (Futuresight, 2015) also identified a small number of people who were proactive switchers and considered switching as a matter of routine.

3.5. Summary

Research into the barriers to switching has consistently identified a high level of passivity among current account holders, the great majority of whom have never considered switching. The main reason for this appears to be contentment with their current arrangements and the lack of any good reason to make switching necessary, which results in inertia or preference for the status quo. The longer a customer has been with their bank the stronger their 'mooring' to it. And when such 'mooring' is strong, customers do not switch even when they are not satisfied with the service they receive. Indeed, customers believe that they should not have to switch to get good service and instead the failure of banks to provide a good service should be addressed directly.

The main triggers for people considering switching are either high levels of dissatisfaction (often linked to an error or penalty charge) or a change in circumstance that disrupts their existing banking arrangement (e.g. moving home, or a branch closure). The attractiveness of offers from other banks does not seem to encourage people to consider switching. Even then, many of those who have who considered switching do not actually switch to another provider. The key barriers are switching costs (and perceived costs) including the loss of a valued relationship, hassle of the process and the fear of things going wrong.

Those who do switch are 'variety-seeking' people who are more price-sensitive than other customers and are more likely to have switched in other markets too. Pull factors (principally better offers from other banks) have the greatest impact on this group of people, but this may be more important in determining which bank they switch to than in influencing their decision to switch in the first place. They tend to be people with higher incomes who are unlikely to be in overdraft.

4. Procedural switching barriers

This chapter looks specifically at procedural switching barriers, firstly the ease with which consumers can find and compare information about alternative products and providers in the PCA market, and secondly the account switching process itself. These issues have been the main focus of initiatives to increase switching rates such as the Current Account Switch Service (CASS) and are also central to the CMA's retail banking market investigation. The CMA’s framework for understanding barriers to consumer switching focuses on: access to information; the ability to assess and compare information across providers; and the ability to act on this information and switch providers (CMA, 2015a).

4.1 Access to information

Information is crucial for the efficient operation of any market. Indeed, in economics ‘information failure’, where consumers lack the information necessary to make informed economic decisions, is seen as an indicator of market failure. In the case of the PCA market, this may mean consumers pay too much for their banking services or end up with a product that isn’t right for them. It is important therefore that consumers are able to access sufficient information about the wide range of products on the market. This enables them to find the current account which suits them best, both in terms of their finances and in terms of other non-price characteristics, such as the quality of customer service, the availability of mobile or online banking facilities and whether or not there are convenient, local branches.

In 2015, the majority of potential switchers in the UK appeared to find it relatively easy to access the information they needed to make an informed decision: nearly three quarters (74 per cent) of those who had looked around to compare different current accounts in the last three years said that they found it either quite or very easy to find out about the different features and charges on a current account (GfK, 2015).

Research carried out before the introduction of the Current Account Switching Service (CASS) (see below) showed that some information, however, was difficult for consumers to access: 1,350 mystery shopping assessments across the EU revealed that many EU consumers were not given or could not find enough information about the actual process of switching: 80 per cent of mystery shoppers received no literature about the switching process, while 44 per cent were not given guidance by bank staff, and 32 per cent were unable to find information about switching on the bank’s website (GfK, 2012). When examining just the UK though these figures are slightly improved: 50 per cent received no literature, 26 per cent were not given guidance by bank staff and just three per cent could not find switching information online.

Switchers in 2008 used a variety of sources of information to compare different alternatives in the PCA market (OFT, 2008): staff at bank branches were the most common port of call for consumers, followed closely by recommendations from family and friends. Bank websites, colleagues and promotional material from banks were also all relatively important sources of information, whilst online price comparison websites were the least common source asked about (although it is important to note that these findings are based on evidence from 2008 – discussed further below). The relatively limited use of price comparison websites in the PCA market is something that has been commented upon previously by the OFT (OFT, 2009) and is an issue that a new online tool called MiData is hoped to address (see below).

The internet has become an ever-more pervasive part of UK society: whilst 49 per cent of adults used the internet every day or almost every day in 2008, by 2015 this had risen to 78 per cent (ONS, 2015). Greater numbers of consumers are searching for and researching goods and services online: the proportion of adults that reported having used the internet to find information about goods and services during the previous three months rose from 58 per cent in 2007 to 69 per cent in 2015. The proportion who had used internet banking also went up from 30 per cent to 56 per cent in the same time period (ibid). Evidence suggests though that there is a risk that those without internet, or without the necessary online skills, could find it increasingly difficult to access the information they need to reach an informed decision, especially as current account providers focus more attention on online banking over local branches.

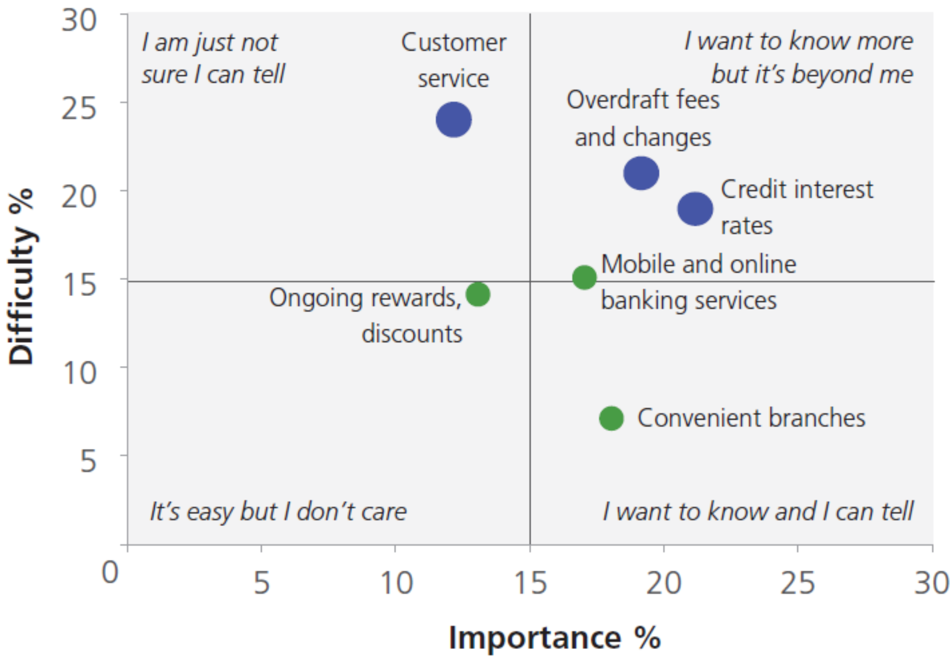
Indeed, a recent survey for the CMA found that those who indicated having confidence in the use of the internet were 13 percentage points more likely to search for a new account than those who were less confident (CMA, 2015c). Interestingly though, the survey also revealed that, despite their increased propensity to search, internet users were not really any more likely to actually switch their current account. This may mean that consumers concluded, after having searched, that they are already with the best provider, or it could also indicate that despite being able to access information about different PCAs, consumers find it difficult to actually make sense of and use this information. This is a subject we now turn to below.

4.2 Comparability of information

There are concerns that even if information about different current accounts is available to potential switchers, this information does not necessarily allow for easy comparison of the various products on the market. Survey findings in 2015 show that between 18 and 23 per cent of consumers found it either difficult or very difficult to compare the costs and benefits of current accounts (Tesco Bank, 2015; GfK, 2015). This suggests that difficulty comparing PCAs may not be an issue for the majority of potential switchers but that it may be a factor preventing some consumers from switching.

Research in 2015 also shows that consumers find specific elements of the PCA market more difficult to compare than others (Tesco Bank, 2015). When asked to rank different factors in order of difficulty of comparison, consumers were more likely to rank customer service, overdraft fees and charges, and credit interest rates as the most difficult factor to compare between providers (see Figure 4.1). Ongoing rewards, discounts, mobile and online banking services, and convenient branches meanwhile were ranked as being less difficult. Worryingly though, two of the most difficult elements to compare, overdraft fees and charges and credit interest rates, were also ranked as the two most important things to know when comparing current accounts.

Figure 4.1 – Level of difficulty of comparison vs. level of importance when comparing current accounts (% of respondents who ranked each characteristic at top of list) (Source: Tesco Bank, 2015)



Comparing the cost of current accounts

As recognised by the CMA, the 'multitude of charges including monthly fees, daily fees, interest and item charges… makes it very difficult for consumers to compare the cost of PCAs across providers' (CMA, 2014, p14). These charges, along with interest forgone, can be a challenge to understand, especially for those with lower financial literacy. The matter is further complicated by the fact that the cost of a current account is largely dictated by a consumer's future behaviour; if they over-estimate their ability to stay out of their overdraft, for example, then they may considerably under-estimate the charges they are likely to face in future (Consumer Focus, 2010; Which?, 2014). It is perhaps not surprising then that over half (55 per cent) of current account holders admitted that they don't know how to determine whether their account is better value than others or not, a figure which rises to 62 per cent among those who have not switched in the last year (Tesco Bank, 2015).

Pre-CASS research shows that nearly half (45 per cent) of consumers said they are unsure how much they could save by switching (Directorate-General for Health and Consumers, 2012). This suggests that it is indeed difficult for some consumers to compare accounts and make an informed decision.

The free-if-in-credit (FIIC) current account model contributes to the difficulty of comparing account products. Qualitative research suggests that most consumers perceive their personal banking services as being free (GfK, 2015) and found that many consumers believed that they 'pay for' their banking services simply by giving the banks their money and allowing them to then use it to make more money. Many respondents said they would switch if their bank were to introduce a fee, unless additional benefits were provided.

The FIIC model may also add to a perception held by some consumers that all banks are the same. Only 14 per cent of consumers perceived there to be large differences between the various PCAs on the market and 42 per cent say they would save nothing by switching (Directorate-General for Health and Consumers, 2012; Tesco Bank, 2015). Consumers commonly believe that all banks are the same and, because of negative media coverage, often do not fully trust them (Tesco Bank, 2015). It has been argued that such perceptions have worked to the advantage of current account providers that manage to promote a slightly alternative image; Halifax and Nationwide, both of which have origins in mutuality and appear to be more on the side of consumers, are two of the current account providers to have gained the most switchers in recent years (TNS, 2014). This suggests that it is important for banks to be able to 'stand out from the crowd' in terms of image, given that the FIIC model does not really allow them to stand out in terms of price.

It should be noted, however, that while the UK is almost alone in offering FIIC banking, switching rates are no higher in countries where this is not the case, as discussed in Chapter 2. This suggests that, if the FIIC model has any effect on switching rates, its impact is likely to be only marginal.

4.3 The MiData online tool

The MiData online tool, launched early in 2015, allows consumers to download anonymised details about their own banking behaviour from their current account provider. They can then use this data to search online PCWs for the best deal based on how they have previously used their current account. It is hoped that this tool will make it easier for consumers to use the internet to compare accounts and therefore that it could help to improve competition within the market. An initial review by Which? suggested that, despite a few glitches, the tool could help customers save money (Which?, 2015), but further analysis has yet to be conducted so it is still too early to fully determine its long-term impact.

4.4 The account switching process and introduction of the Current Account Switch Service (CASS)

The Current Account Switch Service (CASS) was introduced in September 2013 in an effort to encourage PCA switching by making it easier than ever before to change from one provider to another. The service, which is underpinned by the Current Account Switch Guarantee, promises consumers that:

- the switch will be completed within seven working days (in contrast to 18 to 30 working days prior to the launch of CASS);
- the switch will go through on a date of their choosing;
- all funds and regular payments will be transferred to the new account by the new current account provider;
- any payments to or from the old account will be redirected to the new account for a period of 13 months; and
- if anything goes wrong, any charges incurred or interest lost as a result of any errors will be refunded.

The introduction of the service was the result of recognition by the Government and Payments Council that one of the possible barriers for potential switchers was anxiety about the switching process.

Indeed, research conducted prior to the introduction of CASS showed that three in five of those who had thought about switching felt the process would be too much hassle (Consumer Focus, 2010) and among those who had considered switching, but failed to do so, the most common reason for not switching was concern that the process would be too complicated (OFT, 2013). Such consumer concerns were often predicated on the notion that any regular payments going into or out of their accounts would go awry in switching, or would take a considerable amount of time to rearrange. Qualitative research showed that consumers commonly thought that the switching process was too risky and uncertain, were worried that their payments (both incoming and outgoing) could be misplaced, resulting in late payment charges or missed receipt of a payment (Optimisa, 2011). This fear was exacerbated by a lack of trust in banks' ability to avoid errors when managing the process of switching. The introduction of CASS was therefore hoped to allay such concerns by making it considerably easier to switch.

4.5 The impact of CASS

Data on switching rates, as discussed in Chapter 2, show that switching rates have not increased following the introduction of CASS. However, it should be noted, as the Payments Council points out, that 'switching levels are not in themselves the truest indicator of whether the new service has been a success or not.' (2014, p6).

Since the introduction of CASS switching times have fallen fairly substantially: Bacs monitoring data shows that in the three months to September 2015 more than 99 per cent of switches were completed within the seven working day timescale (Bacs, 2015). This represents an improvement on the previous average of 18 to 30 working days (Optimisa, 2011). CASS has also been associated with a rise in levels of customer satisfaction: while 54 per cent were very satisfied with the switching process prior to the introduction of CASS, a year afterwards this had risen to 63 per cent (TNS, 2014).

As shown in Table 4.1, of those who switched their current account in 2014, after the introduction of CASS, nearly 9 in 10 agreed that the process was quick, required little effort on their part, was under their control and was error-free. When compared with previous years, these figures represent an improvement, though switchers were still no more likely to say they would switch again in future (Payments Council, 2014). As discussed in the previous chapter (see 3.3) this suggests reasons other than the ease of the switching process influence decisions on whether to switch or not.

Table 4.1 – Perceptions of the switching process amongst consumers who have switched in the past 12 months (Data source: Payments Council, 2014)

Perceptions of switching (consumers who have switched)	2012	2013	2014
It was quick to switch banks	88%	85%	88%
There was very little work or effort involved on my part	74%	76%	88%
I felt in control of the process	82%	80%	88%
The process was error-free	86%	81%	89%
I would be happy to switch bank accounts in future if I felt it would be beneficial to me	81%	82%	81%

4.6 Perceptions of the switching process

Within the literature there is acknowledgement of a gap between the largely positive experiences of recent switchers and the negative perceptions that many non-switchers hold about aspects of the switching process. The biggest concern for those considering switching is that something will go wrong at some point in the process of switching. Surveys show that while consumers are relatively confident that the process will be quick and require fairly minimal effort, they are not so confident that they will be able to switch without any errors (Bacs, 2015; YouGov, 2015). Indeed, when asked what changes (in relation to the switching process) would make them most likely to consider switching their main current account, the most commonly selected answer was 'a guarantee that nothing will go wrong when switching' (49 per cent), closely followed by 'all payments, direct debits and standing orders being automatically transferred to the new account' (47 per cent) (YouGov, 2015). These considerations were both more important to consumers than: being able to keep the same account details (33 per cent); having payments redirected for an unlimited period of time (29 per cent); switching within five days (25 per cent); and having the ability to choose the date of the switch (24 per cent). This suggests that consumers' aversion to risk is an important factor behind the low levels of current account switching.

A possible reason behind such negative perceptions could be that consumers are not fully aware of, or do not fully understand, how CASS has improved the process of switching. Various research has attempted to evaluate the awareness of CASS within the general population with varying results: surveys from Bacs (2015), TNS (2014) and YouGov (2015) found that awareness stands at 73, 59 and 41 per cent respectively. Such variation may be the result of differences in question wording, so it is difficult to know the 'true' value for the wider population. Perhaps what is more important, though, is whether or not consumers understand what CASS offers. It seems, however, that most are not entirely sure what it is or does: among those four in ten people in the YouGov survey who reported having previously heard of CASS, just 17 per cent said they *'fully understood'* the process, while 51 per cent had *'some understanding'* and 32 per cent had *'no understanding'* (YouGov, 2015). Similar results were obtained when consumers were asked how well they understood a range of other aspects of CASS, including: which banks and financial institutions were covered by the guarantee; the nature of the guarantee CASS offered; how the redirection service worked; and who was eligible for CASS. If consumers are not fully aware or do not understand CASS then it is likely that they will still perceive significant costs involved in the switching process. This may, in part at least, explain why switching rates don't appear to have risen since the service's introduction.

4.7 Account number portability

There are a number of ways in which the current process of switching could be improved for consumers: for example, the time it takes to switch could be shortened, payments could be redirected for longer (if not indefinitely), and customers could be able to keep the same account details as they move from provider to provider. The last of these - known as Account Number Portability (ANP) - is the most radical change and the one to have been discussed with most enthusiasm within the literature. ANP enables customers to retain the same account details as they move from bank to bank, which means they no longer need worry about payments getting lost in the switching process, thus removing one of consumers' biggest concerns about the switching process. The mechanism is most comparable to the mobile phone market, where consumers are able to keep their old phone number as they change phones or network. However, it is a relatively high-cost solution that, while reducing the barriers to switching, may or may not be effective in encouraging more consumers to change their current account provider.

No country has yet employed full ANP, although Sweden operates a similar system for business customers, whereby payments can be made to a customer's unique number (called a 'bankgiro' number) rather than their account number. This number is easily portable, with customers only being required to remove the number from their old account and link it to their new account in order to keep payments flowing smoothly when they switch account.

The development of an ANP in other countries, however, has stalled somewhat due to concerns about the cost of making significant changes to the existing infrastructure. The Australian Government, for example, suggested that the implementation of ANP *"would be akin to taking a gold sledge hammer to crack what is really quite a small nut in the broader scheme of competition and account switching in banking services in Australia"* (2011: p.9).

It is unclear as to whether the introduction of ANP in the UK would really make a significant difference in terms of the volume of consumers switching: surveys have shown that between a quarter and a third of consumers would be more likely to switch if they could retain their account details, but the majority (55-64 per cent) believe it would make no difference (BBA, 2014; YouGov, 2015). Similarly, qualitative research commissioned by the Payments Council found that consumers viewed ANP as "nice-to-have" but not an essential part of the switching service (Optimisa, 2013). Participants felt that ultimately ANP delivers the same outcome as CASS, so was not hugely advantageous.

4.8 Summary

Some of those considering switching current account provider may abandon the process because of procedural barriers to switching. While potential switchers generally find it easy to access the information they need to make an informed decision, a minority may find it difficult to compare the various current accounts on offer. Indeed, the areas where this is most difficult are the ones that consumers rate as most important to know: overdraft fees and charges; credit interest rates and customer service levels. The MiData online tool may help to address such issues, though it is still too early to know for sure.

It has also been suggested that the Free-if-in-credit model of UK current accounts impedes transparency and, in doing so, inhibits switching. Certainly it helps to create an impression that 'all banks are the same' among people who have never considered switching. However, the fact that switching rates are no higher in countries where bank charges are more transparent suggests that it is not, in practice, an important barrier.

Widespread concern that the process of switching was too complicated and time-consuming led to the introduction of the Current Account Switching Service (CASS) in 2013. This aimed to simplify and speed up the process of switching and, in doing so, address the real (and perceived) barrier that the process poses to switching. It seems to have achieved the first of these aims: those who have switched bank accounts since the introduction of CASS report that the process was quick, straightforward, error free and under their control. Nevertheless, even after they have switched their bank account once, most consumers are no more likely than pre-CASS to say they would switch again in the future.

Overall switching rates have not improved since the introduction of CASS, which may be the result of non-switchers' continued perception that switching will not be easy or error-free. This perception may in part be due to a lack of awareness of CASS: only half of consumers seem to be aware of its existence and most of those who were did not have any real understanding of it. Tackling this could encourage more of the people who consider switching to actually do so, but whether this would encourage more people to consider switching in the first place is another question.

Account Number Portability has been mooted as a further step in removing procedural barriers to account switching, both in the UK and overseas. But no country has yet gone down this route primarily because of the cost and uncertain gains in terms of switching.

5. Bringing Behaviour Change Insights to Current Account Switching

In this chapter we switch the focus from research that is directly related to switching behaviour to more general research that explores the psychological processes and behavioural biases which might explain low rates of personal current account switching and which, if overcome, might help enhance consumer engagement and empowerment in the PCA market.

5.1 Understanding behaviour and behaviour change

An important distinction has been made between routine behaviour (such as brushing one's teeth) and one-off or planned behaviour (such as switching a bank account to a different provider) (Fishbein and Ajzen, 2010; Prager, 2012). This is important because these seem to relate to two distinct and relatively independent mechanisms of thought: the first is fast, automatic and non-conscious and the second is slow, deliberative and conscious (Evans and Frankish, 2009). Behaviour and the decisions that underpin infrequent planned behaviour, such as current account switching, involves the second of these and is a complex multi-stage process, often occurring in the face of uncertainty and cognitive overload (Galotti, 2004).

There is also a great deal of evidence that human behaviour is very resistant to change. We are creatures of habit who seek maximum gain for minimum effort and focus disproportionately on the short-term. We are difficult to influence through information, and do not respond well to being told what to do (Prager, 2012). This helps to explain why initiatives that rely on the provision of information to change behaviour meet with limited success.

There are a number of behavioural change models that can help to shed some light on the barriers to PCA switching. Some of the most relevant are discussed below.

Stages of change

1. Pre-contemplation
2. Contemplation
3. Preparation
4. Action
5. Maintenance
6. Termination

5.2 Stages of Change model

A Stages of Change model has been proposed which identifies six different stages individuals go through in deciding on and implementing the process of change[1] CommGAP, 2010). Internal and external factors influence progress through the stages and may cause the process of change to be interrupted, stalled, reversed or abandoned altogether (Morris et al., 2012).

Applying this model to PCA switching, individuals would move from a stage of *pre-contemplation* when they have no intention to switch in the near future, to the *contemplation* stage when the pros and cons of switching are considered. This is followed by a *preparation* stage in which people develop a plan to switch their account, followed by the *action stage*, when they actually switch to a new account. The fifth and six stages of this model, *maintenance* and *termination*, have less relevance to our focus on the issue of PCA switching.

The particular value of the Stages of Change model is in helping to target interventions at the right stage of the switching process for greatest effect (CommGAP, 2010). For example, people with no intention to switch accounts (pre-contemplation) will require different mechanisms of influence (e.g. awareness raising or 'nudge') than those already weighing up the pros and cons of switching e.g. communication of the benefits) or making plans to do so (e.g. removal of switching barriers). This model resonates strongly with the CMA's framework of engagement: access, assess and act (CMA, 2015a) which correspond to 'contemplation', 'preparation' and 'action' and also to the issues discussed earlier in this report on consumers' lack of engagement in the PCA market i.e. 'pre-contemplation'.

5.3 Rational Choice Theory

The most traditional of behaviour change theories – Rational Choice - originates in neoclassical economics. It focuses on the availability and adequacy of information and consumers' use of this information. Rational Choice Theory (also known as Expected Utility Theory) has dominated economic analysis for a great many decades, not least because it has been shown to be a useful predictor of a wide range of behaviours (Darnton, 2008). According to rational choice theory people behave in such a way as to maximise their expected benefits (or 'utility') (Levin and Milgrom, 2004). Individuals are assumed to have full and accurate knowledge of the costs, benefits and likelihood of outcomes and consider all relevant goals, principles, and information in relation to these (Prager, 2012). Indeed, the provision of information to consumers is the bedrock of a great deal of financial services regulation.

Unfortunately, in the real world individuals do not behave in this rational way (Darnton, 2008). In other words, information – and even knowledge – is not

[1] The Stages of Change model was developed in the late 1970s-early 1980s by psychologists James Prochaska and Carlo DiClemente to describe the process of behaviour change for addictive behaviours

enough to bring about change. As such, rational choice theory is criticised for failing to account adequately for apparently 'suboptimal' decisions and for disregarding situational or context-dependent factors (Levin and Milgrom, 2004). This is discussed further in relation to behavioural economics (see 5.6).

In fact, too much information – and choice – is now widely understood to be overwhelming. The more information there is, the more complex or confusing a decision is to make and the more likely someone is to defer it (Dolan et al., 2010). In behavioural economics this is known as **cognitive overload** or **choice overload bias**. Cognitive overload may partly explain why many consumers will accept without question what an advisor recommends (Altman, 2012) and the popularity of comparison websites which, when done effectively, systematically reduce (or prioritise) choice (BIS/Cabinet Office, 2011; Service, et al., 2014). In relation to current account switching it suggests that giving consumers access to detailed information about all the accounts available will be counterproductive. Instead they need guidance that identifies only a small number of accounts that best meet their needs.

5.4 The importance of self-efficacy

Cognitive psychology, which focuses on how people *process* information and learn new behaviour, identifies self-efficacy (a belief in one's ability to succeed) as being a key factor to behaviour change. Self-efficacy is best acquired through completing a succession of smaller, more manageable tasks rather than a few big ones. If an action or task is successful, people feel better about themselves and are motivated to move on to the next step in the process of change (BIS/Cabinet Office, 2011). Conversely, failure can quickly lead to apathy (Darnton, 2008). Self-efficacy is also one of the key (internal) means by which movement from one stage to the next is driven in the Stages of Change model (above).

Applying this to current account switching, a first step might be for an individual to review and evaluate their current account and provider. Within this, a simple checklist which helps consumers review their priority needs from an account may be beneficial (Service et al., 2014). Having done this they would compare their account with others offered by their current provider and then with the accounts offered by other providers. Only then will the final step of going through the switching process be achieved.

5.5 The role of beliefs and threats

In 'expectancy value theory' beliefs and other cognitive factors are understood to lead to behaviour change. According to this model, beliefs are related to perceived threats to an individual's wellbeing as well as to the effectiveness of behaviours needed to resolve them (Morris et al., 2012). Beliefs about threats, therefore, can act as triggers for behaviour change (or act as resistors to behaviour change).

In the context of account switching the perceived threat would be that the process would not be error free. Measure to encourage switching might, therefore, include media campaigns or other information allaying people's fear.

5.6 The rise of behavioural economics

Behavioural economics modifies neoclassical economics (see Rational Choice Theory above) by proposing that rationality is 'bounded' (Etzioni, 2010; Simon, 1957). Behavioural economics has identified a number of behavioural biases that can be seen as a type of evolved form of thinking, providing rules of thumb which enable us to shortcut cognitive deliberation (Jackson, 2005). Their particular value is to understand how the thinking used in planned behaviours, such as account switching, is moderated by more automatic, intuitive thinking (Thaler and Sunstein, 2008). Concepts of behavioural economics and traditional psychology have been brought together for policy makers in guiding frameworks such as 'Nudge' theory (Thaler and Sunstein, 2008), BELIEF (Tarr and Riley, 2010), MINDSPACE and, EAST (Service et al., 2014). Here, we note those which are likely to be of most relevance to current account switching.[2]

One of the most convincing of the biases states that we have a strong tendency to stick with current options (inertia) and 'go with' defaults. **Status quo bias** is underpinned by our inherent aversion to risk (**risk aversion**) and disappointment (**disappointment aversion;** which discourages us from making decisions that are less good than we want even if they are objectively good). It is further compounded by our tendency to overvalue things we see as 'ours', a type of loss aversion (discussed below) known as the **endowment effect**. In particular, it is suggested that customers overvalue their current products by a factor of three (Gourville, 2006). Saving account providers use this tendency to default a customer onto a nominal interest rate when an introductory rate or fixed rate product expires (Behavioural Insights Team, 2011).

In addition to **cognitive overload** (discussed earlier) in which too much information stifles decision making, there is a tendency to rate our own judgement or ability more highly than objective measures would support - the **over-confidence bias**. We think we can make sound judgements between several current accounts using several relevant points of information but, often, we can't. Current account comparison based on actual account usage, such as MiData, could help to overcome our tendency to rate our own judgement or ability too highly.

It has been shown that people dislike losses more than they like gains of an equivalent (objective) value (see for example, Dolan et al., 2010). This is known as **loss aversion** and is a principle of behavioural economics (Thaler and Sunstein, 2008). For account switching it means that the benefits of switching an account must be perceived by the consumer to be significantly greater than any current benefits received which will be lost as a result. A

[2] This list draws primarily on Thaler and Sunstein, 2008 and http://www.psyfitec.com/p/the-big-list-of-behavioral-biases.html.

re-casting of the gains of switching into the losses associated with a failure to switch may therefore provide a much stronger incentive to switching.

The way information is presented is also important. There is a tendency for people to focus too heavily on one piece of information or reference point (for example, an introductory interest rate), known as an **anchoring** effect. There is also a tendency for people to seek out or give undue emphasis to, information which confirms what they already believe - even if it is wrong (for example, that they cannot get better customer service by switching). This is known as the **confirmation bias**. Together these two biases mean that the most important and salient information for the user needs to be selected carefully. Thirdly, a tendency toward **future discounting** (to value immediate rewards or benefits over future ones) emphasises the importance of expressing – and potentially providing – rewards up-front. This explains the popularity of introductory rates and cash-back rewards (Dolan et al., 2010).

Behavioural economics also discusses the importance of **framing effects**: the way information is framed influences behaviour, such that different choices may be made if the same information is presented differently. For example, people have been found to defer to the middle of three pension choices their employers have offered them, even if the order is switched (Collard, 2009). This means that current account providers (and their intermediaries) have a responsibility to carefully consider how customers' choices are presented.

5.7 Making information persuasive

This section focuses on how consumers may be *persuaded* to take on new products or behaviours through effective use of messages and messengers.

'Theories of Persuasion' came into ascendancy with the rise of the mass media, and are as important as ever in the new era of social media. Although change can occur without persuasion, such theories describe the way in which people's behaviours can be influenced if they are exposed to the right messages in the right way. They emphasise three key elements which have been shown to be influential factors in behaviour change interventions (Morris et al., 2012):

- The credibility of the source
- The persuasiveness of the message
- The responsiveness of the audience (Jackson, 2005).

The credibility of the source can be enhanced through: the use of community-based 'champions' (Behavioural Insights Team, 2011), word of mouth from a credible source, kite-marking and independent review (such as those provided by Which? and comparison sites) are likely to be more credible sources of information than marketing (BIS/Cabinet Office, 2011).

The persuasiveness of the message and the responsiveness of the audience can be increased through:

- Immediate relevance (timely)
- A single, positive, well-placed message
- Personally-involving messages with high emotional or imaginative appeal
- Use of clear retrieval cues which help people bring persuasive messages to mind, and
- Use of public declaration of commitment, such as loyalty schemes (Jackson, 2005; Morris et al., 2012).

5.8 Summary

People, including customers of PCAs, do not always act rationally and follow Rational Choice Theory in making optimal decisions. In relation to current account switching the most salient aspects of learning from behaviour change theories are:

- The Stages of Change model: different interventions will be required at different stages of behaviour change process.
- The process of behaviour change needs to be manageable with stages in the process broken down into a succession of smaller, manageable steps.
- The perception of a threat can trigger behaviour change, but in the case of PCA switching it may be that switching itself is seen as the threat that prevents people from undertaking it. This relates to the behavioural biases, identified in behavioural economics, of risk, loss and disappointment aversion.
- How information is presented is important and information overload is a barrier to behaviour change. Policy makers need to think carefully about limiting the amount of information presented to people, such as when comparing current accounts. Messages need to address uncertainty and fears and to be persuasive need to come from a credible source.

Importantly, no single intervention represents the solution to behaviour change, and policy makers will normally need multiple interventions to reach different aspects of the process of change.

6. Conclusions

6.1 Barriers to Current Account Switching

The greatest barrier to current account switching is lack of consumer engagement. The majority of current account customers, around three-quarters, have no intention to switch. They are largely satisfied (or perhaps more accurately not dissatisfied) with their existing provider and are committed and loyal to them. They are less influenced by switching costs and are unlikely to be influenced by any reduction in switching barriers as proposed by the CMA (discussed below). They exhibit the status quo bias, or inertia, where people tend to stick with their current options. Their engagement in the current account market will most likely be influenced by push-factors such as a critical incident that changes their opinion of their existing provider, or through an enforced switch due to a change in personal circumstances or a local branch closure.

The most interesting group of customers in terms of raising current account switching rates are those who have considered switching but have not actually done so, representing around one in five customers. These customers tend to engage with the market because of push factors such as a service failure or poor customer service; some are also highly sensitive to switching costs. Reviewing all of the evidence on why consumers stay or switch, three main factors emerge as being central to switching behaviour:

Risk**:** people are both risk and loss averse. Fears that the switching process could go wrong and perceptions that the gains from switching will not sufficiently compensate for the losses, means that switching is considered too large a risk to take and people are put off.

Relationship values: the relationship or bond that customers have with their current account provider appears to be a strong influence on switching behaviour. Customers value the relationship they have with their bank, such as friendly and understanding staff, good advisors and the extent to which they trust and feel confident in their existing provider. Concern over losing this relationship, alongside the benefits that can accrue from being a long-term customer, is an important switching barrier. These emotional aspects of switching receive relatively little attention in solutions to encourage switching (see below), but look to be a key reason why consumers may make sub-optimal choices and stay with their existing provider even though they could get a better deal elsewhere.

The hassle: the time and effort involved in searching for a suitable current account alternative and going through the switching process is cited as a main switching barrier. Whilst we agree that the perceived hassle of switching is a key issue that puts people off, the evidence suggest that these procedural costs are not as important as relationship quality.

6.2 Remedies to increase switching rates

Here we present and assess the provisional remedies (or solutions) that have emerged from the CMA's Retail Banking Market Investigation (CMA, 2015b).

The first point to note is that the CMA's suggested remedies to raise switching rates do not try to address the issue of lack of engagement or inertia. Rather, they focus on switching barriers relating to the CMA's engagement framework of: access to information, assessment of information (to select the best product and provider), and ability to **act** on this information and switch.

Lack of trigger points as a barrier to switching

The CMA identify a lack of natural trigger points e.g. that there is no contract end date for a current account, as a reason why customers may be less engaged with the PCA market. Their suggested remedy is to: *Prompt customers to review their PCA provider at times when they may have a higher propensity to consider a change.* The CMA report identifies a number of event-based prompts that could be used to remind customers of the option to change provider. These include:

- a serious loss of service to customers from an IT breakdown;
- a dispute between a provider and a customer;
- a material change in banks terms and conditions;
- a customer's transition from a young person to student, to an adult account;
- a branch closure; and
- imminent or actual imposition of overdraft charges.

The evidence shows that event-based prompts do act as push factors that trigger some customers to think about switching provider. Tapping into these trigger events would, therefore, be an opportune time to remind customers about their right to switch and how to go about it, although the extent to which it would increase switching behaviour over and above what would occur anyway is not known. A key issue is that the reminder would need to come from a credible source and not overload people with information. Information about how to go about searching and switching for an alternative current account provider needs to presented in small manageable steps that appear 'do-able'.

Pricing information as a barrier to switching

The CMA identifies pricing information as a barrier to switching in three areas: limited access to information; information is not comparable across banks and products (particularly in relation to overdraft charges); and information is complex to understand. They suggest remedies to:

- F*acilitate price comparisons between providers by making customer-specific transaction data more easily available and usable, including by price comparison websites.*

- *Make it easier for prospective PCA customers to find out, before initiating the switching process, whether the overdraft facilities they were seeking would be available to them from another provider.*

Improving access to pricing information (that is simple to understand) would be beneficial in reducing switching barriers. Price comparisons need to focus on overdraft fees / charges and credit interest rates, as these are the factors customers think are most important to know about, but find the most difficult to compare. There is a risk that those without internet access or lacking in online skills and confidence would be excluded from using price comparison websites, meaning that information also needs to be available through other channels. The evidence from behaviour change theories also suggests that the results from price comparisons should focus on the financial losses customers incur by staying with their existing provider, rather than focus on the gains they could make by switching.

Whilst beneficial, the overall impact of better price comparison information on switching behaviour might be limited. The pull factor of getting a better deal is not the strongest trigger in motivating people to engage in the current account market, but does influence those who are already looking for an alternative to go through with a switch. The evidence suggests that financial gain needs to be quite large to compensate customers for the hassle and risk of moving to a new provider. However, for current account customers who are in credit the monetary advantage of switching is likely to be only marginal. The potential cost savings of switching for customers with an overdraft are larger.

This review has found very little evidence on the switching motivations and behaviour of customers who are overdrawn, other than that they are less likely to switch. Consequently we are unable to make any assessment of the possible impact of the CMA's suggested solution of making it easier for customers to find out, before initiating the switching process, whether the overdraft facilities they were seeking would be available to them from another provider. It is worth noting though, that customers who need an overdraft may be in financial difficulties and not only have other things on their mind, but may be even more wary than others about any disruption to their finances that might arise through switching.

Lack of information on service quality as a barrier to switching
The CMA identify that service quality is an important factor in customers' satisfaction with their PCA, but that this information is not readily accessible or comparable. Their provisional finding recommend: *enabling consumers to make comparisons between current account providers on the basis of their service quality.*

Customer service is a key influence on switching behaviour and lack of it is a key trigger for engagement in the current account market. Concern about moving away from a known current account provider to an unknown one is also a strong switching barrier. The findings from the evidence review strongly support the need for better information on service quality, ideally provided by an independent or kite-marked source to add credibility to the information. However, it is only likely to influence those who are already looking for an alternative provider to decide who to switch to.

Procedural barriers to account opening and switching (CASS)
The CMA's provisional findings recommend a number of remedies to raise awareness of CASS and to address weaknesses in the CASS system. These include:

- *Increase public awareness (through advertising and promotion) of the potential savings or rewards that could be obtained by changing one's current account provider and of the benefits of using the Current Account Switch Service to do so in terms of security and convenience*.
- *Improvements to CASS covering: redirection of payments for longer than 36 months, giving customers access to their old account history, require Bacs to transfer continuous payment authorities on debit cards when switching through CASS, let customers try the new bank's services first through the partial switch service but offer equivalent guarantees to switchers.*

The evidence shows that public awareness and understanding of CASS does need to be raised. It also highlights that the focus of raising public awareness and increasing use of CASS needs to be on reassuring customers that the CASS process is risk-free, in order to overcome concerns that something will go wrong. An advertising campaign could highlight the positive experiences of past users who might be seen as credible sources of information.

Overall, there is a small group of current account customers who are put off from switching because they are risk-averse and face higher levels of switching barriers. Improvements to CASS to make it 'safer' and raising their awareness of CASS could help increase switching rates amongst this group. Though, as discussed earlier it is unlikely to have any influence on the majority of customers who are not engaged with the current account market. An area where improvement to CASS could have a particularly positive impact is on repeat switchers: switching in the energy market showed that those who had a poor experience of the switching process would not switch again.

6.3 Overview of conclusions

The CMA has proposed a set of remedies that are designed to promote higher levels of switching by current account holders. These focus on barriers such as the need for triggers, for better information on price and service quality and to raise awareness of CASS. The evidence reported in previous chapters suggests that these will all assist the minority of customers who would like to switch, but are deterred by lack of information and fears that the switching process will not be straightforward or error free.

What they will not (and are not designed to) address is the inertia that keeps the great majority of customers 'moored' to their existing provider. While many of these people may not be completely satisfied with their current provider, they are not sufficiently dissatisfied to want to consider switching. Indeed, they express a desire for regulators to tackle the culture and service standards of banks and do not think that customers should be expected to switch to get a better service. In part this is a result of experiences of switching in other markets and finding the service offered was no better.

So, although there is still some scope for increasing levels of current account switching it seems very unlikely that they will rise appreciably as a result of the CMA's proposed remedies. Whilst the personal current account market does not appear to be working well in terms of competition, as measured by switching rates, most customers would rather that poor levels of service in the banking industry were addressed, rather than the solution be their having to switch providers in order to get this.

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