

# Personal current account switching

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

### Executive Summary

Yvette Hartfree, Jamie Evans, Elaine Kempson and Andrea Finney

#### 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.