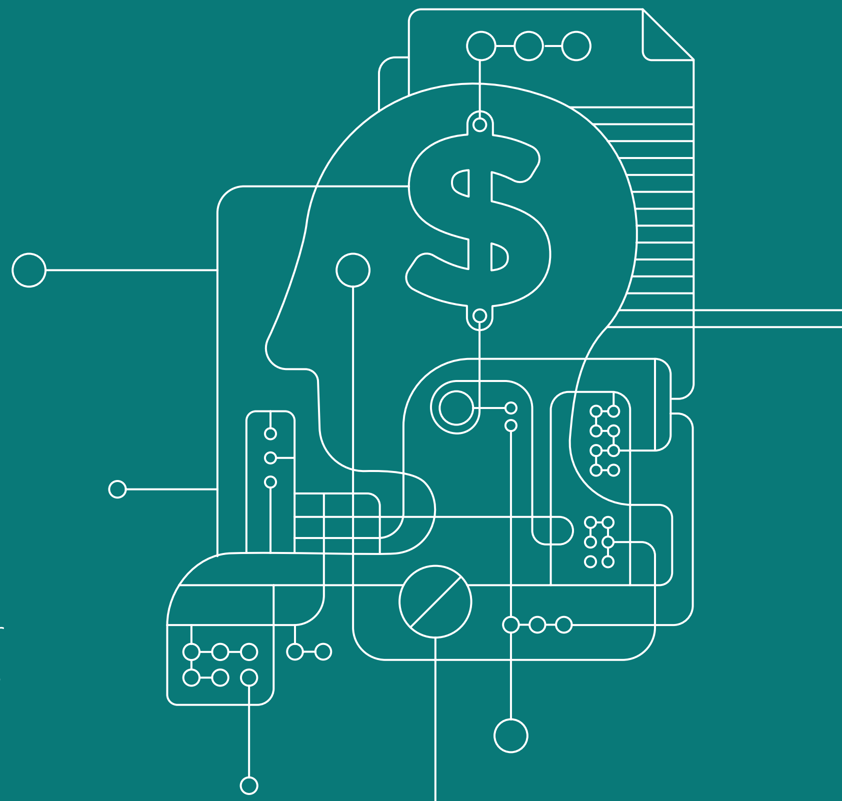
The Secret to Consumer Loyalty: Relationship Banking

Introduction



The financial services market has become increasingly crowded with financial technology products and services. This crowded market means more choices and, with more options, consumers are more likely to switch if they are unhappy with their current financial institution or ultimately see a better product fit. The questions we want to answer with this research are: why are consumers deciding to switch and what are the steps financial institutions can take to prevent the switch?

More than half of financial institution consumers switch their primary institution at some point in their lifetime, and even more switch more than once. We have identified how and why consumers are switching financial institutions and what your financial institution can do to reduce or prevent this from happening. Continue reading to better understand how top organizations can retain and grow their consumer base through relationship banking.

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Key Findings

EVERFI research reveals that switching financial institutions is more common than not in a consumer's lifetime. A majority (53%) of those with a personal bank account have done so. Of that group, about 47% have switched once, 25% twice, and another 28%, three or more times.

We also found that financial institutions' consumer bases are comprised of two kinds of consumers: "transaction-based" and "relationship-based". The "transaction-based consumer" seeks purely transactional interactions with their bank, meaning that they only see their financial institution as a service that they use when necessary. Meanwhile, the "relationship-based consumer" desires additional information from their financial institution such as financial education, advice, and counseling. The vast majority (79%) of consumers fall into the transactional mindset; however, the small percentage (12%) of relationship-based consumers are very high in value: they use **one to two more products and services on average** and are more satisfied with their financial institution.

Relationship-based consumers are more likely to have taken a financial education course from their institution than are transaction-based consumers (60% vs. 32%). Those who have taken financial education say they better understand the products and services provided to them by their financial institution (80%) and are more likely to use the products and services provided after taking a financial education course (56%).

We have found that financial institutions that cultivate more relationship-based consumers, including through financial education, have better consumer retention. This means you should identify the "relationship-based consumers" and the "transactional-based consumers" in order to drive consumer retention and cross-sell. In this report we will help you learn how to identify these consumers.

Transaction-Based Consumer:

Only sees their financial institution as a service to use when necessary.

Relationship-Based Consumer:

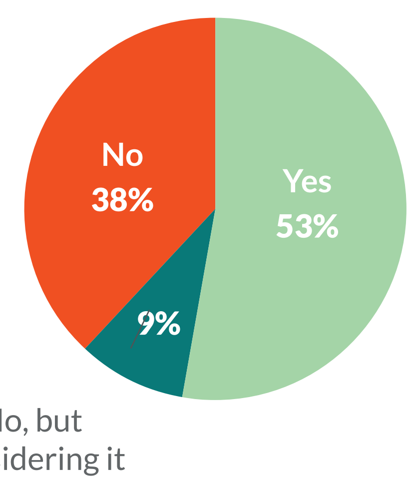
Desires additional information and support from their financial institution.

Bank Switching Is Common

More than half (53%) of consumers of financial institutions have changed the primary financial provider they use and an additional 9% said they are considering it.

Among those who have switched to a new institution, most only switch once (47%) or twice (25%) in a lifetime. Just 15% of bank consumers have changed their primary financial institution three times and 13% are prolific bank switchers, having changed their primary financial institution four or more times. We noted that age or gender did not make anyone more or less likely to switch their financial institution.

Have You Ever Changed the Primary Financial Institution You Use?



Consumers Switch for Convenience, Quality, and Cost

Financial institutions have reason to be concerned by consumer bank switching. Most consumers diversify their financial services providers, using multiple banks as well as some digital only, non-bank financial services. Only 30% of bank consumers use a single source for all of their financial needs. A majority of consumers (56%) use two to three finance-related businesses at once, while the final 14% uses four or more. Additionally, 58% of respondents use a non-brick-and-mortar financial product or service such as Paypal, SoFi, or Credit Karma.

This supply has created competition among banks and credit unions in order to retain and attract new consumers. What drives consumers to leave their bank and how can financial institutions prevent consumer loss?

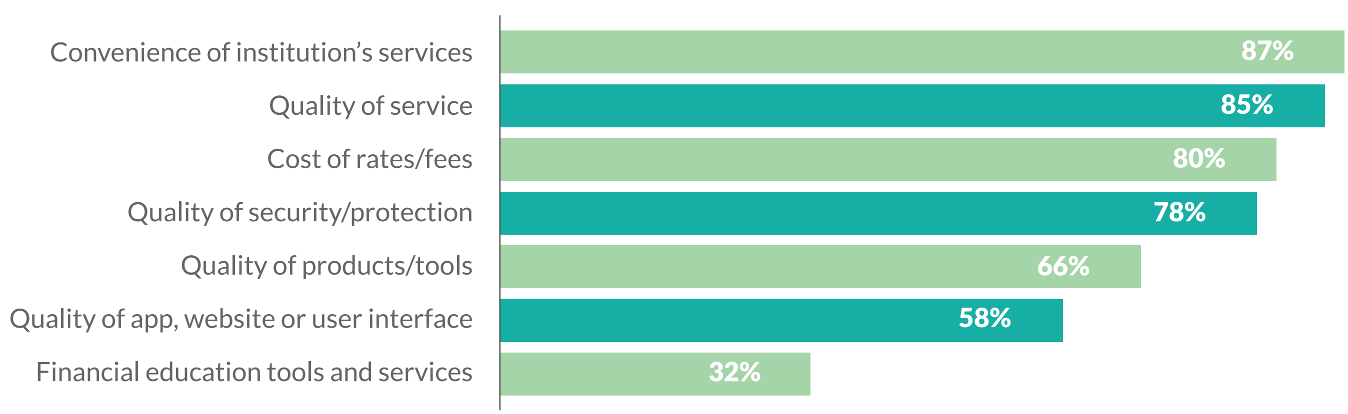
The top three reasons consumers list for why they left their previous financial institution are: convenience of services (87%), quality of service (85%), and cost of rates and fees (80%). Many consumers also cite quality of security and privacy (78%) as a key catalyst for leaving.

Fewer consumers, but still a majority, say the quality of the products or tools (66%) and the quality of the financial institution's app or website were important reasons for leaving that bank. About one-third (32%) left their primary bank due to inadequate or lack of financial education tools and services. This third of consumers is not to be overlooked. It is the highly valuable relationship-based bank consumer who favors financial education and counseling from their bank, who is more likely to use more products and services.

What drives consumers to leave their bank and how can financial institutions prevent consumer loss?

Reasons Why Consumers Have *Switched* Their Institution in Their Lifetime

Convenience, Quality, and Cost Reign Supreme



Consumers Stay for Security and Service

When it comes to consumers who have never changed their primary financial institution, nearly all respondents say the quality of security and privacy protections (96%), the quality of service (96%), and the difficulty of switching banks (95%) are the most important reasons why they have stayed. Not far behind are the cost of rates and fees (87%), the quality of products or tools (78%), and the quality of apps or websites (75%).

One-third of bank switchers say they left their primary bank due to lackluster financial education tools and services. About one-third (36%) cite the same reason for why they have stayed with their current bank—presumably because they are satisfied with the financial education resources they receive.

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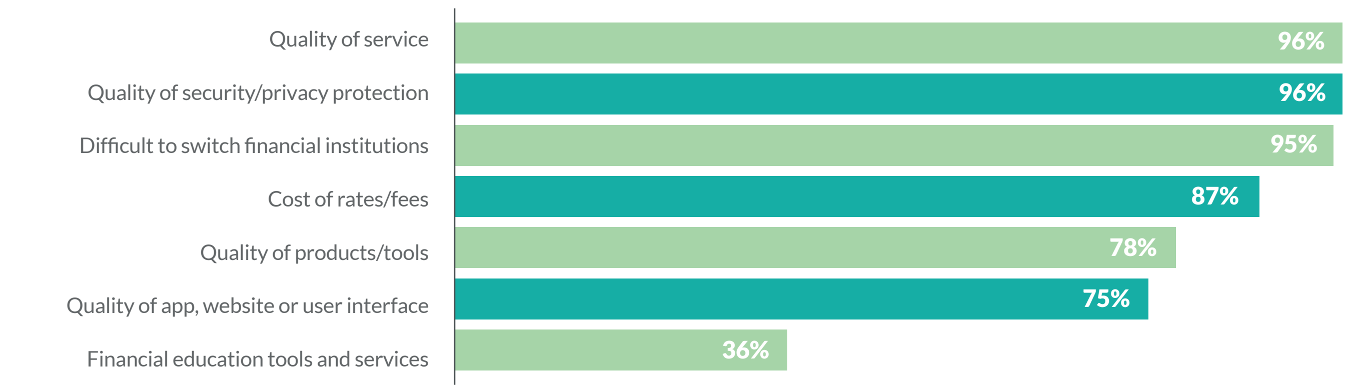
Top Reasons Consumers *Stay* with a Financial Institution

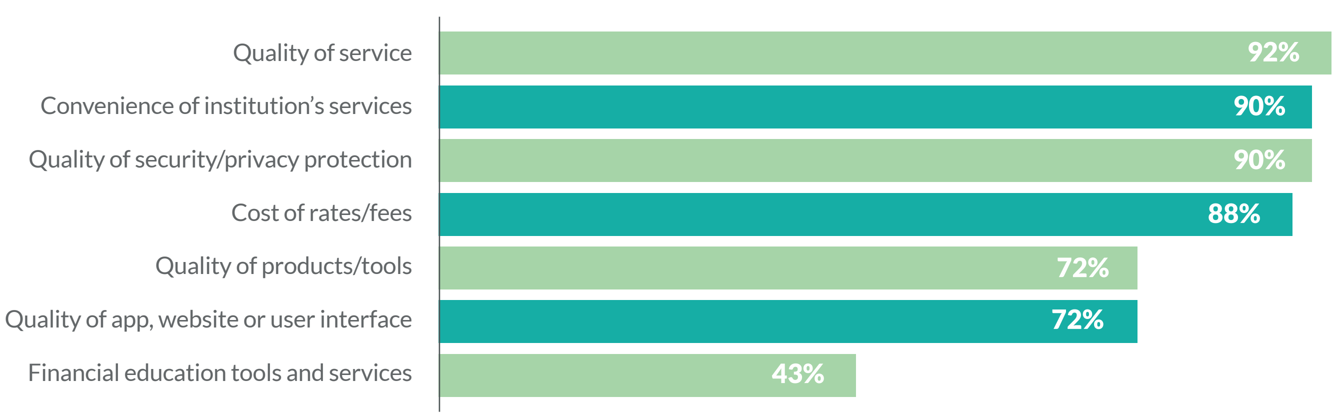


Financial Education: A New Way to Acquire Consumers

Quality, convenience, and cost again are the most important when trying to acquire new consumers. The vast majority say quality of service (92%), quality of security and protection services (90%), convenience of services (90%), and cost of services (88%) are top reasons why they switched to a new financial institution. More than seven-in-ten cited quality of a financial institution's app or website and quality of products (both 72%) as important reasons to switch to a new bank. More than four-in-ten (43%) cite financial education tools and services as a leading reason why they would switch to a new financial institution.

More than 4-in-10 consumers cite financial education tools and services as a leading reason why they would switch to a new financial institution.

Top Reasons Consumers *Select* Financial Insitutions



Your Most Valuable Consumers: Relationship-Based

Financial institutions are widely viewed as transaction clearinghouses and little else. Nearly eight-in-ten (79%) consumers of financial institutions view their relationship with their bank as transaction-based: they use their bank to execute financial actions and not much else. But **12% of respondents say they view their relationship with their bank as something more than transactional**: they also depend on their financial institution for advice, education, and counseling in addition to executing financial transactions.

How consumers view their relationship with their financial institution has a substantial impact on their attitudes and behaviors towards financial institutions. Consumers who have a relationship-based, rather than transaction-based relationship with their financial institution tend to be confident, satisfied, and more engaged with the products and services provided by their financial institution.

Consumers Who Are Confident in Financial Institutions

Consumers with a more relationship-based approach to their financial institutions are more confident in the financial system than those who have a more transaction-based approach to financial institutions (87% vs. 79%). On average, relationship-based consumers use three and a half products from the primary financial institution. Transaction-based consumers use less than three products from their financial institution. And a majority (55%) of relationship-based consumers are very satisfied with their primary financial institution (and thus, more loyal), compared to just 40% of transaction-based consumers.

Consumers Who Are Very Satisfied with Their Financial Institution

These relationship-based consumers are high-value: they use more products and are highly satisfied with the products and services they use. These consumers are more engaged with their financial institution than most, making them a valuable resource to financial institutions looking to grow a high-value consumer base.

How Financial Education Builds Consumer Loyalty

Relationship-based consumers, who say they use their financial institution for a variety of non-transactional needs, are much more likely to use and value the financial education provided by their financial institution. Relationship-based consumers are nearly twice as likely as transaction-based consumers to have taken a financial education course from their financial institution (62% vs. 32%).

64% of relationship-based consumers say financial education is an important part of their relationship with their bank, compared to just 21% of transaction-based consumers. However, a notable 38% of relationship-based customers are not aware that their institution provides financial education courses.

This is most certainly a missed opportunity. There is a clear need for financial institutions to promote financial education resources to their consumer base—both relationship-based and transaction-based.

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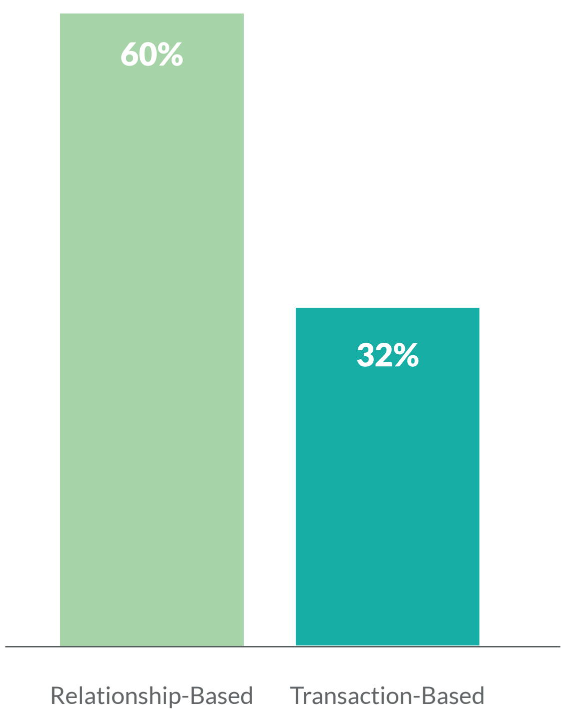
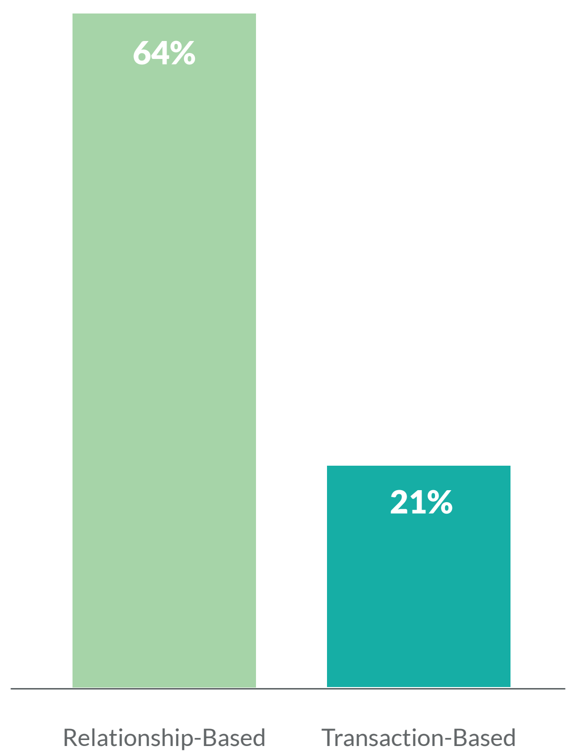
Consumers Who Have Taken Financial Education Courses



Consumers Who View Financial Education as Important Part of Their Relationship with Financial Institutions

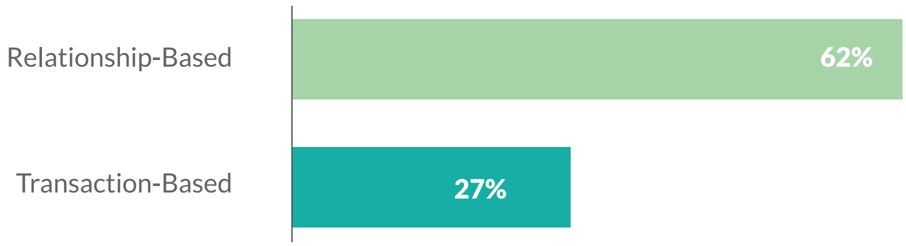


Relationship-Based consumers are the clear starting point. Institutions should put effort into connecting with this group and making their educational resources known, as these consumers are the most likely to take advantage of these resources. This can go a long way in deepening a bank's relationship with this small but valuable group of consumers.

For transaction-based consumers, as many as 64% are unaware of financial education provided by their financial institution. This is a sizable portion of an institution's consumers and a powerful opportunity to convert some historically transaction-based consumers into relationship-based ones. If consumers began to see their financial institution as a source of reliable, relevant financial information, it could open the door for some of them to see their bank as more than a place to deposit money and withdraw cash.

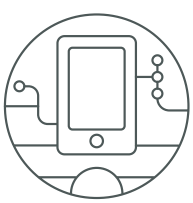
Once a customer does engage with a financial institution's educational offering, most report a positive learning experience. Consumers who use the financial education provided by their primary financial institution say the education had a positive impact on their understanding of their finances and of the products provided by their financial institution.

Consumers Aware of Financial Education Provided by Institution



Eight-in-ten consumers say they better understand the products and services provided by their financial institution after taking a financial education course. More than six-in-ten (64%) say they think about their finances differently after taking a financial education course. And a majority (56%) say they are more likely to use the financial products and services provided by their financial institution after taking a financial education course.

Value of Financial Education



80%

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64%

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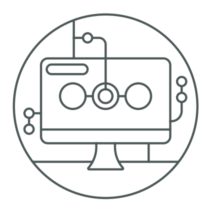


56%

say they are more likely to use the products and services provided by their financial institutions

Turn Transaction-Based Consumers to Relationship-Based Consumers with Financial Education

Financial institutions should be motivated to turn transaction-based consumers into high-value, relationship-based consumers. Since relationship-based consumers are more deeply engaged with their financial institution, they turn to them for advice and education, and they use one to two more products on average than transaction-based consumers. Given that currently more than half of Americans switch their bank at some point in their life, relationship-based consumers could be the key to creating a loyal consumer base.

Financial education is one logical way to cultivate relationship-based consumers, as they are more likely to take financial education and to see it is an important part of their relationship with their financial institution. Providing online, interactive, personalized financial education that can be accessed whenever consumers need it is the perfect solution to engaging with your consumers. Leveraging the insights you would have from an online education course can also help your financial institution interact with consumers to build relationships.

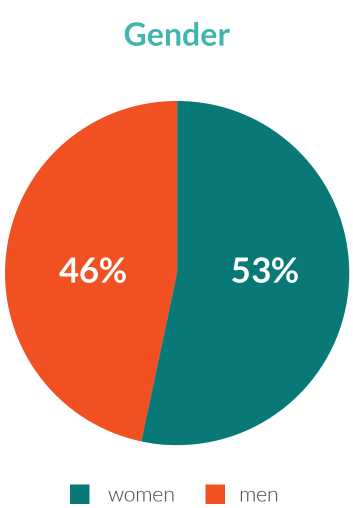
If you know what your consumers care about, your financial institution can create in-branch materials around those topics to draw in your consumers for conversations. You can also create a marketing strategy for emails that give your audience more information about the products and services that are available to them in the high interest topic areas.

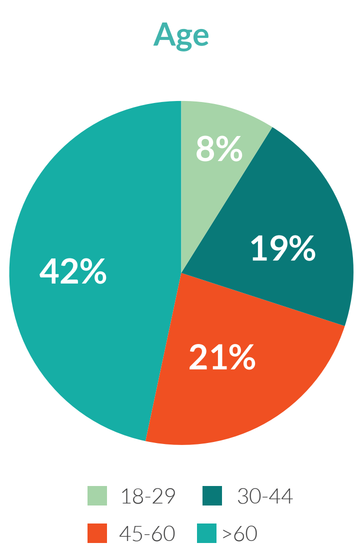
Another way to create relationship-based consumers is to educate your own financial institution's employees. If your own employees can speak to a wide array of topics, then they can leverage the knowledge to engage their consumers in conversations that could help turn your transaction-based consumers into relationship-based consumers. Enabling your branch employees to be able to speak to and educate consumers will give them an opportunity to grow their connections with each person they talk to. They can also promote the course and how it has helped them with their own finances, since a majority of consumers aren't aware of the education their financial institution provides.

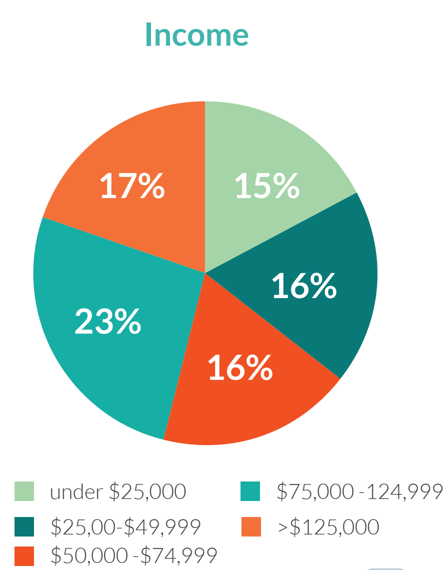
Financial institutions also get value from consumers—relationship-based or not—who have engaged with their financial education offerings, as they are more likely to use products and services provided by their financial institution. The more products a consumer uses at a financial institution the less likely they are to switch. It becomes more difficult for a consumer to switch multiple accounts to a new institution or online offering, since convenience and quality are the top reasons people stay at financial institutions.

Method & Demographics

EVERFI surveyed 771 adults with a personal banking account in February and March of 2018 to learn about the behaviors and trends of consumers with financial institutions.







About the Authors

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At EVERFI, Bridget researches the impact of K-12 courses on the attitudes and beliefs of middle school and high school students. Using survey and assessment data from over 2 million K-12 learners she reports on changes in opinion and knowledge retention. Bridget is a graduate of The George Washington University with a degree in Political Science and the University of North Carolina, Chapel Hill with a Masters in European Governance.

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