



TOBY CLARK
 is Director of Research EMEA at Mintel
 Contact: tclark@mintel.com
 www.mintel.com

SPEED READ

- Avoid alienating core customer base
- Low loyalty in general insurance
- Motor insurance most switched
- Current loyalty due to inertia

SWITCHING COSTS

In theory, consumers are open to switching banks. In reality, this attitude doesn't always translate. TOBY CLARK tells how exclusive research identified three key themes in understanding customer loyalty.

Going forward, firms need to consider how they can reward long-standing customer relationships without alienating their core customer base. Competing for new customers should not be a race to the bottom, especially as those who are more attracted to better rates or discounts will happily move again in the future anyway. Mintel's study identified three key issues around loyalty in financial services.

1. INSURERS HAVE THE MOST SCOPE FOR IMPROVING CUSTOMER LOYALTY

Of all financial services firms, insurers score the worst when it comes to customer perceptions about rewarding loyalty. Only 9% of people think that insurers are good at showing loyal customers that they value their business. In contrast, some 42% feel that insurers are particularly bad at this.

The general insurance market is heavily commoditised. As a result, there is very little loyalty in this market and switching activity is high. It is difficult to expect customers to stay loyal to an insurance firm when there is a strong belief that new customers tend to get better deals and that shopping around pays off.

While it can be difficult for insurance firms to develop loyalty schemes or programmes to reward customers, the price sensitivity in the market is partly self-inflicted. Much of the advertising in this arena is focused on how much consumers can save by switching

to a new provider and there is much less focus on the quality of product being offered. The proliferation of price comparison websites also means that customers can quickly compare a number of providers and find the cheapest deals available to them. Indeed, motor insurance is the most switched finance product overall, and is also more likely to be switched on an annual basis. Looking at a range of finance products, motor and home insurance are the most likely to be switched for pricing reasons.

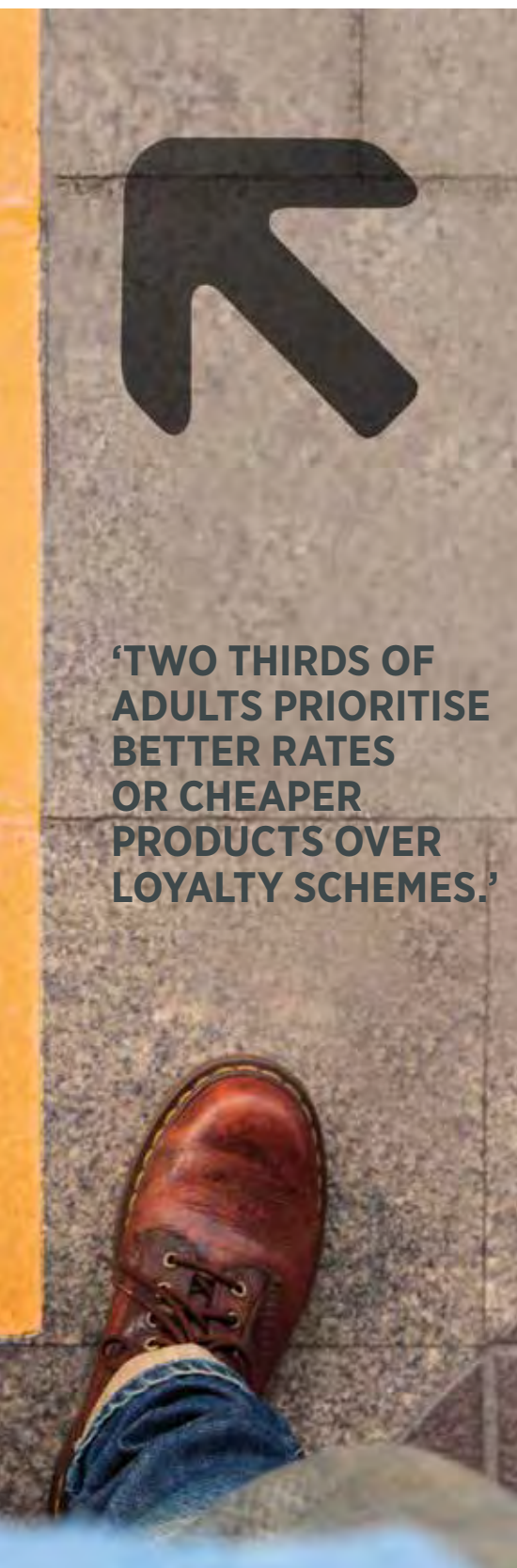
However, this process is not always beneficial to clients and the high level of churn is most certainly an issue for providers. The industry as a whole needs to look at ways of repositioning the focus of the conversation from 'price' to 'quality' of the product on offer.

Indeed, while saving money today can seem like a good idea it could prove to be a false economy if consumers have to pay more for certain benefits later, or do not have the level of cover they want because they were influenced by price alone.

When it comes to dealing with price-sensitive consumers, the industry can be slightly more open about how premiums are calculated. Research shows there is a strong appetite among drivers for more information about the underwriting process. Such initiatives could help reduce levels of annoyance when it comes to renewal, because currently there is little explanation or understanding as to why premiums have gone up or down.



‘ONLY 22% OF CONSUMERS THINK THAT IT IS WORTHWHILE STAYING LOYAL TO FINANCIAL SERVICES FIRMS.’



‘TWO THIRDS OF ADULTS PRIORITISE BETTER RATES OR CHEAPER PRODUCTS OVER LOYALTY SCHEMES.’

2. LOYALTY IS A TWO-WAY STREET

Financial services firms rate near the bottom of a list of selected industries for being good at showing that they value their loyal customers. Some 58% of adults feel that financial services firms take their customers for granted.

Consumer attitudes towards how financial services firms treat their loyal customers are pretty damning. This is not conducive to fostering loyalty, and means much of the current “loyalty” seen in the market is due to customer inertia.

Mintel’s qualitative and quantitative research shows that one thing that vexes consumers is the fact that new customers tend to get better deals and loyal customers don’t qualify for the same introductory and bonus rates. This tends to undermine the relationship between long-term clients and providers, because firms cannot expect customers to show loyalty if they do not feel valued and are actually worse off than new customers. As a result, only 22% of consumers think that it is worthwhile staying loyal to financial services firms.

Consumers are unashamed about the fact that loyalty schemes would not prevent them from looking around for better rates or cheaper products. Two thirds of adults prioritise better rates or cheaper products over loyalty schemes.

If firms want to build loyalty within the market then at the very least existing clients should not be getting worse deals than new clients. It can be argued that long-term clients should actually be the ones who are rewarded, given that they are clearly less likely to switch and therefore will be more valuable in the long term.

Booster rates can be a good way to attract new clients. However, these consumers are unlikely to be the loyal type either in terms of the length of time they will remain with a provider or the number of products that they will hold with the same firm. The fact that these clients are attracted by better rates means that once rates lapse or drop, they will often look for a new provider. In order to move away from this cycle, firms can try to reverse the process and offer bonus rates to more loyal consumers. Clients who have been with a bank or savings provider over a number of years, or hold a range of different products, could be given small extra interest rate

percentages on savings products in order to show them that their custom is valued and that they are benefiting from not moving it elsewhere.

3. MOST PEOPLE WANT TANGIBLE BENEFITS FOR BEING LOYAL

Two fifths of adults disagree or strongly disagree that it is difficult for financial services firms to reward loyal customers.

The majority of the population belongs to a supermarket reward or loyalty membership scheme. This is partly the reason why supermarkets are rated the best when it comes to rewarding customer loyalty. One of the reasons people view supermarkets as relatively good at rewarding loyal custom is because consumers get tangible and tailored discounts based on their shopping behaviour. The offers that supermarkets send out to clients seem to resonate well with people and make them feel that their custom is being rewarded. The frequent point of contact is also helpful because consumers will receive vouchers and other offers, either through the post or at the point of shopping, to reinforce the idea that they are being rewarded.

By contrast, only 17% of adults are part of a reward/loyalty scheme offered by a credit card company. This is relatively low given the fact that some 64% of adults have at least one credit card, and most providers offer some form of reward/cash back programme. Credit card providers can look at supermarkets in order to try and replicate some of the success and build up a feeling of loyalty among consumers. Many of the current credit card reward schemes can be confusing for customers and there is a need to simplify offerings in order to make it easier for consumers to track their earnings. In addition, changing the period when cashback is paid, from an annual to a more frequent basis, would help to remind customers more often about the benefits they are getting from their provider.

While some current accounts already offer perks and discounts, the danger is that such schemes can be difficult to understand and use and can feel a bit impersonal. The key strategy for current account providers is to tap into the consumer desire to receive discounts or rewards tailored to their own needs and behaviours. ■