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Why do consumers switch main banks? Online channel is key to long-term relationships with customers

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Executive Summary

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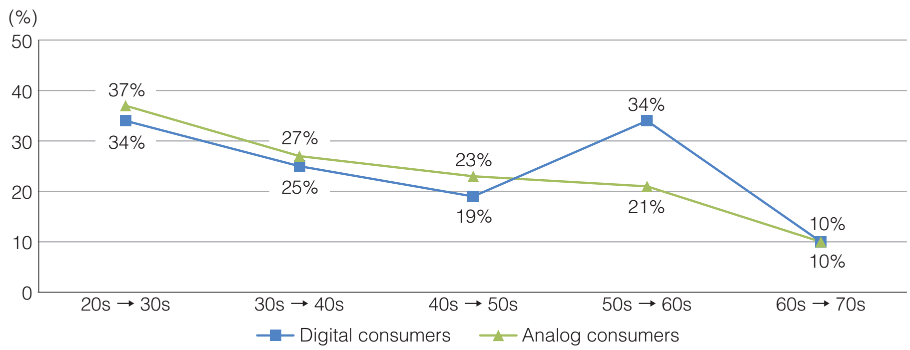
According to the NRI Questionnaire Survey of 10,000 Consumers, consumers most commonly switch banks in their thirties and sixties. To become the main bank of more consumers, it is important for major banks to retain customers by effectively utilizing the online channel.

30s and 60s are peak age brackets for changing main banks

Many people use certain financial institution as their main bank[1]. With Japan's population projected to shrink, becoming and remaining customers' main bank will be a key issue for financial institutions going forward.

People do not necessarily use the same financial institution as their main bank throughout their lifetime. At what points in their lives to people typically switch main banks? According to the NRI Questionnaire Survey of 10,000 Consumers[2], the main-bank switch rate[3] generally tends to be inversely related to age. The graph below plots the switch rate by age group. The data indicate that about

Exhibit: Main-bank switch rate by age bracket (and by digital vs. analog consumers)



Number of respondents

	20s → 30s	30s → 40s	40s → 50s	50s → 60s	60s → 70s
Digital	1,240	1,094	900	632	261
Analog	1,125	756	406	187	42

Notes: (1) 20s → 30s: Percentage of respondents that use a different main bank in their thirties than they did in their twenties (= main-bank switch rate). Likewise for 30s → 40s and so on.
(2) Digital consumers are consumers who use the Internet via computer on a near-daily basis. Analog consumers are consumers other than digital consumers.
Source: NRI 2011 Questionnaire Survey of 10,000 Consumers (Financial Edition)

NOTE

1) Defined as the financial institution (bank, credit association, credit union, securities brokerage, etc.) at which the respondent has the most funds on deposit. Because deposits held at credit associations, credit unions, securities brokerages, etc., are generally small, these financial institutions are referred to herein as main "banks."

2) The NRI Questionnaire Survey of 10,000 Consumers is a nationwide, door-to-door survey conducted triennially since 1997. In 2010, NRI initiated a financial edition of the survey that focuses on use of financial products and services. In August-September 2011, NRI conducted the 2011 NRI Questionnaire Survey of 10,000 Consumers (Financial Edition), a door-to-door survey of 4,484 18-79 year-old male and female residents of Greater Tokyo (Tokyo Metropolis and Saitama, Chiba and Kanagawa Prefectures), to supplement its triennial survey data series. The survey questions mainly pertained to the March 2011 earthquake's impact on financial behavior.

3) The main bank switch rate is the percentage of respondents in a given age bracket (10-year increments) that are using a different financial institution as their main bank than the one they were using in the previous age bracket. For example, the 30-39 age bracket's switch rate is the percentage of respondents currently aged 30-39 who are using a different main bank than the one they were using in their twenties.

one in three people switch main banks in their thirties. The main-bank switch rate then declines through the 50–59 age bracket before rising again in the 60–69 age bracket. The 60–69 age group is distinguished by a major difference in switching behavior between digital consumers[4] and analog consumers[5]. Among digital consumers in their sixties, 34% switch main banks, whereas the switch rate for analog consumers in the same age group is only 21%.

4) Defined as consumers who use the Internet via computer on a near-daily basis.

5) Defined as consumers other than digital consumers. Analog consumers include consumers who use the Internet via computer every other day or less frequently.

The two peaks in the main-bank switch rate reflect typical life stages. As people transition from their twenties into their thirties, many relocate in conjunction with getting a new job, getting married, buying a home, or another such life event. Such relocatees presumably often switch main banks. In transitioning from their fifties to their sixties, by contrast, quite a few consumers apparently switch banks as they approach retirement age in preparation for managing their lump-sum retirement benefits.

Digital seniors switch main banks based on financial institutions' brands and comparison of their products and services

In selecting a bank, consumers in the 20–39 age group place priority on convenience because they mainly use banks for cash withdrawals, credit card payments, and settlement services such as electronic fund transfers. The aforementioned survey asked young (18–39 year-old) consumers with an account at a bank, brokerage, or other financial institution why they chose their main bank. The top two responses were "because it has an ATM near my home or workplace" (66%) and "because it has a branch or sub-branch near my home or workplace" (58%). Consumers in their twenties and thirties that have relocated in conjunction with attending school, getting a job, or getting married thus tend to choose as a main bank a financial institution with ATMs or branches near where they now live or work. This selection criterion is beyond the control of financial institutions.

Consumers in their sixties likewise favor convenience but they also have needs that differ from younger generations, particularly a need to invest their lump-sum retirement benefits and retirement savings. When seniors (age 60–79) were asked why they chose their main bank, the top responses, like those of young consumers, emphasized convenience, including "because it has a branch or sub-branch near my home or workplace" (64%). However, other popular responses from digital seniors included "because it is a well-known financial institution" (53%)

6) In addition, "because it has a favorable brand image" had a 41% response rate.

and "because it has good products and services" (26%)[6]. Digital seniors have a high degree of information sensitivity and information literacy. They accordingly select financial institutions not only based on mere convenience but also based largely on the financial institution's brand and the quality of its products and services.

Online channel is a key determinant of main bank retention

In light of the main bank switching pattern described above, what should financial institutions do to become more customers' main bank? We will address this question using major banks[7] as an example.

7) Major banks are Bank of Tokyo-Mitsubishi UFJ, Mizuho Bank, Sumitomo Mitsui Banking Corporation, Resona Bank and Saitama Resona Bank.

8) More accurately, they used a predecessor of today's major banks as their main bank in their twenties.

We analyzed main-bank switching patterns of 60–79 year-old consumers who used a major bank[8] as their main bank when in their 20s. Of these consumers who used a major bank as their main bank in their twenties, 23% have continued to use the same major bank throughout their life (lifetime customers) but only 3% that switched from a major bank to another financial institution ended up switching back to a major bank as their main bank in their sixties (return customers). In comparison to Japan Post Bank, which has branches throughout Japan like the major banks, we found that the major banks have a higher percentage of lifetime customers but a lower percentage of return customers[9]. Major banks thus appear to be distinguished by a lack of success regaining customers once they have switched to another financial institution.

9) Japan Post Bank's percentages of lifetime customers and return customers are 19% and 7%, respectively.

These data suggest that if major banks want to gain more senior citizens, who generally have more assets than younger generations, as main customers (i.e., customers who use the bank as their main bank), they must make efforts to increase their lifetime customers through uninterrupted measures to retain main customers from a young age through old-age.

First, the key to retaining main customers in the 20–39 age bracket, the first peak in the main-bank switch rate, is to expand call centers and online banking services accessible by PC or mobile phone. If banks offer always-accessible, high-touch call centers together with a convenient online channel that customers are already accustomed to using, they may be able to retain young main customers who previously had no choice but to switch banks when relocating, even if the bank does not have branches or ATMs in the vicinity of where the customer has relocated.

For main customers in their sixties, the second peak in the main-bank switch rate, major banks will have to offer a lineup of investment and annuity products that are competitive with other banks' in terms of interest rates and fees. With the digital senior population expect to grow as Internet usage becomes more prevalent among senior citizens, major banks would be well-advised to conduct online promotional campaigns to attract seniors and then steer them to the in-branch channel. In fact, the percentage of digital seniors that prefer to receive expert advice regarding financial matters is 35%, nearly 10 percentage points higher than the corresponding percentage of analog seniors (26%).

Effectively utilizing the online channel and coordinating with other channels to meet the respective needs of both young and senior customers is the key to building long-term relationships with customers.

about NRI

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