Financial Service Consumption Habits of American Consumers

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Overview

Fifty years ago banks were tightly regulated and highly predictable. The Bank Holding Company Act of 1956 was federal legislation enacted to keep banks engaged in the business of banking, not in other ventures. This legislation prevented banks from forming holding companies so that other subsidiaries could enter areas not traditionally provided by banks. Significant deregulation in the past few decades has provided consumers with a startling array of ways to manage their finances. This was most strongly seen in the recent Gramm-Leach-Bliley Act of 1999, which removed the holding company legislation and opened the doors for banks to engage in nonbanking activities, and also for nonbank institutions to engage more fully in traditional banking activities. This has blurred the formerly crisp line between banks and other financial service providers, and has resulted in consumers having many options for the manner in which they conduct their financial activities. This paper examines the consumption of financial services by consumers, as well as their expectations and satisfaction with those services and service providers.

In a national survey of adults, consumption of financial services by consumers was examined in detail. The survey was conducted in the summer of 2006 over the Internet using Decision Analyst's proprietary consumer panel. The results can be extrapolated to the general population due to the manner in which the representative sample was gathered. Respondents were asked to describe their use of different financial services, naming brands and specific services for those brands. They were also asked to identify their satisfaction with their primary financial services provider and their likelihood of switching to another service provider in the next year. Finally, respondents were asked a series of questions regarding their physical and/or electronic interactions with their financial services providers, and their satisfaction with these interactions. There was also a series of questions asked on behalf of certain banks, but those questions are deemed proprietary to those banks and are not reported here.

In general, American consumers utilize a very broad selection of financial services providers, both in category and specific brand name, for their consumption of financial services. Mortgage loans aren't necessarily held by mortgage companies, and lines of credit aren't necessarily extended by banks. Interestingly, there still remains about 5.4% of the adult population that does not utilize checking or savings accounts.

Not surprisingly, there is a strong relationship between age, ethnicity, and the consumption of financial services from traditional sources. This is also true of the degree of consumption. However, younger consumers are more flexible in their selection and utilization of financial services institutions. Their expectations of customer service levels and benefits offered are similar to those offered by traditional banks.

American consumers utilize financial services from a wide variety of sources.

The notion of a bank is dramatically different than it was 50 years ago, and is going to change even more in the near future.

Segmentation of financial service consumers reveals that different types of institutions attract different types of consumers.

These consumers utilize multiple financial services, often from different sources.

Overall satisfaction with financial services institutions is high, measured both by explicitly stated satisfaction measures and by implicitly stated switching intentions. And relationships, once formed with a primary financial service institution, tend to remain strong for long periods of time. Again, this is truer of older, white consumers than younger, other ethnicity consumers.

Research Questions

This area of investigation is complex and involves a substantial amount of detail. The focus of this paper will be to provide a high-level understanding of financial service consumption patterns, leaving more sophisticated analysis for the additional white papers. The research questions for this paper are:

- What are the financial products and services that they consume, and from whom?
- How do Americans interact with financial services institutions?
- How satisfied are they about their interactions with financial institutions and how loyal?
- What is their propensity for switching to new institutions or opening new accounts?

Methodology

A nationally representative sample of 664 United States adults was surveyed. The sample came from Decision Analyst's proprietary consumer panel of approximately 6.5 million members. A nested quota stratification technique ensured that geographic region, gender, age, and household income categories were filled. The survey was conducted over the Internet, and was fielded during June 2006. All qualified respondents were retained, including those who did not have traditional banking relationships. Respondents were excluded if they were not the primary decision maker or did not share the decision-making responsibility for financial services in the household.

Financial Products And Services Consumed

Of those people who have accounts for deposits and withdrawals, almost everyone has a checking account. About three-quarters have savings accounts, with a higher proportion of blacks holding these accounts. Under a third of the population hold IRAs, about a fifth hold money market accounts, and a higher proportion tend to be white with over $75,000 in annual household income.

When queried on an unaided basis as to their primary financial institution, defined as the financial institution where the respondent conducts the majority of their day-to-day transactions, a wide range of responses was received. The most often mentioned brand was Bank of America, receiving proportionately more mentions from Hispanic respondents. Respondents for fourth place Wachovia were proportionately either younger than 30 or older than 60. Banks

Table 1. Unaided Mention Of Primary Institution

Financial Services Institutions	Total
Bank of America	14.4%
Washington Mutual	5.4%
Wells Fargo	4.8%
Wachovia	4.1%
Chase/JP Morgan Chase	4.0%
Citibank	2.2%
Citizens Bank	1.9%
Fifth Third	1.8%
Compass	1.0%
Capital One	0.6%
Other banks–specific mention	25.1%
Credit unions–specific mention	16.7%
Other financial institutions	16.6%

Table 2. Financial Service Usage By Brand					
Financial Services Institutions	**Checking Account**	**Savings Account**	**Money Market**	**Car Loan**	**Home Mortgage**
Bank of America	18.3%	15.6%	18.3%	5.2%	7.3%
Washington Mutual	7.9%	5.5%	4.8%	0.9%	6.6%
Wells Fargo Bank	7.5%	5.1%	3.2%	5.2%	13.9%
Chase/JP Morgan Chase	6.1%	4.9%	4.0%	6.4%	6.3%
Wachovia	5.6%	3.4%	4.0%	0.9%	1.0%
Citibank/CitiMortgage	4.1%	4.0%	5.6%	3.4%	8.0%
Citizens Bank	2.1%	1.3%	1.6%	1.7%	0.3%
Capital One	2.0%	1.3%	0.0%	8.6%	0.3%
Fifth Third	2.0%	1.9%	1.6%	1.3%	1.4%
Other banks not mentioned above	42.1%	32.4%	17.5%	16.8%	20.1%
Credit unions	28.3%	38.6%	16.7%	21.5%	3.5%
Savings and loans	7.5%	6.3%	3.2%	3.9%	1.7%
Brokerage and insurance companies	8.4%	7.2%	23.1%	0.8%	0.0%
Automobile lenders	0.0%	0.0%	0.0%	31.8%	2.7%
Mortgage companies	0.0%	0.0%	0.0%	0.0%	31.5%
Total respondents	611	473	126	233	288
Total specific mentions	867	611	140	256	304
Average number of relationships per respondent	1.42	1.29	1.11	1.10	1.06

tended to dominate the mentions, though credit unions were mentioned by 16.7% of respondents. Brokerage firms, insurance companies, mortgage companies, and other financial institutions were mentioned by 16.6% of respondents. The breakdown of major brands is shown in Table 1.

The major providers of checking accounts are large, national banks. HSBC, a London-based bank which has recently begun penetrating the United States market, was also mentioned by some respondents, but not enough to make the top-10 list. Of the 611 respondents to this question, 867 specific mentions were captured, indicating the average adult has about 1.4 checking accounts, either individually or jointly with another person. Similar breakdowns were captured for savings accounts, money market accounts, car loans, and home mortgages. As indicated, multiple responses were permitted, so a respondent could indicate car loans from multiple sources, or multiple savings accounts in different financial services institutions. This is shown in Table 2.

Interaction With Financial Services Institutions

When asked how they most often conduct business with their primary financial services institution, about half (49.6%) indicated they do so in person. Use of the Internet/online was mentioned by over a third (38.1%), and the U.S. mail and telephone each received small responses.

Probing further, respondents stated that they had visited their primary financial services institution's lobby an average of 2.88 times in the past 30 days, followed by visits to an ATM of 2.80 times, and use of the drive-up an average of 2.07 times. Weekday visits dominated, with over 3 visits per month on average. Saturday visits were second most common, at 1.07 visits per month, and Sunday visits were least common at 0.53 visits per month.

The most common purpose for visiting their primary financial services institution dealt with deposits (83.0%) and withdrawals (65.6%). This was followed closely by cashing checks (57.6%). All other purposes (such as obtaining a cashier's check or money order, obtaining a traveler's check, using notary services, paying loans, checking balances in accounts, and opening new accounts) were mentioned less than 15% of visits for each purpose.

Respondents were asked to specify their percentage of utilization of lobby and drive-up. When visiting their primary financial services institution, over a third (38.0%) stated that they always use the lobby. Less than half that amount (14.5%) stated that they always use the drive-up. However, taking the weighted percentages into account, respondents slightly prefer using the drive-up.

Examining the characteristics of the lobby, respondents felt that the lobby was personable (42.3%), inviting (40.2%), and modern (37.8%). A small percentage felt the lobby needed to be updated (8.8%), was cold (6.4%), was too quiet (6.2%), and needed to be more businesslike (3.8).

Satisfaction And Loyalty

Respondents were asked to indicate their level of satisfaction using a 10-point scale, in which a rating of "1" was unacceptable and a rating of "10" was outstanding. Eight aspects of satisfaction were considered. These aspects related to the respondents' physical interaction with a financial service institution's branch location, not electronic/Internet, telephone, or mail interaction. The mean scores per aspect, the percent of respondents providing a rating of "10," and the top-three box (scores of 8, 9, or 10) are shown in Table 3.

Propensity To Switch Or Open New Accounts

Typical respondents have had a relationship with their primary bank for over five years. Almost a quarter of respondents reported the relationship lasting over 15 years, and another third reported this relationship lasting between six and 15 years. These relationships tend to be stronger and longer if the consumer is older and white or Hispanic.

Respondents are also not likely to switch primary financial institutions in the next year, with almost half (48.6%) stating they are highly unlikely to switch, and only one respondent in nine (11.3%) suggesting they are highly likely or somewhat likely to switch. The most loyal relationships belong in a higher proportion to older, white respondents, with black respondents more likely to be on the fence, and those likely to switch having a higher proportion of members under 30 and members of other ethnicities (not white, black, or Hispanic).

Those who indicated that they were interested in switching indicated that more benefits and lower fees fed their interest, mentioned on an unaided basis by over a third (36.6%) of likely switchers. The second most common reason (26.8%) was related to a specific bank name mention, such as a specific location or a recent acquisition by another bank. Customer service was mentioned by a fifth (21.1%) of likely switchers, with better service at the new bank balanced by equal mentions of not friendly or not helpful staff at the existing bank.

Conclusions And Limitations

Middle-aged and older Americans are fairly traditional in their consumption of financial services. However, a broad array of options is emerging, and younger consumers are considering and utilizing these less traditional options. Consumers are very interested in the benefits they receive from their financial institutions, and are also very aware of the costs associated with these benefits. Since a large percentage of consumers are utilizing alternative methods of interacting with banks (including the Internet), providing a high level of personal customer service will be a challenge

Table 3. Satisfaction With Branch Location Aspects

Aspects	Mean	Percent Rating "10"	Top Three Box
Convenient location	8.15	28.2%	72.6%
Atmosphere	7.99	28.2%	69.5%
Staff professionalism	8.15	30.3%	72.1%
Staff knowledge	7.99	27.4%	68.7%
Staff friendliness	8.26	33.8%	73.7%
Made me feel important	7.64	25.8%	59.8%
Offered me new or different account options	6.25	15.6%	37.5%
Time spent waiting	7.78	23.8%	64.6%
Overall experience	8.18	28.9%	73.8%

for financial services institutions, yet will also contain some of the ingredients for success.

Though the survey is comprehensive, valid, and results can be extrapolated to the general population, there are areas to be addressed in future iterations of this survey. The survey only contains data at a single point of time. A longitudinal survey would better capture trends and brand mention changes. In addition, a larger sample size would better allow for capture of regional and local financial services institutions. With an average of a little over a dozen respondents per state, data should be aggregated on a regional or national level for meaningful insights, though most financial services institutions are regional and local in nature.

Future Directions

Gaining a better understanding of sea changes in the consumption of financial services will continue to be the focus of this project. As consumers are more electronically mobile, and more aware of different alternatives for their financial services requirements, the traditional definitions known to the baby-boomer generation will be replaced with a flexible palette of options and sources.

If requested by financial services institutions, larger sample sizes can be collected by Decision Analyst, allowing analysis of those institutions against both their direct and indirect competitors.

Another future direction lies in the definitions of financial services and provisioning institutions. Rather than attempt to expand an existing taxonomy of financial service institution types, it seems to make more sense to adopt a taxonomy of financial services that are consumed and then conduct consumer segmentation on that basis. Trying to classify Bank of America as just a bank, or ING as just a brokerage, will be an increasingly frustrating and meaningless effort.

Also, as seen with HSBC, a large London-based bank active in the United States, international firms will continue to establish local presence for financial services provisioning. Understanding the manner in which these firms will approach the American consumer will be critical for continued success.

Overall loyalty to one's primary financial services institution is high, and the likelihood of switching to another institution in the near future is very low.

About the Author

Decision Analyst is a global marketing research and analytical consulting firm. The company specializes in advertising testing, strategy research, new products research, and advanced modeling for marketing-decision optimization.

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