Deloitte.
Access Economics

Choice in banking

Australian Banking Association

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Executive summary

There are a wide range of providers and products in the retail banking market in Australia. Consumers benefit from the ability to choose between products and providers in order to meet their needs and preferences.

Recently, a number of public policy discussions have raised concerns about competition in the banking sector. Specifically, consumer switching behaviour in retail banking has been the subject of discussion by the Productivity Commission and the Australian Competition and Consumer Commission.

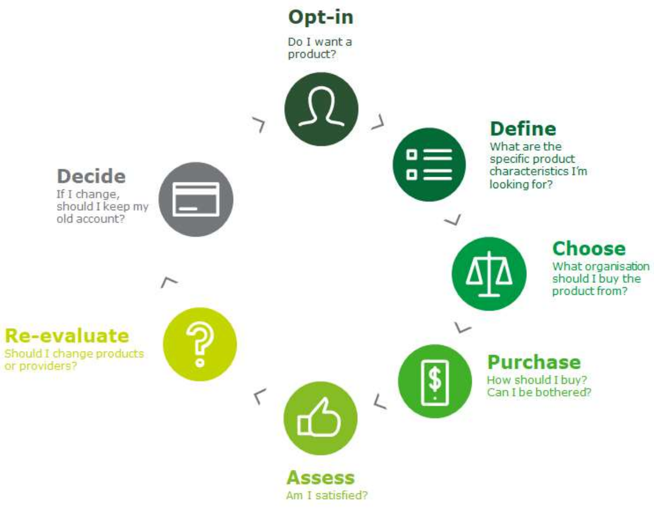
The ability to switch allows individuals to obtain a product that is better suited to their needs while also, more broadly, support competition in the overall market.

A range of factors – including innovation, information and barriers to entry – will determine the nature and intensity of competition in the retail banking market. One of these is the ability of consumers to switch. If consumers can pose a credible threat of leaving their existing provider, this creates competitive tension. However, this does not mean that there is an optimal or ideal rate of switching (The Australian Government the Treasury, 2017).

Deloitte Access Economics was engaged to explore the factors that motivate consumer choices in retail banking. This report uses new evidence from a nationally representative survey of Australian retail banking consumers to understand the underlying preferences driving consumer choices over banks throughout a customer's relationship to their bank.

This choice process and relationship is represented in Figure i.

Figure i: Choice process across a consumer-bank relationship



Source: Deloitte Access Economics

Choice in banking
We find that a variety of factors are important for consumers when choosing banking providers. Price-related factors are clearly important to consumers. Across the three products we examined, **most people said that price factors were 'very important' or 'important'** – 74% of transaction account owners, 76% of credit card owners and 87% of mortgage holders respectively.

Conversely, this means that up to a quarter of consumers think that price-related factors are 'unimportant', or neither 'important' nor 'unimportant'. Consumers also value other factors, such as product features and bank characteristics.

For example, 88% of credit card owners say fraud protection is 'very important' or 'important'. This is almost as high as the proportion who say that fees are 'very important' or important (91%). Similarly, more than four in every five (84%) everyday transaction account holders say that customer service is 'very important' or 'important' – a greater proportion than those who think price is 'very important' or 'important'.

Consumers are aware of their options
As pictured in Figure i, consumers have the ability to make regular choices around their banking products. To make informed choices, consumers need to be aware of the other products that are available.

Our research finds that most consumers are aware of other options. Around a quarter (24-27%) of all product owners have received advertising or other unsolicited material from other banks in the last 12 months.

Even more consumers actively seek out this information and explore their options with other banks. More than one in five (22%) everyday transaction account owners, as well as 23% of credit card owners and 25% of mortgage holders, have looked at other options or asked someone they know for advice about another bank in the last 12 months.

There are a number of tools available to help consumers search for products and providers. More than a quarter (27%) of everyday transaction account owners, 27% of credit card owners and 29% of mortgage holders have used online comparison websites or reviews in the last 12 months.

Our survey finds that overall financial literacy in Australia is low – only 18% of respondents gave correct responses to a standard financial literacy test. To make informed choices, consumers should also be able to understand the differences between different products in terms of financial value. Ongoing financial literacy education and the availability of affordable advice is therefore paramount.

Consumers re-evaluate their choices
Given that most consumers are aware of, and have the tools to assess, the product offerings of other banks, they face choices around whether to stay with their existing provider or open an account with a new provider.

Table i shows that, majority of consumers are satisfied with their bank. Around 1 in 5 consumers have actively considered other banks. Further, 15% of everyday transaction account owners, 10% of credit card owners and 5% of mortgage holders responding to the survey have opened an account with another bank in the last 12 months.

Table i: Choice process in the last 12 months, by product type

	Everyday transaction	Credit card	Mortgage
Satisfied	79%	75%	67%
Actively searching	22%	21%	23%
Switched	15%	10%	5%

Source: Deloitte Access Economics

That is, switching is not as high for mortgages as it is for everyday transaction accounts, despite mortgage owners being the least satisfied with their current bank. However, this could be because mortgage owners consider more factors to be important when choosing a bank, and these are not as readily satisfied in the market. Another contributing factor to low mortgage switching rates could also be low and stable interest rates over the last decade.

At the same time, most consumers are satisfied (67-79%), though some do actively search, compare and consider alternative providers and products (21-23%). While switching is considered easy, there are perceived difficulties with switching, notably in changing payments across to a new bank (8-26%).

Though most of those who have opened an account with another bank find this process straightforward, some barriers do remain.

For many of those who do not open another account, this is not because of a perception that it would be too difficult or costly to change. Rather, 59% of everyday transaction account owners, 49% of credit card owners and 24% of mortgage holders say that they did not open a new account because they are comfortable with their existing provider.

Switching rates of between 5-15% across the three banking products are consistent with the range seen in other jurisdictions. This implies that around 2.8 million adult Australians change their banking relationships every year.[1] The UK Competition and Markets Authority estimates the annual rate of switching to be 3% for personal transaction accounts (Competition & Markets Authority, 2015). In the US, 11% of consumers left their bank in the past year for their personal transaction accounts (Accenture, 2017). A consumer survey in New Zealand has also found that 5% of banking consumers had switched banks for any product in the past year (Consumer, 2018).

Rates of switching are not as high as in some other markets, such as energy, where 29% of residential electricity householders say they have switched energy companies or energy plans in the last year (Newgate Research, 2017). However, switching in the energy market may in part be driven by high and volatile electricity prices and public campaigns to encourage switching, such as One Big Switch.

[1] Based on population 18 and over, June 2018, ABS Cat No 3101.0, minus those without a transaction account, which is just over 2% of the adult population, https://www.nab.com.au/content/dam/nabrwd/documents/reports/financial/2014-measuring-financial-exclusion-in-australia.pdf

These switching rates are moderately higher than for car insurance, where only 6% of car insurance holders changed from their previous company in the previous year (Roy Morgan, 2018). Telecommunications comparison website WhistleOut also found that 46% of mobile phone users have never changed their phone plan unless they upgrade their phone (Elsworth, 2017).

In this report, we see that the factors and processes driving choice over financial products can be complex. While prices are important (three in four banking customers think so), there are other service and safety factors that ensure non-price competition remains an important factor of choice.

Competition in banking is robust as suggested by the pace of price matching, high levels of innovation and regulatory oversight in the sector. It is also continuing to strengthen, after some moderation during the Global Financial Crisis.

Consumer behaviour in regards to searching and switching can be a reflection of their preferences over products and providers, the availability of options to meet these preferences, as well as the level of competition among banks. We find that consumer switching is 5-15% each year.

1 Retail banking in Australia

Customer choice in retail banking has been an important focus for Australian policymakers and regulators since the 1980s, and this continues to be a central topic in the public policy landscape.

Recent policy discussions have focussed on competition in the banking sector, covering financial services from wealth management to personal banking, notably through The Financial System Inquiry (2014) and the Productivity Commission (2018).

In August 2018, the Productivity Commission released its final report on Competition in the Australian Financial System. One area of focus in the Productivity Commission report was customer choice and switching in retail banking. This echoes previous public reviews and reports, which see switching as an important indicator of the health of the industry.

Although switching is an important indicator of consumer behaviour, it is not the only indicator of competition in a market. There are other indicators of overall competition, such as the concentration of financial services providers; incentives and ability for incumbent players to innovate; and the presence and severity of barriers to entry for new players.

Additionally, it is important to understand switching in the wider context of choice in banking. The extent to which consumers are able to make informed choices, and the extent to which they are satisfied with these choices, can provide contextual evidence to inform an analysis of switching and competition in retail banking.

This report explores the choices that consumers face throughout their relationship with their banking providers, from purchasing a product to re-evaluating whether the provider is meeting their preferences.[2]

1.1 State of competition

Competition in the Australian banking sector has enjoyed relative robustness over the last quarter of a century. However, since the Global Financial Crisis (GFC), dynamics affecting competition in the sector have been disrupted by:

- international institutions withdrawing from the market or adopting less aggressive competitive strategies, reflecting greater risk aversion on the part of investors, bankers and regulators;
- consolidation of products and players in retail banking resulting from withdrawals, mergers and acquisitions; and
- deterioration of securitisation markets and increased cost of funds.

These institutional responses have, in some contexts, led to a decrease in competition, with effects on consumer welfare. However, the last decade

[2] The report does not examine choice as it relates to business customers.

has seen some reversal of these effects, as innovation and new competitive pressures have been introduced to the sector.

Former RBA Governor Bernie Fraser noted in 2011 that "[in] the more subdued post-GFC credit environment, competition remains keen and considerable switching is occurring" (Fraser, 2011).

"Competition — and the innovation it fosters — has given us a financial system that offers ready access to funds at all hours of the day, safe and quick movement of money between accounts, payment via personal devices such as mobile phones, and speedy loan approvals."

Source: Productivity Commission, 2018

Competition can significantly impact consumer outcomes in banking, through what is offered on price, quality, variety of choice, and innovation.

Banks and other ADIs compete on both prices (that is, by offering lower interest rates on loans, higher interest rates on savings, or lower fees) and non-price factors (which can include product features, technology offerings, convenience and brand).

The major banks tend to compete closely to match price changes in the market, in terms of both rates and other charges. For example, CBA announced on 24 September 2017 that it would stop charging ATM fees to customers of other institutions[3]. Within 24 hours, WBC[4], NAB[5] and ANZ[6] had all announced similar intentions to stop charging fees. However, while this was a significant competitive step, it is important to note that fee income comprises only a small proportion of bank revenue. In 2016, Australian banks received $4.4 billion of income in fees from households (Reserve Bank of Australia, 2017).

Smaller players also tend to follow the pricing decisions of major banks (Productivity Commission, 2018). However, smaller players are often less able to compete on price, due to a range of factors such as lower credit ratings affecting cost of funds, and smaller investor and lender volumes restricting economies of scale (Deloitte Access Economics, 2014).

ADIs also compete in non-price terms, for example through product features, service and innovation. The Productivity Commission notes "the level of technical innovation in service provision in some parts of Australia's financial system is indicative of a strong and adaptive system that has the capacity and motivation to innovate. From 'tap and go' payments with near real time payment clearance, high uptake of online retail banking, and

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[3] CBA (2017), *Commonwealth Bank cuts ATM withdrawal fees,* September 24 2017, https://www.commbank.com.au/cs/newsroom/commonwealth-bank-cuts-atm-withdrawal-fees-201709.html
[4] Westpac (2017), Westpac abolishes ATM withdrawal fees, September 24 2017, https://www.westpac.com.au/about-westpac/media/media-releases/2017/24-september/
[5] NAB (2017), *NAB removes ATM withdrawal* fees, September 24 2017, https://news.nab.com.au/nab-removes-atm-withdrawal-fees/
[6] ANZ (2017), *ANZ to abolish ATM fees for non-ANZ customers*, September 24 2017, https://media.anz.com/posts/2017/09/anz-to-abolish-atm-fees-for-non-anz-customers

product comparison websites, Australians are, for the most part, at the forefront internationally of innovative banking services and payments systems" (Productivity Commission, 2018).

1.2 Importance of switching

Recent reviews have specifically considered evidence on switching behaviour in the context of analysing the health of competition in the retail banking industry.

The Productivity Commission notes that "barriers to switching can make loyal customers ripe for exploitation", for example by charging higher interest rates charged on mortgage loan customers (Productivity Commission, 2018). The ACCC Residential Mortgage Price Inquiry final report has also raised concerns around 'consumer stickiness' or 'inertia' in the mortgage lending market, describing the low likelihood of borrowers to switch in response to small increases in interest rates (ACCC, 2018).

The ability to make active choices over banking products, and act on them, is important. It gives consumers the power to move between products and providers in order to better meet their own needs.

However, this is not to say that consumers need to exercise these rights in order to receive the benefits. Evidence from the UK shows that the ability to switch can be a sufficiently credible threat. Consumers can secure better service or better value deals from their banks by threatening to switch, without actually having to do so (University of Bristol 2016).

Indeed, the ability to switch, rather than necessarily the act of doing so, provides competitive pressure more generally. If a provider's product offering is inferior to others on the market, consumers have the ability to move to another provider.

Therefore, switching can serve a dual purpose – to give individuals a product that is better suited to their needs, and also to more broadly support competition in the overall market. Switching on its own is not a meaningful measure to consider; rather, it is important to focus on choice and outcomes that switching can support, and whether these outcomes are available to consumers.

Finally, the debate about switching should be viewed primarily through the lens of improving consumer outcomes, but switching also imposes costs on lenders which, in aggregate, affect the overall cost of running the banking system.

1.3 This report

In the context of broader discussions around competition in retail banking, and the specific focus on switching, the Australian Banking Association (ABA) has engaged Deloitte Access Economics to explore the factors influencing consumer choice in retail banking.

To do this, we conducted a survey of over 1,000 consumers to determine what influences consumer choices in banking – both in terms of initially selecting products and lenders, and in re-evaluating their choices. Further description is provided in the box overleaf.

The remainder of this report is as follows:

- Chapter 2 presents new findings from this survey on choice in banking, including what people consider important in choosing a provider for a certain product type;
- Chapter 3 examines choices influencing searching and switching, including consumer satisfaction, barriers to switching and tools to aid making these choices; and
- the final chapter builds on the implications of choice and switching behaviour for competition and concludes the report.

The survey

The Australian Banking Association engaged Deloitte Access Economics to conduct a survey of Australian banking consumers. The survey was fielded online by Research Now during June 2018, and was completed by 1,017 people.

This sample was designed to be nationally representative of Australians aged 18 years and older (excluding Australians of unstated gender and who did not own any financial products). Separate quotas over product type and propensity to open accounts with other banks were also used to maintain sufficient sample sizes for analysis within each cohort.

It contained 24 questions to allow us to understand consumers':

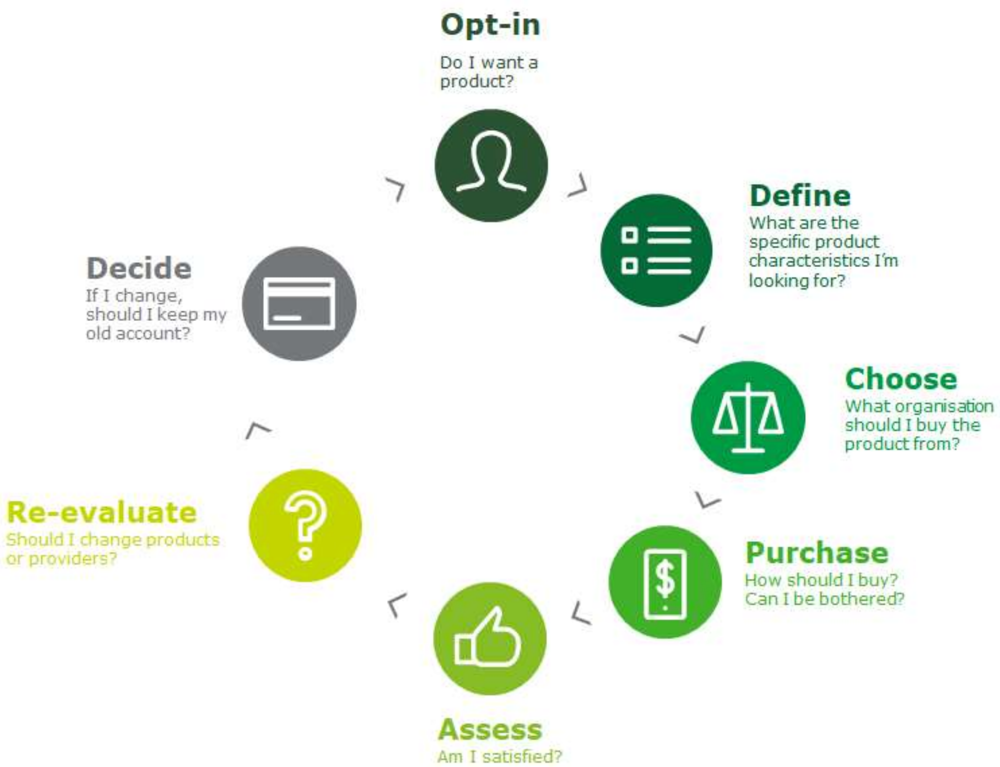
- **Banking product choice and use** – what is important to people when choosing a bank, how satisfied they are with their choices and why;
- **Banking product satisfaction and switching** – searching and switching behaviour and motivations, ease of switching; and
- **Financial literacy and demographics** – standard indicators.

By pairing analysis of this survey with broader findings from the literature, we present fresh insights on Australian consumer choice in retail banking.

2 Choice in banking

Consumers regularly make choices about their banking products. Not only can they make decisions at each stage of their relationship with their bank to stay or leave, they also face choices over which banking products to buy, when and from which organisation.

Figure 2.1: Choice process across a consumer-bank relationship



Source: Deloitte Access Economics

A range of factors can play a role in individual choices. For example, an individual's choice of which mortgage to purchase might depend in part on the information they have about various providers, or the availability of products.

However, in most instances, the primary determinant of an individual's banking choices is their own preferences and priorities. Priorities are largely the same for most people with some small differences– for example, everybody cares about price, but some people value convenience more than other service features, whereas others prefer customer service the most.

This chapter uses new survey evidence to examine how much Australians value various characteristics of three banking products – everyday transaction accounts, credit cards and mortgages.

Unsurprisingly, most consumers said price-related factors, such as fees and interest rates, were 'very important'. However, many consumers also thought that other factors – like fraud protection or product features – were also important.

2.1 Providers and products

Australians are very well banked. Almost 99% of individuals aged over 15 have an account with a financial institution (World Bank, 2014). On average, each Australian owns 0.9 credit cards,[7] 52% of all transactions were paid for using credit or debit cards in 2016, and around one third (35%) have active mortgages (Reserve Bank of Australia, 2018, 2017, Janda, 2017).

Our survey finds that of the consumers who have banking products, many own multiple products, and bank with multiple providers. Amongst our surveyed consumers, for example, individuals who have at least one everyday transaction account hold accounts with 1.4 providers on average. Similarly, credit card customers who have at least one account hold an average of 1.5 accounts with different banks. Mortgage owners are the least "multi-banked" – the mortgage holders in our survey who own at least one mortgage have 1.2 mortgages with different banks.

A variety of retail banking products are available on the market to suit different types of consumer needs (ranging from deposits to home loans).

Separately, there are many players in the market.

Authorised Deposit taking Institutions (ADIs), including banks, credit unions and building societies, play a central role in the Australian financial system (Reserve Bank of Australia, 2006). They support daily financial transactions, and provide credit through loans to both individuals and businesses.

Retail banking extends beyond the scope of ADIs providers; while non-ADIs cannot accept deposits, they can offer credit cards, personal loans and mortgages.

ADIs financed around $2 trillion worth of housing loans as at December 2018 (APRA, 2019). In Feb 2019, there were 15.8 million credit and charge card accounts, which processed nearly 222 million transactions with a value of over $25 billion (Reserve Bank of Australia, 2019).

As at December 2018, deposits made up around 63% of liabilities held by ADIs, and on-call/demand deposits such as transaction accounts made up 32% of total liabilities, with term deposits and certificates of deposit making up a further 28% (APRA, 2019).

In the quarter ending December 2018, there were 144 ADIs in Australia, as shown in Chart 2.2. (APRA, 2019).

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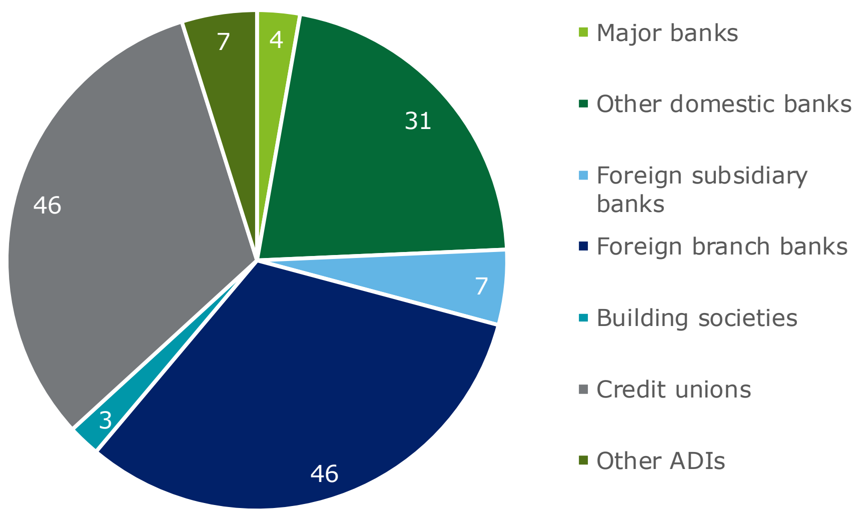
[7] Aged 18 and over, in Census 2016.

Chart 2.2: Number of different types of ADIs, 2018Q4



Source: (APRA, 2018)

These ADIs underpin a range of retail brands, and a large number of products. For example, as at July 2018, according to Canstar there are at least:

- 4,871 home loan products and 118 lenders;[8]
- 405 savings and transactions accounts on offer from 73 institutions;[9] and
- 195 credit cards on offer from 61 brands.[10]

It is worth keeping in mind that the number of players and their market share does not necessarily indicate the health of competition in the industry. As noted by the Productivity Commission in its draft report (2018), "markets can be competitive and deliver beneficial outcomes even when they are dominated by large players, provided it is possible for:

- new providers to enter easily;
- existing smaller incumbents to expand and capture market share from their rivals; and
- consumers to conveniently switch to alternative products or providers."

[8] Canstar Blue (2019), 2019 Home Loan Star Ratings, https://www.canstar.com.au/star-rating-reports/home-loans/
[9] Canstar Blue (2018), 2018 Savings and Transaction Account Star Ratings, https://www.canstar.com.au/star-rating-reports/savings-and-transaction-accounts/
[10] Canstar Blue (2018), 2018 Credit Card Account Star Ratings, https://www.canstar.com.au/star-rating-reports/credit-cards/

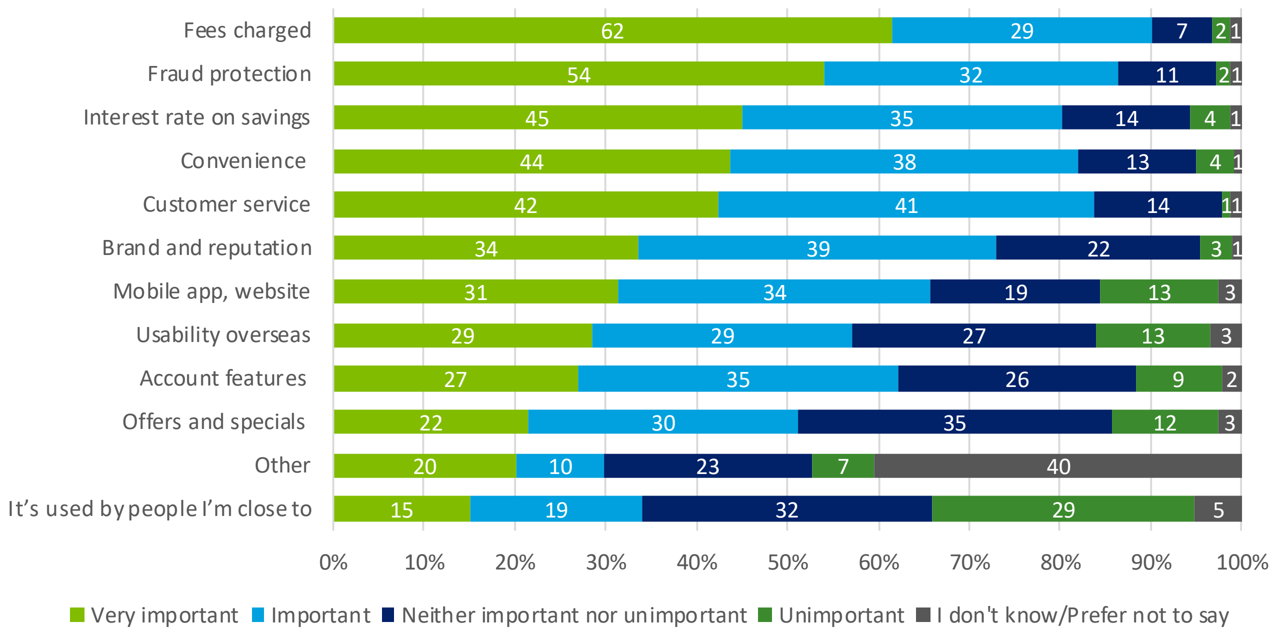
2.2 Everyday transaction accounts

Consumers consider a variety of factors when choosing an everyday transaction account. These include both the cost of the account (through fees charged, for example), account features (such as fraud protection) and other factors.

Fees are listed as the most important consideration in picking an everyday transaction account **(62% consider fees 'very important')**, as pictured in Chart 2.2. Fewer (45%) thought the same about interest rates, which could be due to the relatively low interest rates offered on transaction accounts by most banks.

Yet non-price factors, including fraud protection and customer service, are of similar importance to most customers. For example, 54% of respondents thought that fraud protection was 'very important' in picking an everyday transaction account.

Chart 2.3: Relative importance of various characteristics of everyday transaction accounts (%)



Note: Consumers were asked whether a characteristic was 'very important', 'important', 'neither important nor unimportant' or 'unimportant'. N=1,006.

Source: Deloitte Access Economics analysis based on data from Research Now

Although majority may not think that some characteristics are 'very important', this is not to say that they do not play a role in driving consumer choices at all. For example, transaction account owners are divided on how important sharing the same bank as people they are close to (such as family members or a partner) is. Over one-third (34%) think it is 'very important' or 'important', 32% are neutral and 29% think it is 'unimportant', as shown in Chart 2.2.

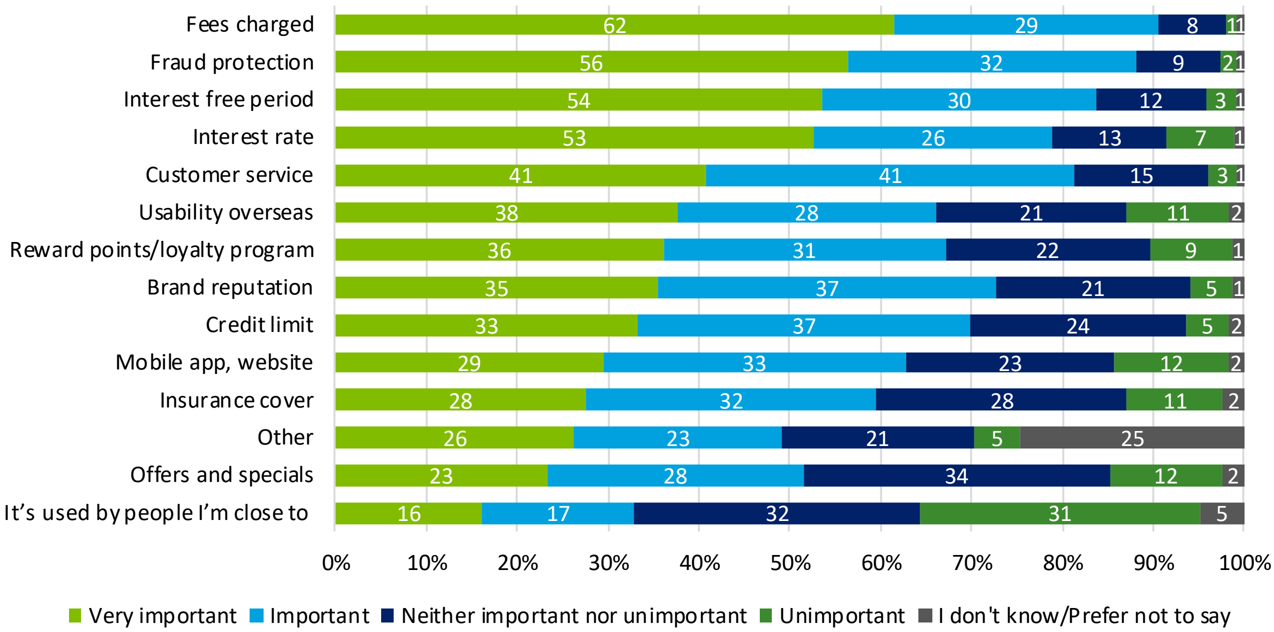
Similarly, roughly equal proportions of people think that usability of transaction accounts overseas are 'very important' (29%), 'important' (29%) and 'neither important nor unimportant' (27%). However, far fewer people think it is 'unimportant' (13%).

2.3 Credit cards

Three of the top five most important characteristics that consumers consider in relation to credit cards relate to fees and interest rates, as shown in Chart 2.3.

Interestingly, fewer people consider interest rates to be 'very important' (53%) than fees charged (62%). This is similar to everyday transaction account holders.

Chart 2.4: Relative importance of various characteristics of credit card accounts (%)



Note: Consumers were asked whether a characteristic was 'very important', 'important', 'neither important nor unimportant' or 'unimportant'. N=730.
Source: Deloitte Access Economics analysis based on data from Research Now

A potential reason for this is that many credit card consumers pay off their balances on time and do not incur interest on their accounts. However, as of February 2019, 61% of the total value of credit and charge card balances accrue interest, suggesting that many consumers may simply deprioritise the cost of repayments compared to fixed fees (Reserve Bank of Australia, 2019).

Fraud protection ranked as the second most important characteristic (56% rate this to be 'very important'), behind only fees. This is reflective of the value consumers place on safety, as well as the rising cost of fraud. For every $1,000 spent on transactions on Australian-issued cards, fraud accounted for around 74.7 cents (Cormack & Saffer, 2017).

Conversely, around one in ten credit card owners said that reward points, insurance cover and usability overseas were 'unimportant' considerations, as shown in Chart 2.3.

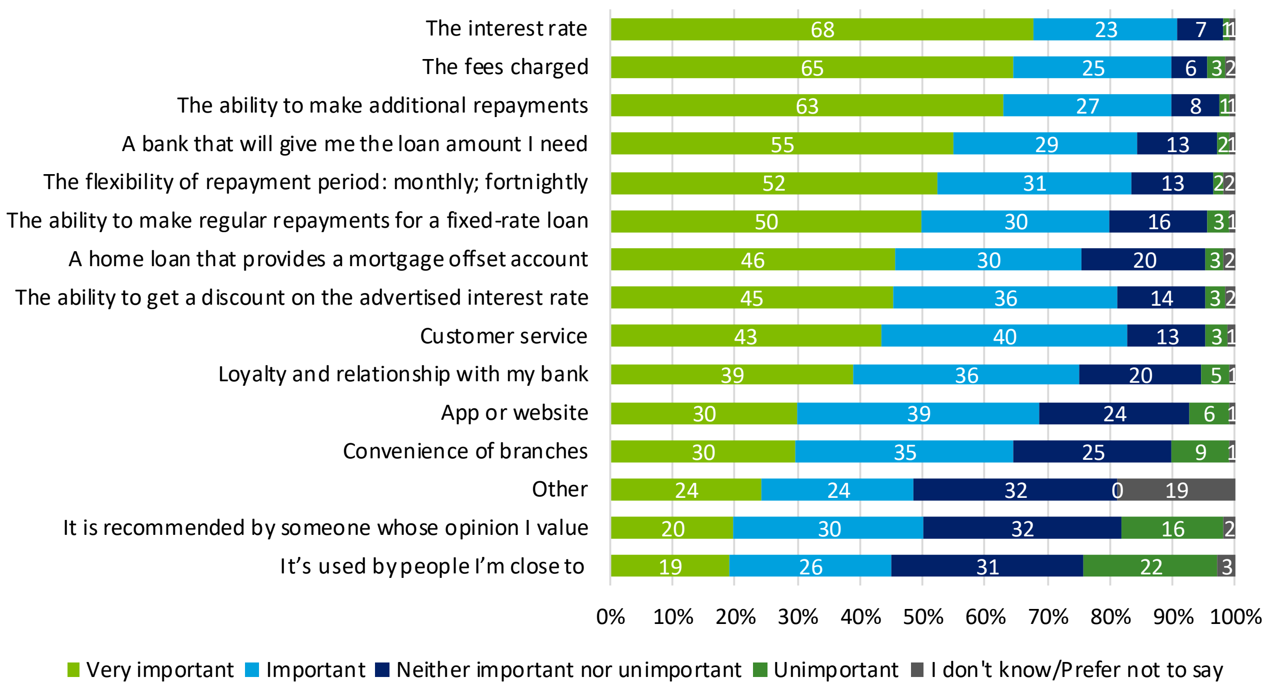
2.4 Mortgages

In choosing a mortgage, around 9 in 10 saw factors relating to price – including interest rates, fees and the ability to get a discount on the advertised rate – **as 'very important' or 'important**.

However, some product features were also important to many, as pictured in Chart 2.4. For example, 90% said that the ability to make additional repayments was 'important' or 'very important' to their choice of mortgage.

Survey respondents placed less importance on the mortgage choices of others. Nearly one quarter (22%) said that it was 'unimportant' whether someone they were close to used the same account.

Chart 2.5: Relative importance of characteristics of mortgage accounts (%)



Note: Consumers were asked whether a characteristic was 'very important', 'important', 'neither important nor unimportant' or 'unimportant'. N=367.
Source: Deloitte Access Economics analysis based on data from Research Now

The importance of price varies across income groups. For example, two-thirds of people earning between $65,000 and $90,000 say interest rates are 'very important' in deciding where to take out a mortgage, compared to 58% of people earning $156,000 or higher.

Conversely, high-income earners are more likely to see the ability to make additional repayments on the mortgage as 'very important'. Around 3 in 4 of those earning **more than $156,000 find the ability to make additional mortgage repayments to be 'very important'**, compared to around 1 in 2 of those earning between $26,000 and $41,599 per year. This suggests that higher income earners value paying off their mortgages sooner because they have the financial resources to do so.[11]

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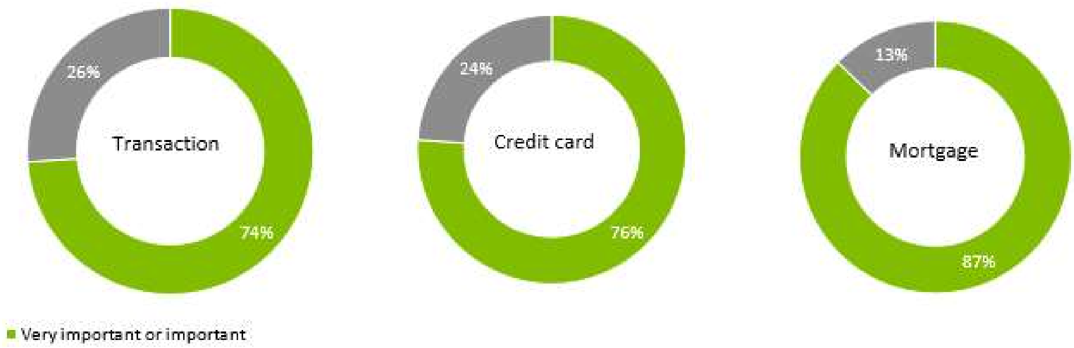
[11] Hypothesis testing would be required to determine whether these differences between income groups are statistically significant

2.5 Key differences between products and cohorts

Although price factors are commonly seen to be 'very important' or 'important' across all products, mortgage holders were most likely to consider price factors to be 'very important' or 'important'. **Almost nine in every ten mortgage owners (87%) consider price factors to be 'very important' or important,** compared to almost three in every four (74%) of everyday transactions owners and credit card owners (76%), as seen in Chart 2.5.

Chart 2.6: Consumers who rate price factors as 'very important' or important, by product type (%)



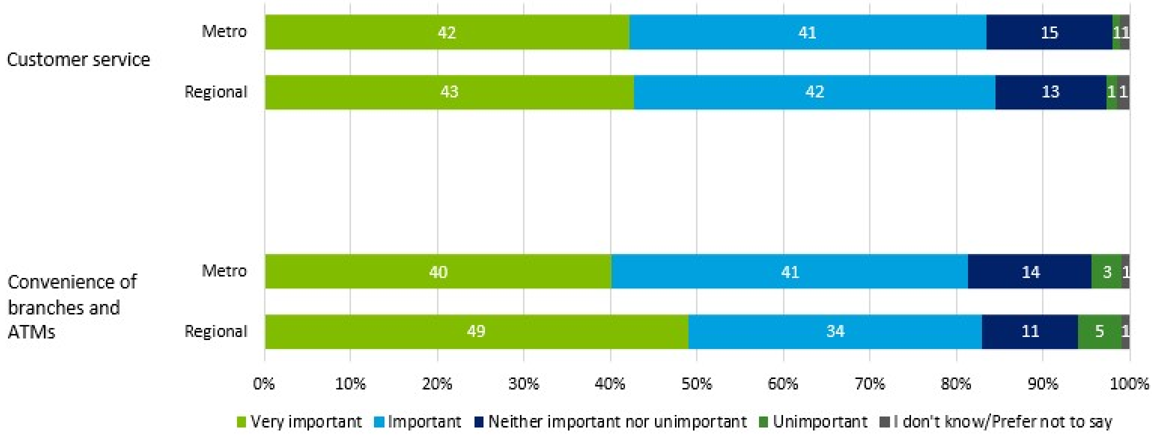
Note: Asked Transaction account owners (N=1006), credit card owners (N=730), mortgage owners (N=367). Price factors for transaction accounts include fees charged, offers and specials, and interest rate on savings; for credit card accounts include fees charged, interest rate, interest free period, and offers and specials; for mortgages include interest rates, fees charged, and the ability to get a discount on the advertised interest rate.
Source: Deloitte Access Economics analysis based on data from Research Now

The relative importance of price between product types is likely influenced by the potential impact of these prices. Mortgage owners face higher overall costs than credit card holders, and everyday transaction accounts bear the lowest costs. Therefore, it is reasonable for consumers of higher cost products to be more sensitive to price factors when choosing over different products and providers.

This is not to say that price factors dominate consumer choices. For example, unsurprisingly, this survey finds that good quality customer service matters to all consumers regardless of where they live. Chart 2.6 shows that similar proportions of **people living in metropolitan areas (42%) and regional areas (43%) rate customer service as 'very important' when choosing a bank**.

However, the **convenience of access** to bank branches and ATMs **is valued more highly by regional customers (49%) than by metropolitan customers (40%).** This points to the likely dispersal of banking locations across regional and metropolitan areas.

Chart 2.7: Importance of customer service and convenience for everyday transaction account owners, by regional status (%)



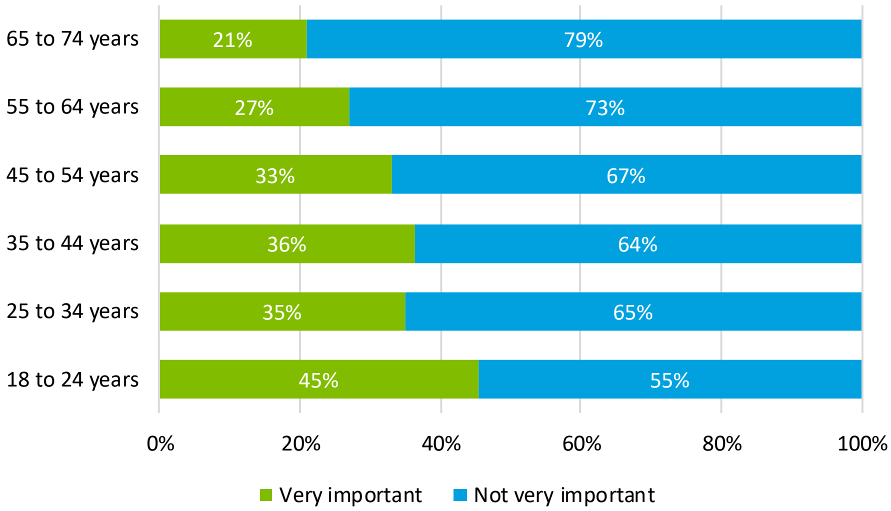
Note: Asked everyday transaction owners. N = 1,006.

Source: Deloitte Access Economics analysis based on data from Research Now

People of different ages may value certain product features differently.

For example, mobile or app functionality is more important for people who use smartphones more intensively, such as younger cohorts, as shown in Chart 2.7. **Almost half (45%) of transaction account holders aged 18 to 24** said that mobile apps and websites were 'very important', compared to 21% of those aged 65 to 74 years.

Chart 2.8: Stated importance of mobile app or website for everyday transaction accounts, by age group (%)



Note: Asked everyday transaction owners. N = 1,006.

Source: Deloitte Access Economics analysis based on data from Research Now

3 Switching in banking

People generally consider a range of factors when choosing a bank. However, consumers can make decisions about their banking products after they have made an initial purchase. For example, a consumer could:

- choose to remain with the existing product and provider;
- re-evaluate their purchase;
- change the features of their existing product (for example, repayment terms on a mortgage, or limit on a credit card);
- negotiate price with their existing provider (for example, fees on transaction accounts or interest rate on a mortgage);
- consider, or purchase, different products offered by the same provider;
- consider, or purchase, products from a different provider; or
- choose to cease having a product entirely.

Though people may choose a bank on the basis that it meets a range of general criteria, they can leave the bank if falls short on one factor – for example, they have a single bad customer service experience. Alternatively, it may take a combination of reasons to switch banks given the general importance of many provider and account factors.

As the Productivity Commission notes, "for competitive processes to work, it is essential that consumers are able to search for, identify and switch to products or providers that are suitable for them with relative ease. However, it is not necessary that consumers switch per se".

As such, to assess switching behaviour, and its implications for competition, we need to consider a broader range of questions:

- **to what extent are consumers satisfied** with their existing financial products? What proportion of consumers already have the product that is most suitable for them based on their own personal preferences?
- **are consumers able to search for products** which are suitable for them **with relative ease**? How often are consumers searching?
- do consumers have the **tools to assess alternate products**?
- **what are the actual, or perceived, barriers** to or costs associated with searching for, or switching to, other products?

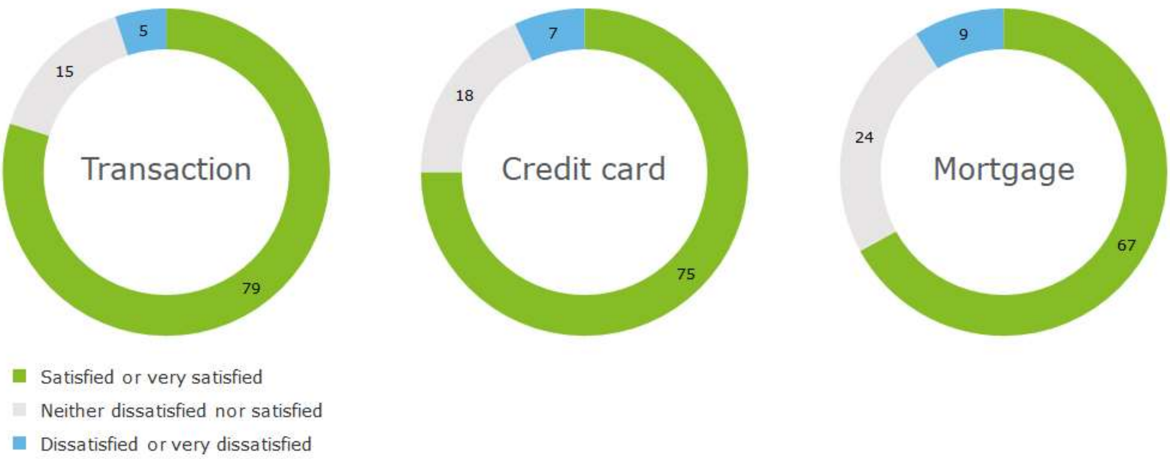
Within this broader context, it is then possible to assess switching behaviour.

3.1 Most consumers are satisfied

The majority of Australians are satisfied with their current banking products. Chart 3.1 shows that **around 4 in 5 everyday transaction account holders are either 'satisfied' or 'very satisfied' with their bank**. Similarly, three quarters of credit card holders and two thirds of mortgage owners reported being 'satisfied'. Conversely, only 5% to 9% of account holders said that they were dissatisfied with their account.

This is comparable to satisfaction in the energy market, where 74% of residential electricity consumers are satisfied with their current energy company, and 61% are 'very satisfied' or 'fairly satisfied' with the overall level of choice in energy retailers (Newgate Research, 2017).

Chart 3.1: Customer satisfaction with accounts



Note: Consumers were only asked about their satisfaction with the products they already own. Transaction account owners (N=1006), credit card owners (N=730), mortgage owners (N=367).
Source: Deloitte Access Economics analysis based on data from Research Now

This is consistent with other research. For example, a 2016 survey suggested that around 90% of people who recently got a mortgage thought that their mortgage was the best product to meet their needs (Deloitte, 2016). Similarly, Roy Morgan research estimates that 81.2% of consumers are very or fairly satisfied with their banks, and this is high relative to the long term average of 73.8% (calculated since 2001) (Roy Morgan, 2018).

Some consumers may be satisfied with a product, even if it is not the best product for them, because they are unaware of alternatives. The decision to switch (or indeed search) is ultimately determined by whether the perceived benefits exceed the perceived costs. An individual who is already satisfied likely perceives lower potential benefits relative to a person who is not satisfied. Thus, if customers are satisfied with their existing product/s, they will have less incentive to search for other products or change products.

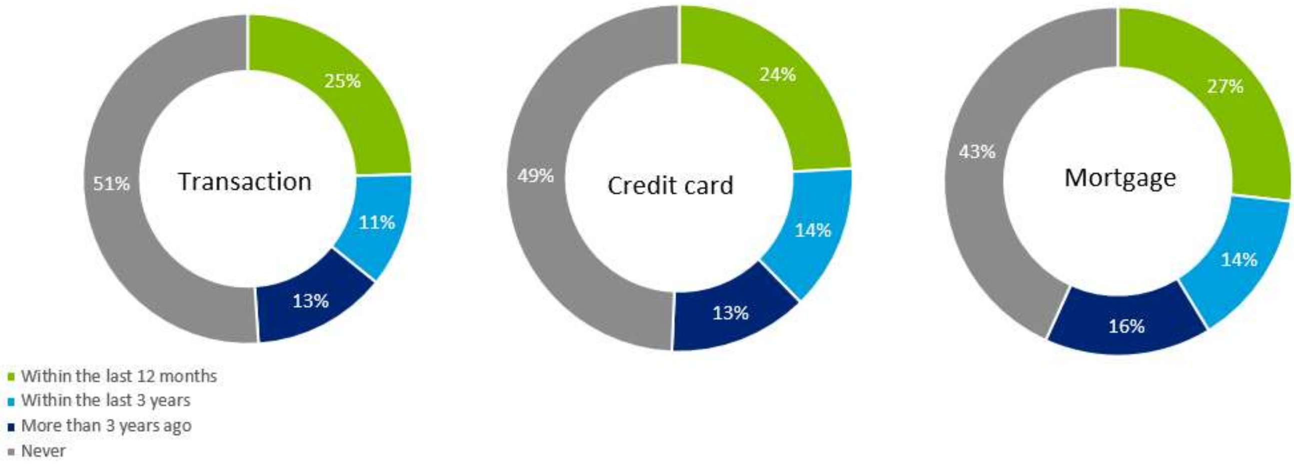
3.2 Consumers are actively looking at their options

The majority of survey respondents are aware of other banking products. This awareness could be through:

- seeing an advertisement or receiving unsolicited marketing material from another bank; or
- receiving a recommendation about another bank from someone they know, such as family member, friends, broker or financial advisor.

Chart 3.2 shows that **1 in 2 transaction account consumers** have seen information about other banks' transaction account offerings without actively seeking it. Likewise, **1 in 2 credit card holders and 57% of mortgage owners** have received information about other products.

Chart 3.2: Received information about products provided by other banks



Note: Asked everyday transaction account owners (N=1006), credit card owners (N=730), mortgage owners (N=367).

Source: Deloitte Access Economics analysis based on data from Research Now

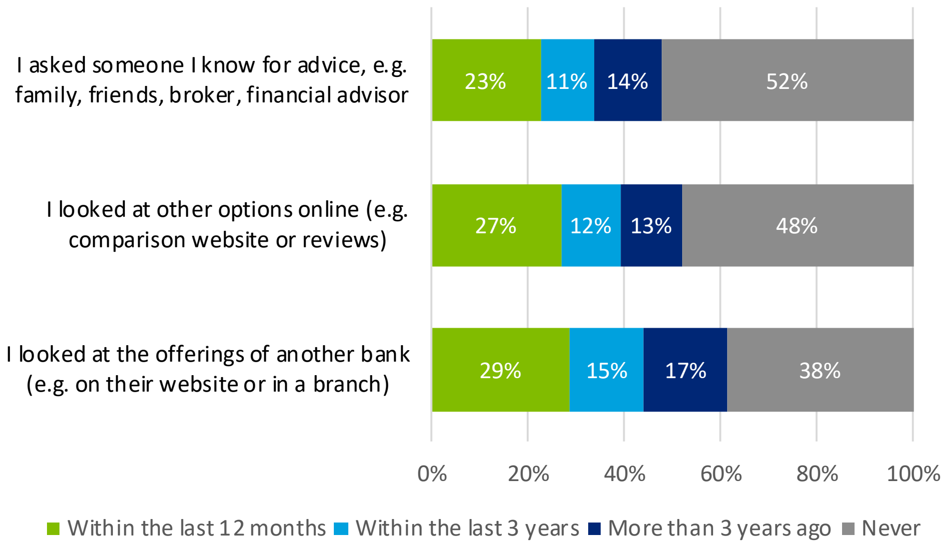
This is lower than in energy markets, where 4 in 10 residential consumers had been approached by an energy company in the past 12 months to 2017 (Newgate Research, 2017).

In addition to being approached by competitors, despite high levels of satisfaction, most consumers actively look at other product offerings. For example, many account holders have looked at other banks' offerings:

- 48% of transaction account holders;
- 47% of credit card holders; and
- 57% of mortgage account holders.

Many transaction account owners actively seek information about other options. As shown in Chart 3.3, about **half of all transaction owners ask someone for advice about another bank, and look at other options online**.

Chart 3.3: Transaction account owners – active search



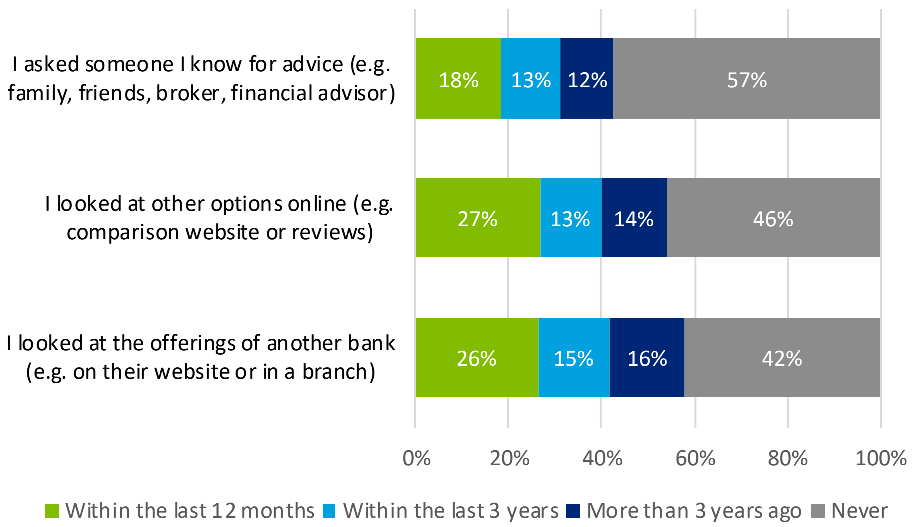
Note: Asked of everyday transaction account owners . N=1006.

Source: Deloitte Access Economics analysis based on data from Research Now

However, consumer propensity to search for different products, and the methods they use for search, varies between products.

People are more likely to search on their own when it comes to products that are lower cost to establish and switch, such as transaction and credit card accounts. Chart 3.3 and Chart 3.4 show that **52% of transaction and 57% of credit card account holders have never asked anyone they know for advice** – whether that is family, friends, a broker or financial advisor – on what banking provider or product to purchase.

Chart 3.4: Credit card account owners – active search

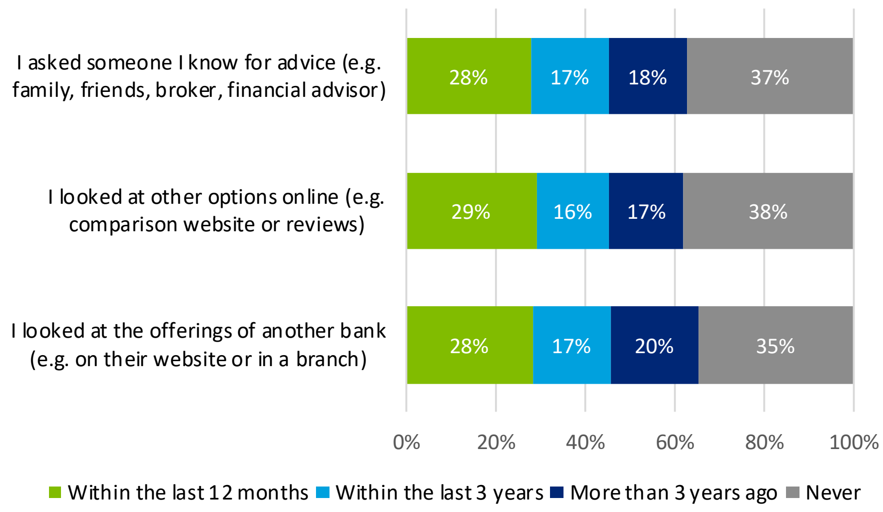


Note: Asked of credit card account owners. N=730.

Source: Deloitte Access Economics analysis based on data from Research Now

In contrast, people are far more likely to ask people for advice when it comes to assessing available options for more complex financial products. Chart 3.5 shows that **63% of mortgage account owners have asked someone for advice** on alternative mortgage products in the last three years.
More generally, consumers in the survey are more likely to actively search for other mortgages than they are for other financial products. **About 2 in 3 mortgage owners have looked at the offerings of another bank** at some point, as seen in Chart 3.5.

Chart 3.5: Mortgage account owners – active search



Note: Asked of mortgage account owners. N=367.

Source: Deloitte Access Economics analysis based on data from Research Now

3.3 Tools to aid choice

Financial products can be complex. It can be challenging for consumers to determine which products deliver best value, as these decisions can require a high degree of financial literacy.

Our survey asked respondents the 'big three' questions developed by researchers Annamaria Lusardi and Olivia Mitchell in 2014 to test financial literacy, and found that only 18% of respondents answered all three questions correctly.[12] This is significantly lower than the rate found in a comparable study (43%), and in the US (33%) (Agnew, Bateman, & Thorp, 2013).

Compared to this same study, our sample also contained a higher proportion of respondents who said they did not know the answer to a

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[12] The Lusardi & Mitchell (2014) 'big three' questions are:

1. Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you did not withdraw from the account? (More than $102, Exactly $102, Less than $102, Don't know)
2. Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account? (More than today, Exactly the same, Less than today, Don't know)
3. "Buying a single share from a company usually provides a safer return than an index fund." Is this statement true or false? (True, False, Don't know)

question. 10% of survey respondents did not know the answer to the first question relating to inflation (compared to 6% in Agnew, Bateman, & Thorp), 17% did not know the answer to the second question relating to inflation (12%), and 56% did not know the answer to the third question relating to financial risk (37%). The authors also find in their cross-country comparison, that the rate of "do not know" responses was higher for Australia than for most countries, while Lusardi and Mitchell find that those individuals who tend to respond with "do not know" often know the least (Agnew, Bateman, & Thorp, 2013).

Interestingly, we find that higher financial literacy is not necessarily associated with higher switching rates. For transaction account owners, 60% of respondents who had a perfect score on the 'big three' questions had switched banks, compared to 53% of those who answered at least one question incorrectly. For credit card owners, 40% of the perfectly scored respondents switched, compared to 31% of those who did not answer all three questions correctly. Finally, only 13% of mortgage owners with perfect scores switched, while 17% of those who did not score perfectly on the test switched.

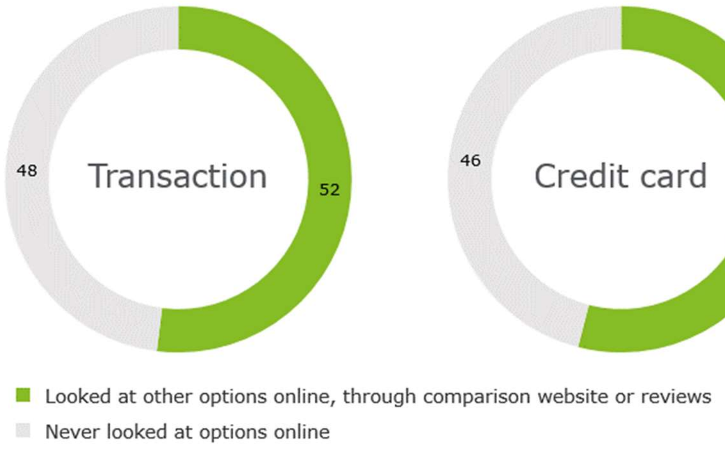
These disparities suggest that consumers with higher financial literacy are not necessarily likelier to switch compared to consumers with lower literacy, at least not for all products (in this case mortgage products). Further, when people do switch for price reasons, we cannot be sure that they are making the best available choice. People who switch based on price factors will try to choose the provider and product that offers best financial value. However, if consumers have an overall low level of financial literacy, this may not mean that they will switch to a provider offering better value. This underscores the importance of continuing financial literacy education for consumers, to improve their ability to make optimal choices over complex products.

Previous sections have shown that most consumers appear to access information about other products available. However, as noted by ASIC, it is also important that consumers can assess the information about the products and services available (ASIC, 2017).

A range of tools are available to help consumers assess financial products. These include financial advisers, comparison websites and reviews.

Evidence shows that these tools are widely used; for example, more than half of consumers have used online tools or reviews to look at other financial products at least once in the last three years.

Chart 3.6: Use of online comparison websites or reviews



Note: Consumers were only asked about their search behaviour with respect to products that they already own. Asked everyday transaction account owners (N=1006), credit card owners (N=730), mortgage owners (N=367).

Source: Deloitte Access Economics analysis based on data from Research Now

As a result, consumers find it easier to compare banking products than they do some other products. For example, Chart 3.7 shows that **77% of consumers who switched products found it easy or very easy to compare banking products**, compared to 70% of those who switched their internet and 62% of those who changed their energy provider.

Chart 3.7: Proportion of individuals who say it was fairly or very easy to compare offers when deciding whether or not to switch across various industries

Note: Only includes consumers who actually switched.

Source: Newgate Research, 2017

3.4 Barriers and costs

There is a perception that switching is difficult or troublesome. The Productivity Commission (2018) notes that "too much hassle and a desire to keep most accounts with the same institution are the main reasons given for the lack of switching, with home loans being a particularly difficult product for consumers to switch."

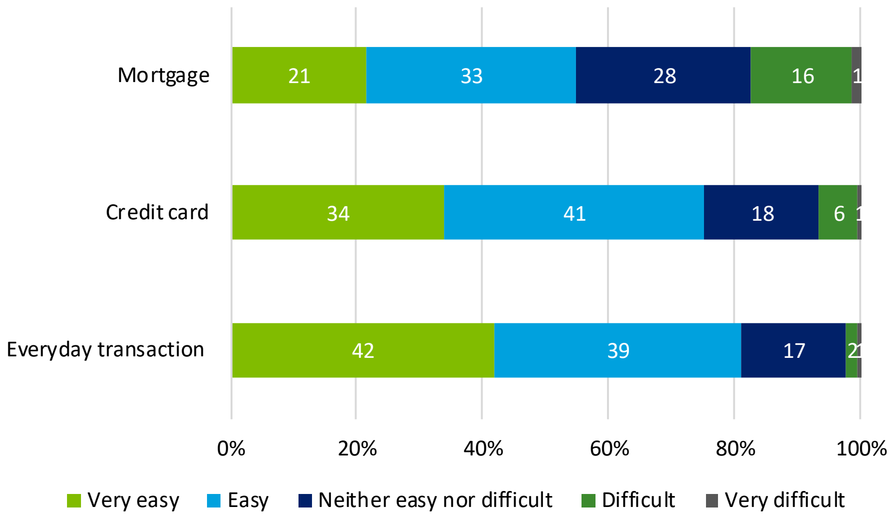
Switching costs in retail banking can include:

- bundling products with different features and inclusions, which makes it more difficult for consumers to compare products;
- porting processes, such as the inconvenience of setting up another account and communicating details to relevant parties; and
- exit or establishment fees charged by institutions.

However, recent surveys of Australian banking customers, including this one, find that those who have switched find it is easy to do so.

More **than 4 in 5 everyday transaction account owners who switched found it either 'very easy' or 'easy'**. Likewise, 3 in 4 credit card account holders found it 'very easy' or 'easy' to switch. Mortgage refinancing is the product type with lowest ease of switching. Only **55% of mortgage owners who switched found it 'very easy' or 'easy'**.

Chart 3.8: Ease of switching by product type (%)



Note: Asked everyday transaction account owners who switched within the last 12 months, 3 years or more than 3 years ago (N=556), credit card account owners who switched within the last 12 months, 3 years or more than 3 years ago (N=329), mortgage owners who switched within the last 12 months, 3 years or more than 3 years ago (N=201).
Source: Deloitte Access Economics analysis based on data from Research Now

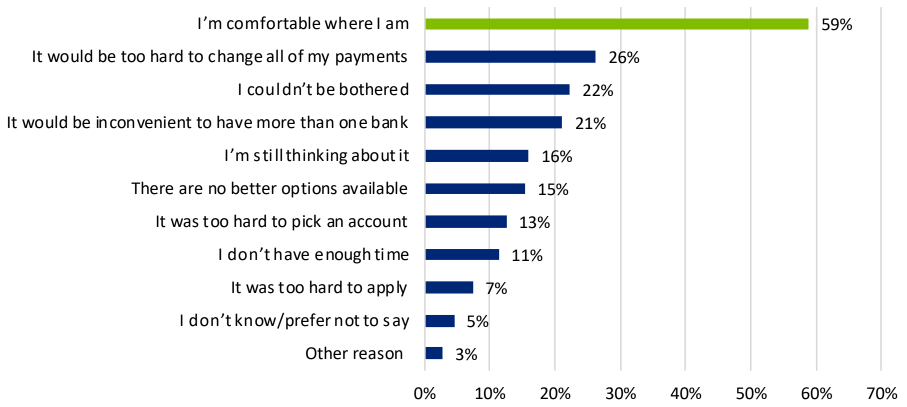
Similarly, a Galaxy Research survey in 2017 found that only 1 in 10 people who have switched found the process difficult (Australian Banking Association, 2017). In fact, 67% of people who changed a banking product in the last 12 months said that the process was easy or very easy (Australian Banking Association, 2018).

Arguably, the perception of difficulty could matter more than the actual difficulty. A perception that switching is difficult may deter people from trying to switch. In addition, those who managed to switch may have higher ability or willingness to overcome time and administrative costs.

Our survey finds that although there are perceived barriers to switching, the overwhelming majority of people who considered switching ultimately chose to stay because they are comfortable with their current bank.

Almost 60% of everyday transaction account holders who have considered other banks did not go on to open an account with another bank because they are comfortable where they are.

Chart 3.9: Reasons for staying – everyday transaction owners



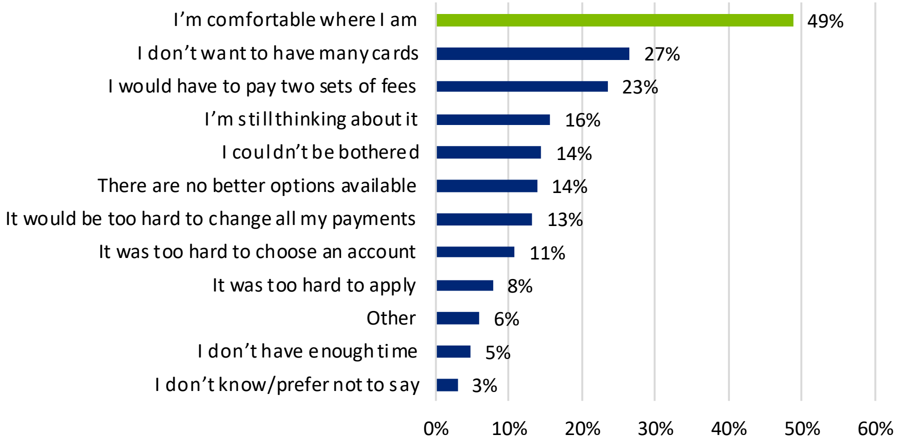
Note: Category response frequencies do not sum to 100% because of multiple responses. . Asked everyday transaction account holders who have considered other banks. N=175.
Source: Deloitte Access Economics analysis based on data from Research Now

This is in line with previous findings by Galaxy Research. A 2017 survey found that, of those who haven't switched in the last three years, 58% say the reason why they haven't switched is because they're comfortable with their current bank (Australian Banking Association, 2017).

However, this is not to say that there are no perceived difficulties to switching. As seen in Chart 3.9, just over 1 in 4 transaction account holders who considered other banks chose not to switch because they thought it would be too hard to change all of their payments.

Similarly, **almost half of credit card account holders (49%)** who have considered other banks **stay put because they are comfortable where they are**. As seen in Chart 3.10, around 13% said that one reason they stayed was because it would be too hard to change all of their payments, and around 1 in 10 credit card account holders said it was because it was too hard to pick (11%) or apply for an account (8%) at a different bank.

Chart 3.10: Reasons for staying – credit card owners

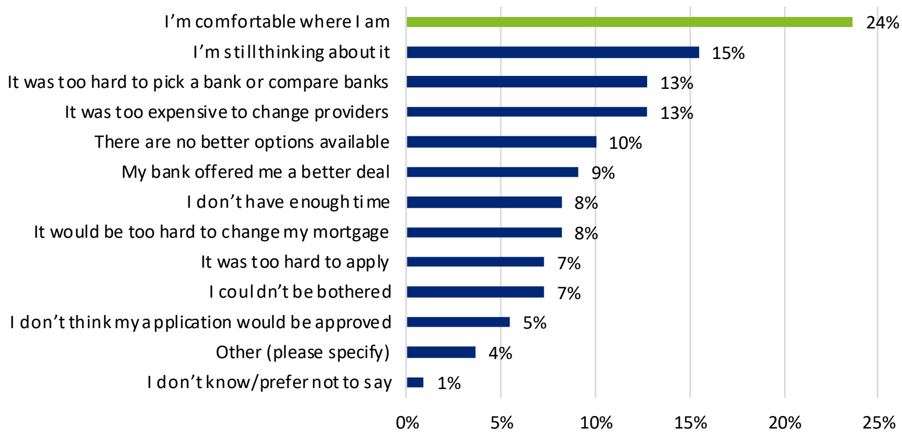


Note: Asked credit card account holders who have considered other banks. N=166.

Source: Deloitte Access Economics analysis based on data from Research Now .

And lastly, **almost one in four mortgage owners** who have considered other banks' mortgage options **have not refinanced with another bank because they are comfortable where they are**. Nearly 1 in 10 said they didn't refinance because would be too hard to change their payments over, and around 13% said it was too hard to choose between other banks.

Chart 3.11: Reasons for staying – mortgage owners



Note: Asked mortgage holders who have considered other banks. N=110.

Source: Deloitte Access Economics analysis based on data from Research Now

3.5 Decision to switch

Our research supports other papers that find that many Australians are choosing to change their account providers, by establishing accounts with other banks.

This survey finds that **15% of transaction account owners opened an account with a different bank in the last 12 months**, and 53% of transaction account owners have done so at some point.

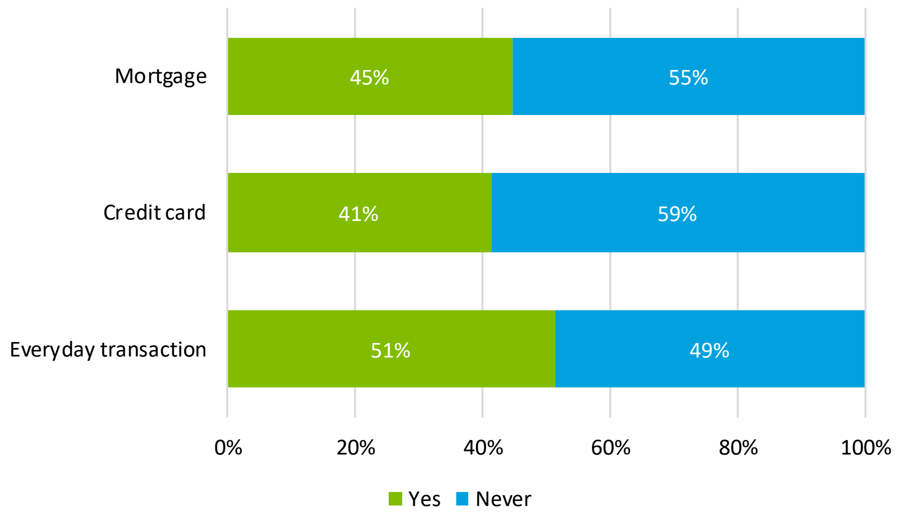
Credit card owners are less likely to switch; **1 in 10 account holders opened accounts with another bank in the last 12 months**, and around 1 in 3 (32%) credit card owners have ever done this.

By comparison, Galaxy Research's 2017 survey found that 19% of all product owners changed banking products within the last 12 months, and 17% of Australians have switched their main bank in the last three years (Australian Banking Association, 2018).

Mortgage owners switch least frequently; **only 5% of mortgage owners have refinanced in the last 12 months**, and 16% of mortgage owners have ever refinanced their mortgage with another bank. While not directly comparable, a Choice survey in 2017 found that 17% of people with home loans with a non-big four bank had switched home loans in the last two years compared to 11% of people who have home loans with the big four (CHOICE, 2017).

Chart 3.12 shows that 51% of transaction account owners have also closed an account with a bank. This is the highest rate across all product types; only 42% of credit card and 45% of mortgage owners have done so, which suggests that many transaction card owners carry more than one account with different banks.

Chart 3.12: Closed accounts by product type



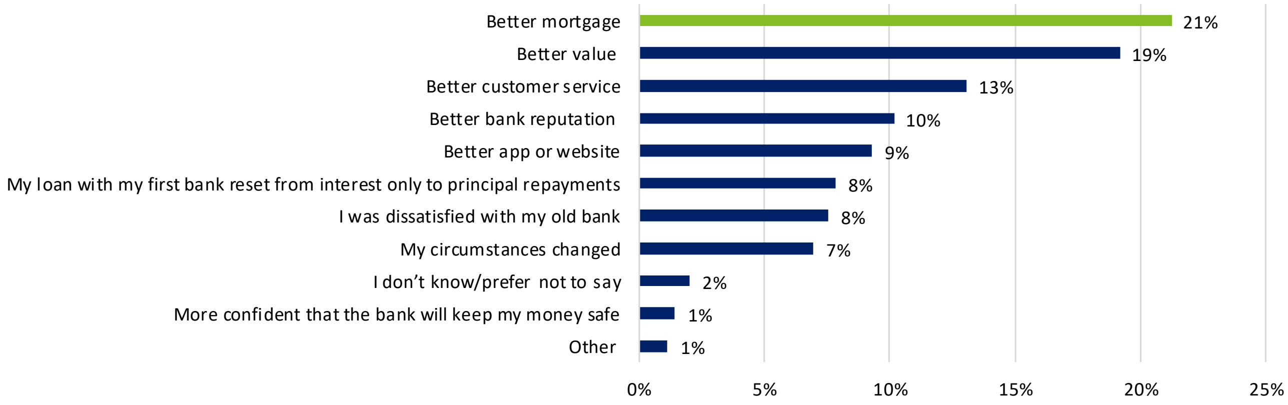
Note: Asked everyday transaction account owners (N=1006), credit card owners (N=730), mortgage owners (N=367).
Source: Deloitte Access Economics analysis based on data from Research Now

When asked about why they opened another account, the most common reason given was because they found better value with another bank.

Almost 1 in 5 everyday transaction account holders switched because they found better value at another bank, and 18% of credit card account holders said the same.

However, for mortgages we find that the **most important driver of switching was finding a better mortgage (21%)** which provided an offset account or allowed consumers to fix a part of their loan. In other words, in our survey, mortgage features matter most when it comes to deciding whether to refinance a mortgage. Nonetheless, factors that drive **better value (19%) such as lower interest rates or lower fees, are still important.**

Chart 3.13: Why did you refinance your mortgage with another bank?



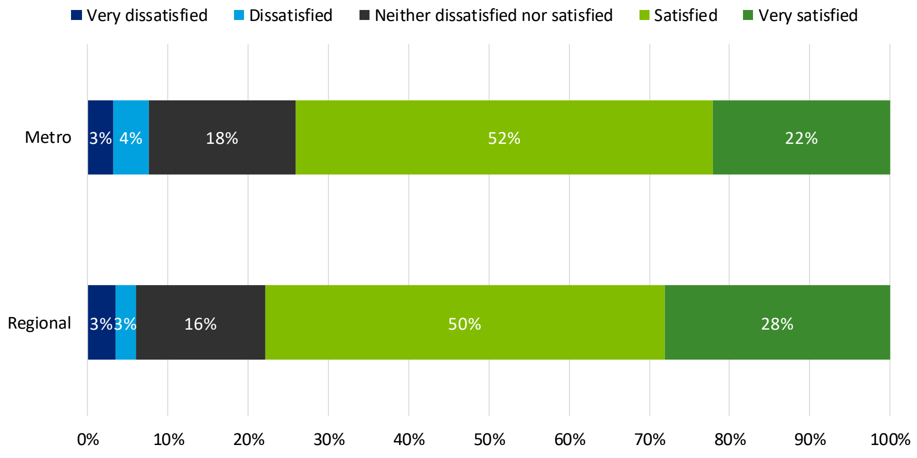
Note: asked mortgage owners who switched within the last 12 months, 3 years or more than 3 years ago. N=164.
Source: Deloitte Access Economics analysis based on data from Research Now

We find that rates of switching are higher among those among those who have asked an adviser, family or friends about products offered by another bank, than among those who have not. 8 in 10 (80%) of respondents who ever asked someone they know for advice (adviser, family, friends) have switched. In contrast, 1 in 3 (33%) of respondents who have never asked someone they know for advice have switched. This suggests people who ask for financial advice from others are more likely to switch.

We also find that metropolitan residents are overrepresented in the population that switches accounts compared to regional residents. While 60% of the survey respondents live in metropolitan areas, 71% of all credit card account owners who have switched banks, and 72% of mortgage account switchers live in metropolitan areas. This is more balanced for everyday transaction accounts – 64% of account owners who have switched live in metropolitan areas.

This could indicate higher intensity of competition and greater diversity of choice in cities. However, on the flipside it is also important to consider the possibility that not as many regional consumers switch because they are more satisfied with their banks than metropolitan consumers. Our survey finds some evidence to suggest this. Chart 3.14 shows that 71% of regional mortgage owners are satisfied or very satisfied with their bank, compared to 66% of metropolitan mortgage owners.

Chart 3.14: Satisfaction by region, for mortgage account owners



Note: Asked mortgage owners who live in regional areas (N=123) and mortgage owners who live in metropolitan areas (N=244).

Other than regional location, there are no significant differences in the rate of switching across socio-economic and between other characteristics, including gender, income or state of residence.

3.6 Assessing switching levels

The academic literature does not identify whether an optimal rate of switching in a competitive market exists, or seek to determine what this would be. The literature has focused in detail on switching costs – particularly, under what circumstances and conditions customers will switch, and the relationship between low switching costs and competition.

Yet government bodies and regulators have mixed views on switching rates. For example:

- in its submission to the Productivity Commission's draft report, the ACCC puts forward the view that the rate of switching is low, and therefore, combined with other factors, it is an indicator that the market is not competitive (ACCC, 2017);
- the Commonwealth Treasury, in their Review of Open Banking says "[w]hile account switching has sometimes been considered as an indicator of competition between banks in the past, it is unlikely to be a robust indicator of competition, or of measuring the effectiveness of Open Banking reforms to increase competition. This is because there are significant other reasons why a customer may not want to switch accounts" (The Australian Government the Treasury, 2017);
- the Productivity Commission, in its Competition in the Australian Financial System draft report, states that "consumers are not actively engaging in the decision about whether or not to switch" and "for some financial products many consumers do not switch, even when superior alternatives are available, especially for credit cards and transaction accounts";
- in the private health insurance market, the Private Health Insurance Administration Council says there is no particular level of switching that would indicate the market is strongly competitive (Private Health Insurance Administrative Council, 2013).

Research has found that lowering switching costs is positive for competition, but does not necessarily lead to more switching.

In the UK, the introduction of the Current Account Switch Service (CASS) aims to increase competition by committing the new bank to guarantee switching free of charge; transfer all money to the new account including redirection of misplaced payments; contact the sender to give them new account details; and minimise switching time to only 7 working days.

According to the University of Bristol Personal Finance Research Centre, CASS improved the timeliness and ease of switching process, but overall switching rates have not improved since its introduction (Hartfree, Evans, Kempson, & Finney, 2016). While banks in the UK have spent approximately £750m (A$1.3b) to establish CASS, only 2 million people used it in the first two years (Treanor, 2015).

Switching rates of between 5-15% across the three banking products are consistent with the range seen in other jurisdictions. This implies that around 2.8 million adult Australians change their banking relationships every year.[13] The UK Competition and Markets Authority's survey of switching in personal current accounts found that 86% of people who search do not continue to switch (Competition & Markets Authority, 2015). They estimate the annual rate of switching is 3%. In the US, 11% of consumers left their bank in the past year (Accenture, 2017). A consumer survey in New Zealand has also found that 5% of banking consumers had switched banks in the past year (Consumer, 2018).

3.7 Looking forward

In Australia, regulatory solutions are already underway to promote competition through greater ease of customer switching between banks. Open Banking, for example, will create a data-transferring regime to allow accredited third parties to receive consumers' banking data. This may lead to greater ease of switching, by simplifying processes such as transferring payments from existing bank accounts to new banks.

Our survey asked Australians about their willingness to transfer personal data to an institution in order to receive a range of potential benefits. We found that **38% of respondents would never want their personal transaction data transferred, no matter what the potential benefit**, while 12% were not sure.

Of those who would consider transferring their data, trust in the organisation that would be receiving their data was a critical consideration. Between 4 and 6 in every 10 were prepared to transfer their personal data only to an institution they trusted. Between 2 and 3 in every 10 were open to transfer their personal data for these benefits regardless of trust, and a remaining 2 to 4 in 10 would not transfer their data for these particular benefits.

Chart 3.15 shows which potential benefits respondents said would motivate them to transfer their personal data, for the 50% of respondents who said they would consider sharing their data at all.

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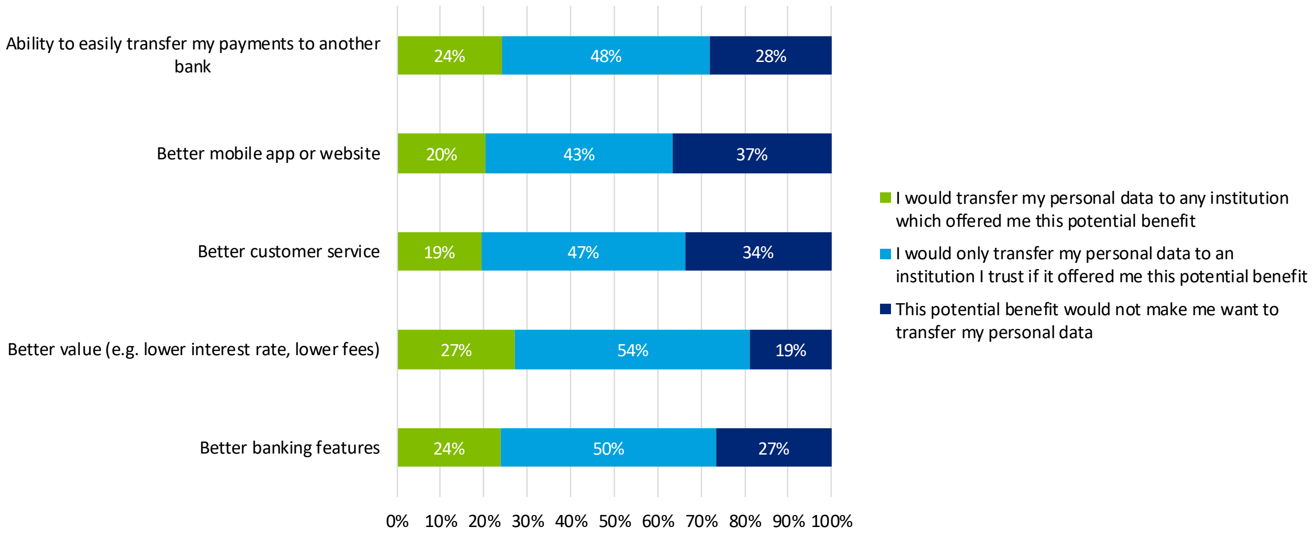
[13] Based on population 18 and over, June 2018, ABS Cat No 3101.0, minus those without a transaction account, which is just over 2% of the adult population, https://www.nab.com.au/content/dam/nabrwd/documents/reports/financial/2014-measuring-financial-exclusion-in-australia.pdf

Chart 3.15: Willingness to transfer personal data by potential benefit



Note: Asked only those who did not respond "never" or "not sure/don't know" (N=513). Of the sample, a remaining 383 respondents would never want their personal transaction data transferred (38%), and 121 were not sure or did not know (12%). Deloitte Access Economics analysis based on data from Research Now.

Open Banking is posed to deliver more choice in the market amongst banking institutions, and may gain more acceptance and use as the potential benefits and trust become more established. Yet there is currently limited awareness.

Comprehensive Credit Reporting (CCR) is a component of Open Banking that may also improve the customer experience of comparing mortgages, by allowing credit providers to provide positive credit information on individuals, such as loan repayment history (Deloitte, 2018). Innovations enabled by the NPP could also enhance peer-to-peer banking and payment speeds.

Similarly, in response to findings by the Khoury Review, the updated Banking Code of Practice sets out a range of new measures and commitments. These are intended to increased transparency, ethical behaviour, responsible lending and financial protection and have been adopted by 20 banks including the big four banks. The new Code will commence on 1 July 2019 and be monitored by the independent Banking Code of Compliance Committee (Australian Banking Association, n.d.).

Conclusions

Choice is important to Australian consumers of retail banking products. There is a range of products available to cater to different personal banking needs.

Retail banking has introduced a number of innovations in the last two decades, such as Tap & Pay bank cards enabled by NFC technology. The Australian Treasury, lists other innovations including (Deloitte Access Economics, 2014):

- high interest online savings accounts;
- transaction accounts with simplified fee structures;
- mobile banking;
- low-doc and no-doc loans;
- zero or low deposit home loans; and
- "capped rate" variable mortgages.

More innovations are to come in response to Open Banking and the New Payments Platform banking infrastructure. For example, Comprehensive Credit Reporting by banking providers will likely allow individuals to more easily access mortgage products from a range of competitors.

At the same time, public policymakers have raised concerns about competition in retail banking. Many share the Productivity Commission's concerns that "barriers to switching can make loyal customers ripe for exploitation" (2018).

This report uses new evidence from a nationally representative survey of Australian retail banking consumers to understand the underlying preferences driving consumer choices over banks throughout a customer's relationship to their bank, up to and including switching by opening an account with a different bank.

The survey finds that many factors are important for choosing a banking provider and can differ across banking products. While consumers tend to consider **price to be the most important factor, many other product features and services, such as fraud protection and convenience,** are also important considerations that inform choice.

Broadly, consumers seem to be satisfied with their choices. Around 79% of everyday transaction, 75% of credit card, 67% of mortgage owners are 'very satisfied' or 'satisfied' with their banks.

Yet our survey evidence suggests that consumers do not 'set and forget' their banking products. **Most have actively searched for information on other accounts offered by other banking providers** (22% of transaction, 21% of credit card, 23% of mortgage owners) in the last 12 months.

We find that ultimately, **15% of everyday transaction owners**, **10% for credit card and 5% for mortgage end up switching in the last 12 months.** For the most part, consumers who actively searched for other products choose not to switch because they are comfortable where they are.

For mortgages, we find that the **most common driver of switching is not price, but greater flexibility around repayment** (21% of mortgage switchers cited as reason for refinancing). This is despite the fact that price factors including interest rates and fees are rated as 'very important' or 'important' by 87% of mortgage owners when choosing a lender.

Switching is perceived to be relatively easy – there are some barriers, but by and large, people who remain with their bank choose to do so because they are comfortable where they are and haven't found a better option. **59% of transaction, 49% of credit card and 24% of mortgage owners who have considered other banks** stay with their bank because they **are comfortable where they are**.

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