An Investigation of Multi-Product Loyalty in Financial Services

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Abstract

This paper extends formal knowledge concerning loyalty to identify patterns in multi-product loyalty in financial services. The study found that (1) the average number of financial services products per customer varies little between providers – around "2" per customer; (2) financial institutions typically are the main financial institution to two thirds of their customer base; and (3) financial institutions typically have around 30-35% of the 'share of wallet' of their customers. These patterns are very similar to the well-established patterns within single repertoire product categories (eg, grocery products). We interpret these findings as suggesting that 'cross selling' is a difficult route for growth in financial services. This is because cross product holding performance appears predictable with no provider being able to substantially outperform its competitors.

Introduction

A great deal is known about loyalty for brands within a product category. Systematic patterns have been observed and described across numerous product categories, countries and time. For example, brands differ substantially in terms of the number of customers they have (high market share brands having more customers) but little in terms of how loyal those customers are (how often they buy that brand). A comprehensive theory even exists that predicts and explains these patterns – the NBD-Dirichlet (Ehrenberg et al., 2003, Goodhardt et al., 1984). Such work has mainly examined loyalty patterns in repertoire type markets (eg, groceries) but research has also extended this finding to situations such as fuel contracts (Uncles and Ehrenberg, 1990) and motor vehicles (Colombo et al., 2000).

Less is known about loyalty in so called subscription markets such as banking (Sharp and Wright, 2000). An important question for marketing people in organisations such as banks and credit unions is - do brands vary systematically in loyalty levels in financial services? This is an important question because managers in financial services frequently use loyalty metrics such as "share of wallet" and average product holdings per customer as key performance indicators. However, as there are few benchmarks to guide managers in this area, little is known about what is achievable. Are objectives such as increasing 'share of wallet' or average holdings per customer feasible? There is little guidance in the literature, therefore we analysed empirical data to see if similar patterns in "share loyalty" also occurred in loyalty for financial services when we look at loyal from a multi-product holdings perspective – i.e., loyalty to the one financial service provider across product categories (loans, credit cards, transaction accounts, investments etc).

Data Analysed

Our data were based on two surveys. The first is survey data based on a nationwide sample of over 14,000 respondents about their general financial service consumption behaviour. The survey asked, for example, if the respondent had a savings account, cheque account, credit card, term deposit and so on – and with which provider. The second data set involved a survey of 200 respondents that also obtained data on financial services holdings as well as stated reasons why the consumer used a particular provider for their needs.

We firstly identified the average number of products held by each customer. Table 1 below shows the average number of products held for the five largest financial service providers in a market. Clearly, there is very little variation between the competing brands. Data for this measure of multi-product loyalty was also collected on a quarterly basis over a five year period. The total variation in this period was 1.6 – 2.2, very similar to the figures shown below.

Table 1: Average Banking Products Held

Financial Institution (masked)	Market Penetration (% of market who are customers)	No. Banking Products (inc. invest & insurance)
HSBC Bank	46	1.9
Barclays Bank	22	2.2
Lloyds TSB Bank	21	2.2
Abbey National	18	2.0
Bradford & Bingley	12	1.8
Total Average	-	2.0

While there is some minor difference between the brands, it appears that approximately "2 products per customer" at any one financial institution is generally the case. The market leader is slightly lower than 2, which seems explainable in that this was previously the Government owned bank and so has a broad but slightly single transaction account skewed customer base, due to School banking and historic practice of paying pensions into accounts at this institution. The smallest two financial institutions also have slightly less loyal customer bases and this too would seem to reflect their history. A large part of Bradford & Bingley was formerly a building society and Abbey National took over a large credit union. Building Societies and Credit Unions did not traditionally offer the full range of banking services.

That there is little variation and that what variation there is seems due to history suggests that loyalty is largely fixed. It probably also may indicates that the customers of one financial institution are very similar to customers of another financial institution in terms of their requirements for financial products - which would be expected given earlier findings about the lack of brand level segmentation (Kennedy and Ehrenberg, 2001, Kennedy et al., 2000).

The next stage of the research was to address another measure of loyalty - the size of the customers total wallet (expenditure on financial service products) and 'share of wallet' that is given to any one financial institution. Column 5 of Table 2 below indicates that most financial institutions receive approximately 30-35% of their customer's financial service business.

Table 2: MFI Status and Share of Wallet

Financial Institution (masked)	Penetration %	% of customer who say it is their MFI	Avg. Share of Wallet %
HSBC Bank	46	73	32
Barclays Bank	22	61	32
Lloyds TSB Bank	21	63	35
Abbey National	18	52	24
Bradford & Bingley	12	60	35

On average these major banks are the main financial institution to around two thirds of their customers. The largest bank enjoys somewhat more of a 'double jeopardy' type phenomenon (e.g. Ehrenberg et al., 1990). They also have similar 'share of wallet' at around 30-35%. Abby National has lower loyalty than the others in terms of the proportion of customers to whom it is their MFI, and in terms of share of wallet. We attribute this to the incorporation of a building society by that bank in some time ago. This is because the share of wallet of total building societies and credit unions are generally lower than that of major banks.

Over a 7 year period the share of wallet value of any of these five banks has only varied only between 24% and 34% - and excluding Abby National - this has only varied between 30-34%. While customer loyalty may be evident, these figures show that it hardly varies between competing brands. Again, if cross selling was effectively pursued, we may expect to see substantial differences in these figures.

Given these results, is it possible to attempt some additional explanation? We may be able to add to our understanding by addressing the question of what do consumers *do* when they need a new financial product? To address this we turn to the second data set. This is based on a survey of 200 respondents, and it identified the following:

Last financial product purchased
Where they purchased it from, and if this was their MFI (Main Financial Institution)
If they had used this provider previously
If they shopped around or went directly to this provider
Why they decided to purchase it from this provider

Most customers (average 76%) bought their most recent product from a financial institution that they currently or have previously used. For 58% this was the institution they consider to be their MFI.

Table 3: Previously dealings with FI

Percentage of Respondents	Dealt with previously?	FI is their MFI?
58%	✓	✓
18%	✓	✗
11%	✗	✓
13%	✗	✗

We elaborate on these results by showing the five major banking products acquired. The lowest percentage of products for whom the customer used a provider they already dealt with was a car loan, and this proportion was 67% of respondents as per Table 4.

Table 4: FI Products / Previous dealings

	FI dealt with previously (%)
Personal Loan	86
Credit Card	76
Home Loan	73
Savings Account	70
Car Loan	67
Average	**74**

The respondents were also asked why they chose a particular financial institution. The most prevalent stated reasons were location, interest rates and service. A breakdown on results split by whether the respondent had dealt with the provider before or not, is shown as Table 5 below. An intriguing question for further research is indicated in Table 5, in that there is some indication (albeit not statistically significant) that consumers are more likely to claim they chose a provider they dealt with previously for service but a provider they had not dealt with previously for location or rates.

Table 5: Reason for choosing Financial Services Provider (FI)

	FI dealt with previously (%)	FI not dealt with previously (%)	Total %
Location	22	32	54
Interest Rates	20	32	52
Service	34	14	48
Level of Fees	7	11	18
Other	5	9	14
Advice – Broker or friend	3	7	10
Product Range	9	0	9
Previous Dealings	4	2	6
No Response	1	7	8

Conclusions / Implications

The main implication of this study appears to be that a financial services provider should expect that its level of cross product holdings will be approximately similar to its competitors. Why? Because when consumers need a new financial product, most go to their main financial institution or a provider they deal with already. On an assumption that the user base of one bank does not vary considerably from another (except for some predictable reason such as being a credit union or building society rather than a bank) then each bank's customer will have about the same level of demand for such products. In this situation it is difficult to imagine how one provider could markedly outperform its competitors in number of cross product holdings or loyalty levels.

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