



General issues, relevant for the user mobility debate

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Basic idea of this presentation

- Discovering how (implicit) assumptions on
 1. Bank strategies
 2. Consumer behaviour
 3. Competition, concentration and user mobilitymay influence the discussion of the scenarios:
 - Domestic switching of accounts
 - Cross border opening of accounts
 - Cross border switching of accounts
- Finding out if we wish to address some of these issues further



1. Bank strategies: some questions

- We may be assuming that the most likely scenario for further European user mobility is that full service banks penetrate Europe by beginning to serve non-residents from their respective domestic home-bases.
- Is this indeed the most likely scenario?
- Which is the spectrum of banks and possible expansion strategies that we might consider in our analysis ?

Bank product/customer strategies

<u>Divergent bank strategies</u>	For all types of customers	For specific customer segments
For all financial products	Full service bank	Customer specialists (businesses, well-to-do, ...)
For specific financial products	Product specialists (savings, loans, mortgage)	Niche player

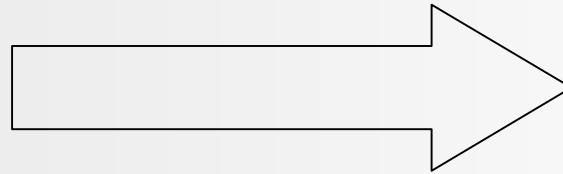
Bank expansion strategies

- Diverging bank expansion strategies:
 - Stay and continue with domestic focus (Friesland Bank)
or
 - Penetrate rest of EU-markets by
 - Joint ventures (Rabo, ING, Fortis)
 - Focused penetration (ING Direct)
 - Take-overs (ABN AMRO)
 - Cross-border selling (Argenta, Paypal)

Questions and considerations - 1

Type of bank

- niche player
- product specialist
- customer specialist
- full service bank



User mobility scenario's

- market driven mobility
- domestic switching
- cross border opening
- cross border switching

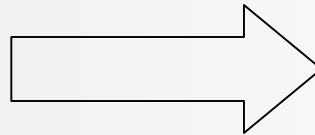
Questions

1. Will the full service bank (and to a certain extent the customer specialist) benefit more from switching services than the niche player and the product specialist ?
2. Or will they lose more ?

Questions and considerations - 2

Expansion strategy

- keep domestic focus
- joint ventures
- focused penetration
- take-overs
- cross-border selling



User mobility scenario's

- market driven mobility
- domestic switching
- cross border opening
- cross border switching

Considerations

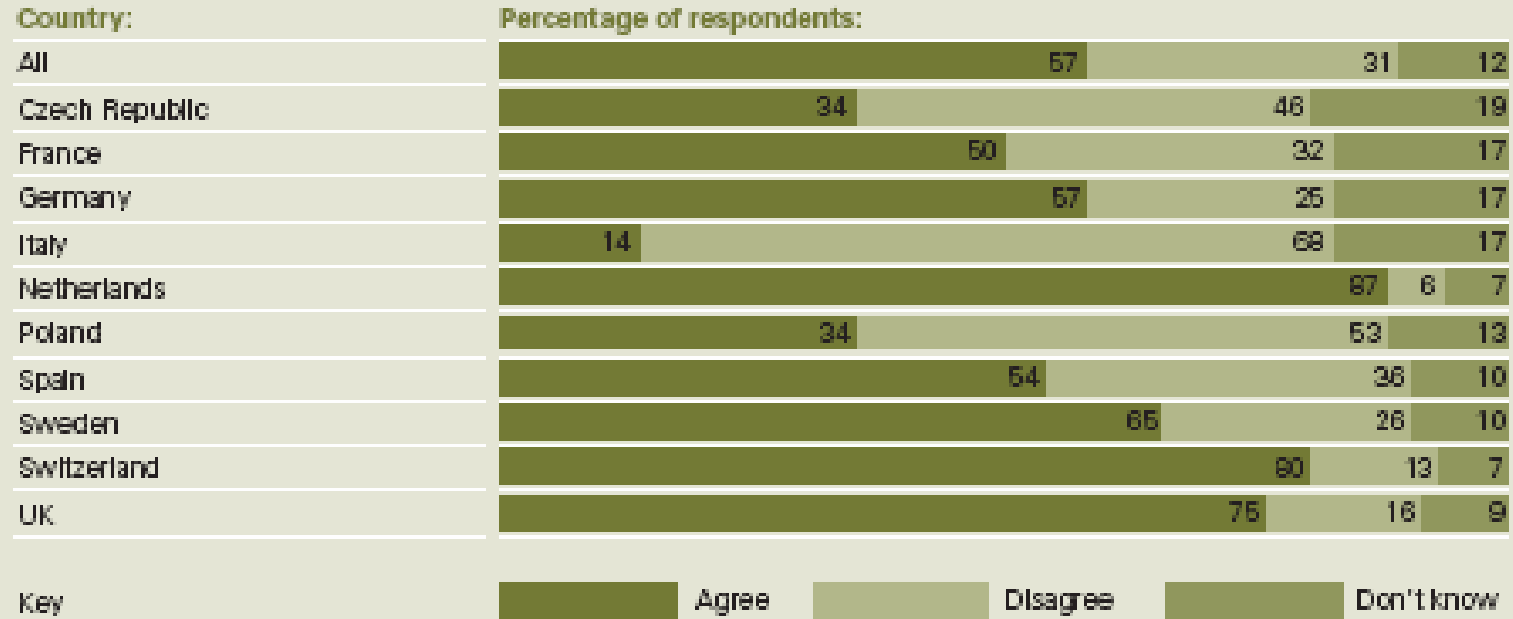
3. New entrants in the market generally try to expand by focused penetration and cross-border selling (cf ING Direct, Paypal) and will not require their customer to switch banks.

4. If the dominant market strategy of current market players is based on strong local presence, how much weight should be attached to cross-border opening/switching as scenarios when compared to domestic and market driven switching?

KPMG slide on degree of home-bias

Figure 1.1 Do you agree or disagree with the following statement?

a. Banking in my country is good and I am happy with the system as it is.



Questions and considerations - 3

Type of bank

- niche player
- product specialist
- customer specialist
- full service bank

Expansion strategy

- keep domestic focus
- joint ventures - focused penetration
- take-overs
- cross-border selling

User mobility scenario's

- market driven mobility
- domestic switching
- cross border opening
- cross border switching

Question

5. In theory the spectrum of competition / expansion and user mobility scenario's is broad. But how to deal with practice (the preference for local shopping/banking: the home-bias puzzle)?

While large industries have embraced the opportunities of the Single Market to become more international in outlook, Europeans basically continue to shop, invest and work at home (Delgado, October 2006)



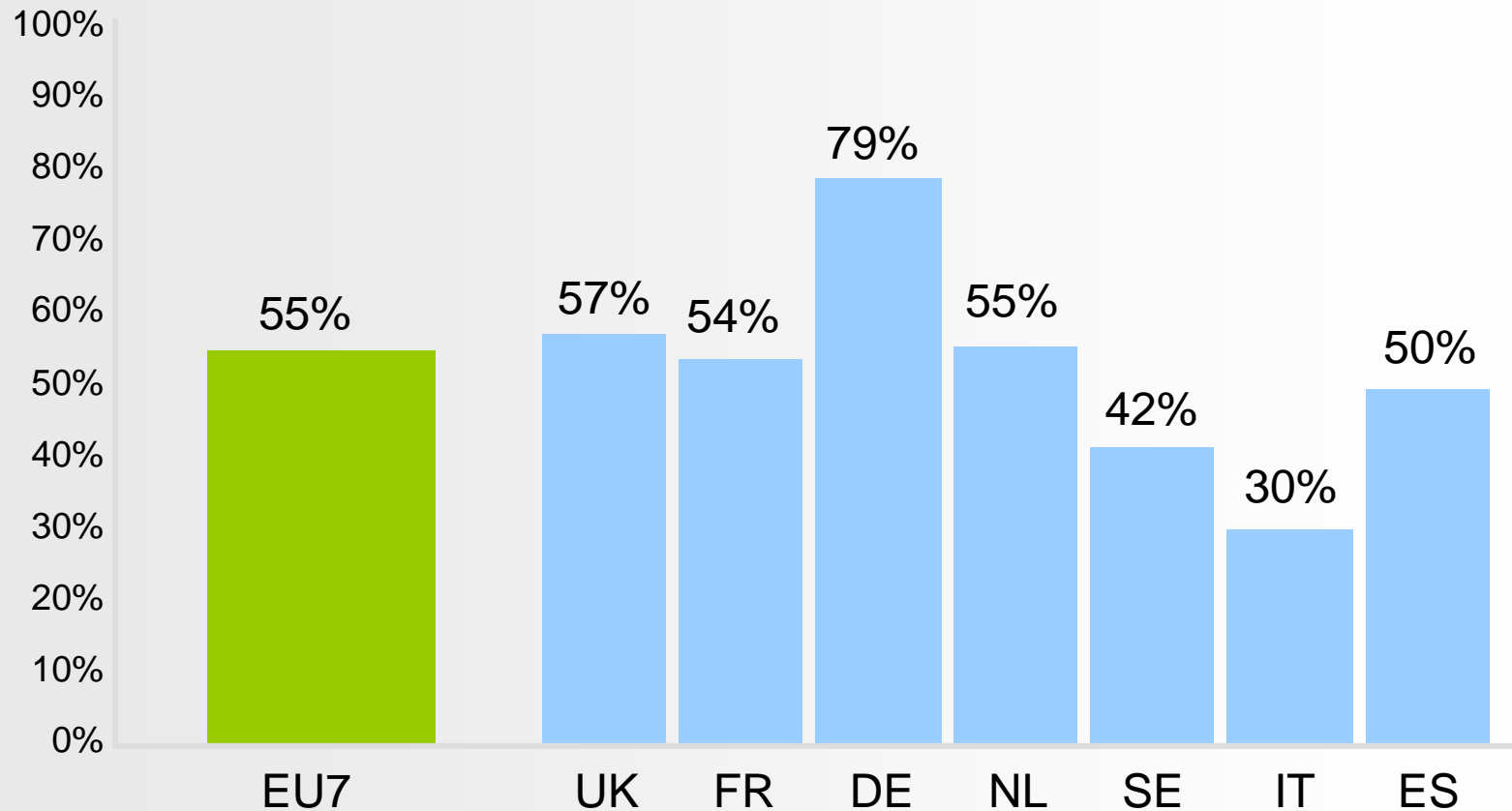
2. Consumer behaviour

- While facts / figures may appear to be clear:
 - Consumers shop around
 - Are satisfied with their main bank
 - And do not intend to switch from their bank
- How about...:
 - the source of customer satisfaction
 - the concepts of user mobility / switching
 - the determinants of customer behaviour and the customer search process for payment accounts

Europeans consider their options



“I always try to shop around for financial products.”



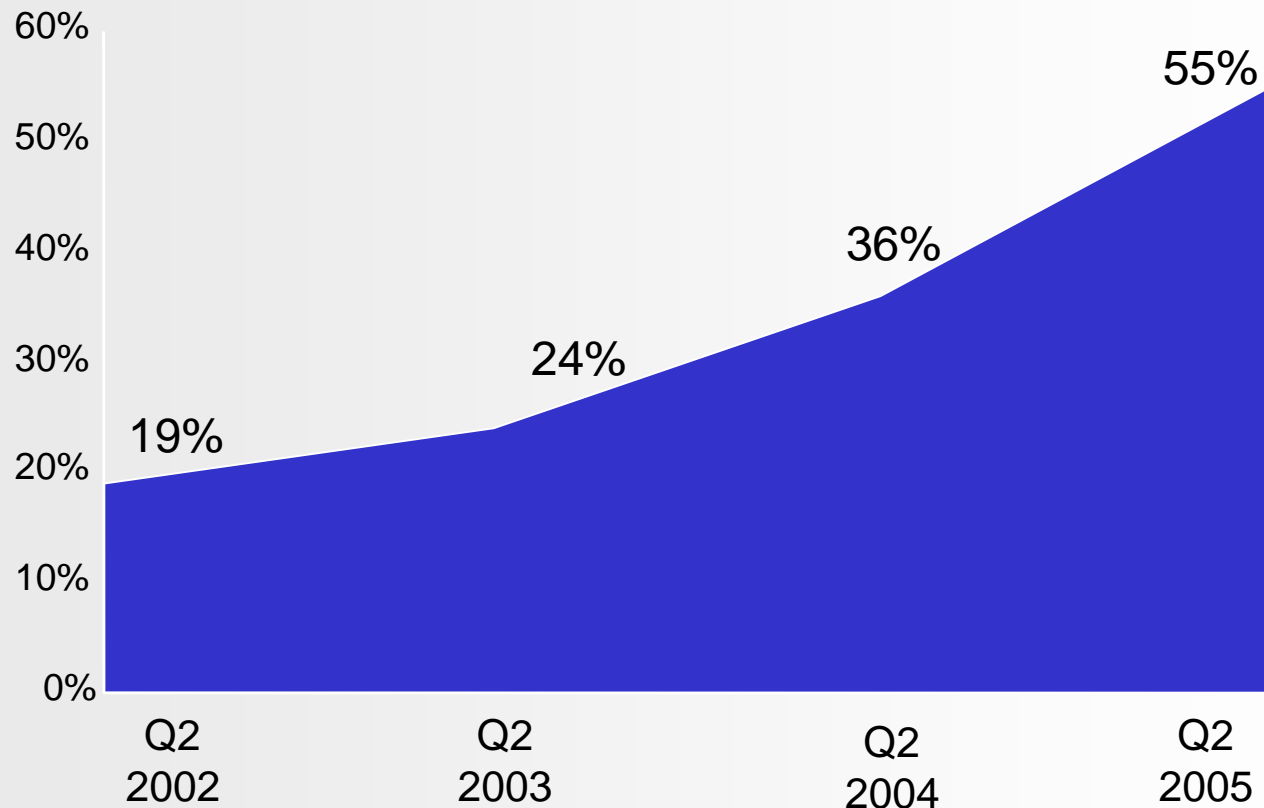
Base: 23,095 European consumers

Source: Forrester's Consumer Technographics® Q2 2005 European Study

And increasingly do so



“I always try to shop around for financial products.”

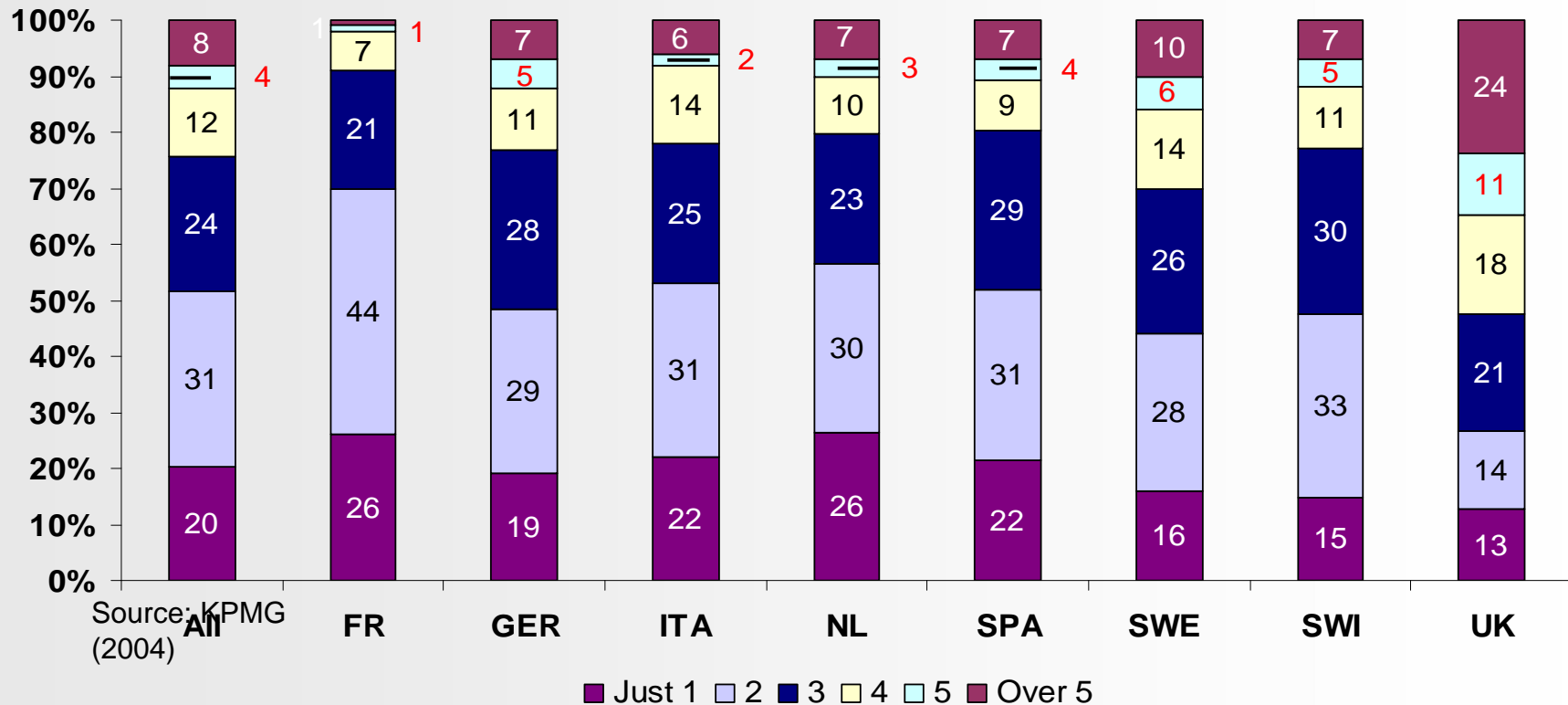


Base: 23,095 European consumers

Source: Forrester's Consumer Technographics® Q2 2005 European Study

Reflected in customer portfolio

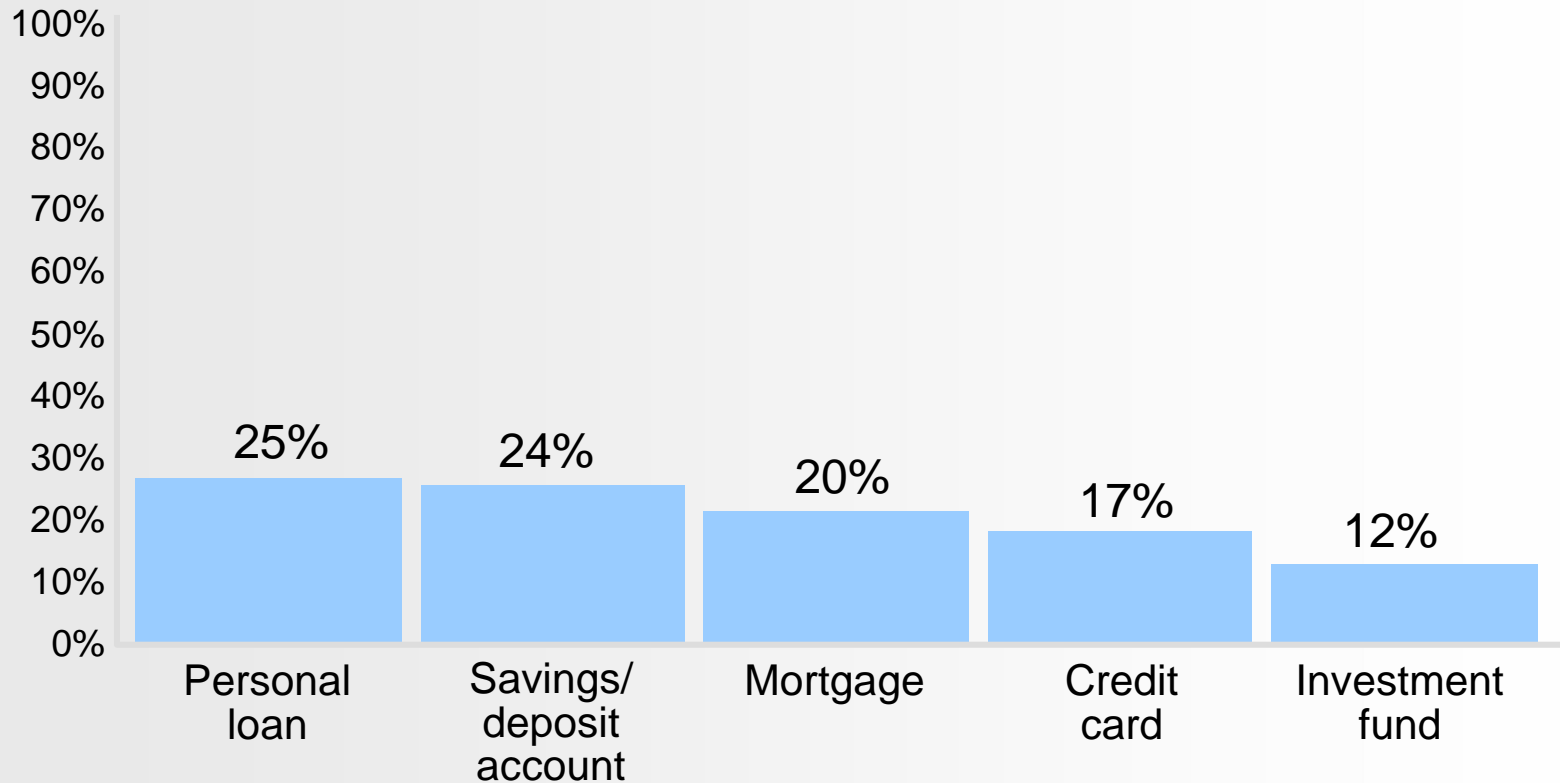
"Including your main bank, how many financial service providers do you have a relationship with (thinking of current accounts, investments, mortgages, insurance etc.)?"



And in the intention to consider the main bank



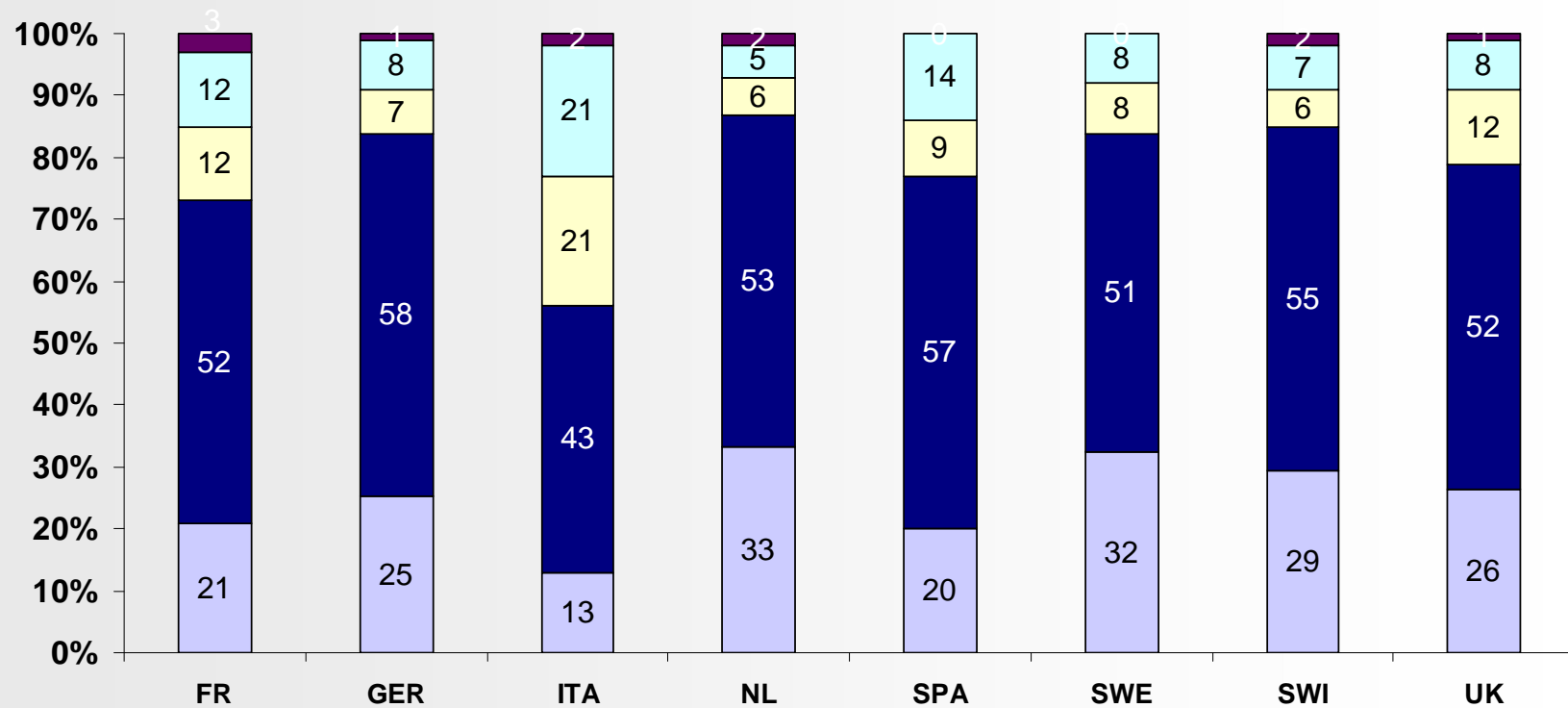
“For each of the following, do you think you will consider your main bank for your next purchase of it?”



Base: 23,095 European consumers with a main bank
Source: Forrester's Consumer Technographics® Q2 2005 European Study

Customer satisfaction regarding banks

Pleased with their bank:
"Overall my bank gives me a good service and I am very pleased to be with them"



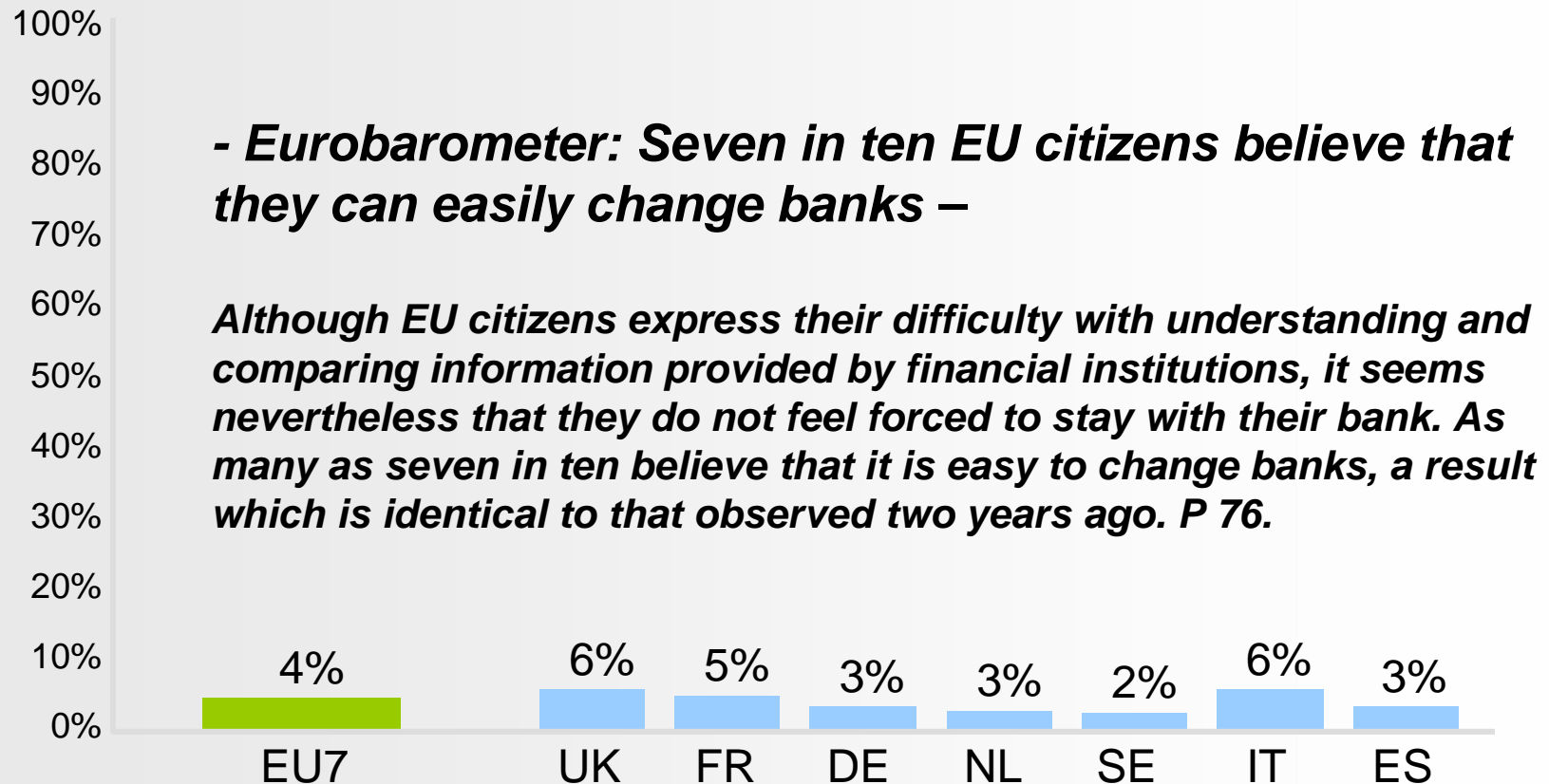
Source: KPMG
(2004)

□ strongly agree ■ agree □ no opinion □ disagree ■ strongly disagree

And customers don't plan on switching



“How likely are you to change your primary provider during the next 12 months?”



Base: 23,095 European consumers with a main bank

Source: Forrester's Consumer Technographics® Q2 2005 European Study

Customer satisfaction ≠ customer switching

	Satisfied with bank	Intention to switch
KPMG – 2004 survey	86 %	9 %
Forrester – 2005 survey	69 %	3 %
NVB survey - 2005	94 %	5 %

	Intention to remain customer	No intention to remain	Total
Bank satisfies expectations	<i>Faithful:</i> 92%	<i>Rational</i> 2%	94%
Bank does not (fully) satisfy expectations	<i>Passive:</i> 3%	<i>Dissatisfied</i> :: 3%	6%
Total:	95%	5%	100%

Sources of customer satisfaction

- Possible positions:
 - Customer tells us about satisfaction but in reality this is not true
 - Customer is satisfied, not necessarily about the main bank but about his/her personal product-mix
 - Payment with bank A, mortgage bank B and loan bank C
 - Customer is actually satisfied with the services of the bank and stays because he/she is happy
- How do we 'read' the satisfaction rates and deal with the difference between customer satisfaction and the customer's intention to stay/leave his bank ?

User mobility is more than switching

- How do we deal with the differences between:
 - The concept of user mobility:
 - A user which chooses freely to obtain services from the financial service provider he/she most prefers
 - Acknowledges that user has multiple (possibly overlapping) relationships
 - The concept of switching:
 - A user that decides to obtain his new services from a different service provider than his old one **and** which ends the relationship with the old provider
 - Assumes sequentiality and replacement strategy

The drivers for customer behaviour

- Possible visions on customer behaviour
 1. Payments as a primary good –
 - Rationality: payment costs are such an irrelevant part of the customers annual purchase budget that it doesn't pay off to optimize available alternatives → sticky customers
 - Irrationality: (supra-)complex decision making → customer choices could in theory be better
 2. Payments as (secondary) convenience good –
 - Incidental consideration / evaluation of relationship
 - Proximity, **dissatisfaction** and ease of use are main drivers for customer choice

Questions and considerations - 3

Customer satisfaction with his main bank

Tells the truth

Happy with portfolio

Not true

What is the main issue at stake ?

User mobility in general

(Cross-border) switching

What drives the customer ?

Payments: convenience good

Payments: primary good

market driven
mobility

cross border
opening

domestic
switching

cross border
switching

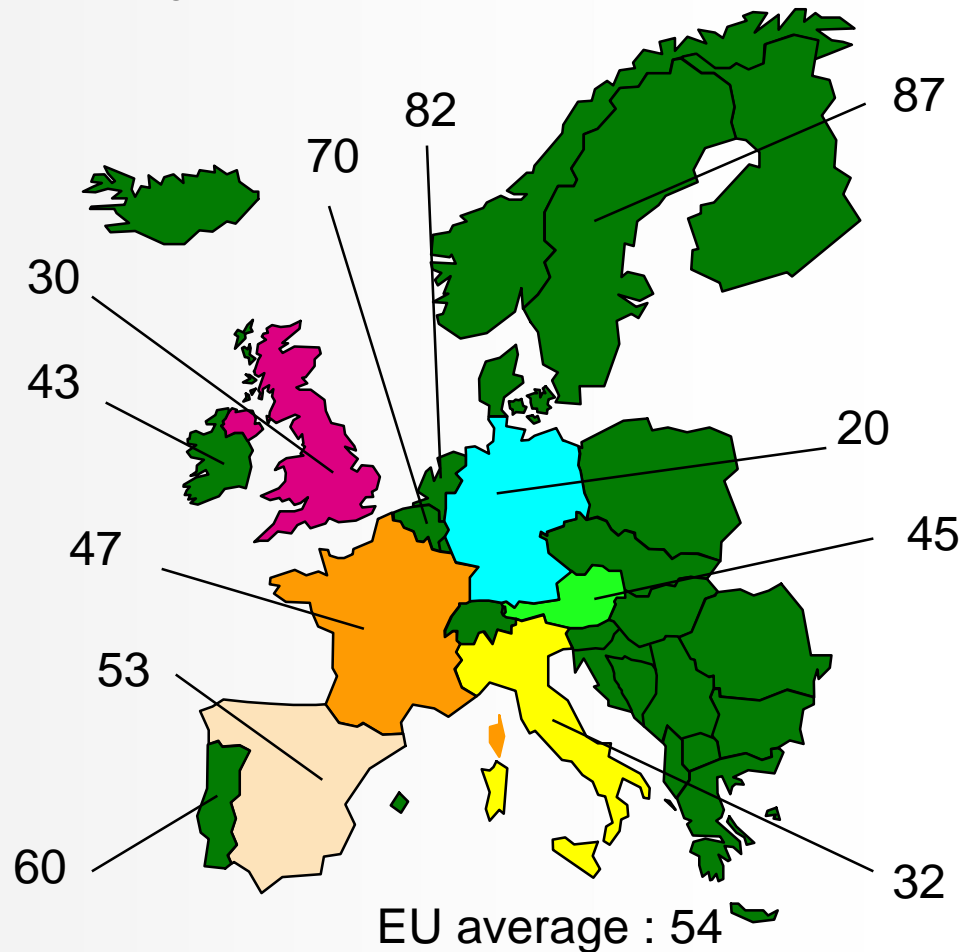
3. Competition, concentration and user mobility

- The main issue here is to which extent we wish to summarize / take position in a debate on the relation between:
 - Market structure (number and size of banks)
 - Market outcome (satisfaction – switching rates)
- Concentration ratio's (and what they might imply) play an important role in this debate
- Concentration ratio is the cumulative market percentage that the three (CR3) or five (CR5) largest banks in a country

Concentration in European banking

- Concentration in Benelux, Scandinavia
- Fragmented banking sector (Italy, Germany)
- domestic mergers (Germany, France, Italy)
- no large cross border mergers/acquisitions

Degree of concentration: market share of 5 largest banks as % of total



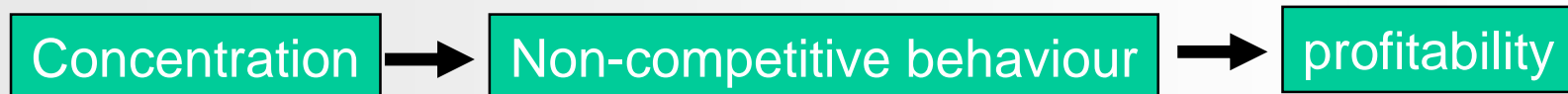


Three theories around

- Structure Conduct Performance, Efficiency and Contestability
- Often (implicitly) applied in discussions on banking
- Subject to general criticism that improvement is possible on:
 - Lower aggregation level of analysis
 - Structural developments in the distribution of financial services (role of intermediaries)
 - Distribution strategies and role of (potential) new entrants
 - Customer satisfaction as an indicator
 - Divergent strategies and core values of retail banks

First model : SCP

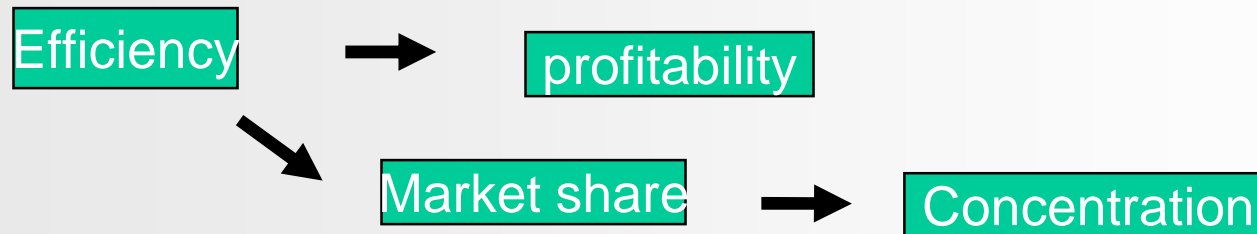
- Structure-conduct-performance:
 - A high concentration ratio is an alarm bell for inefficiency and lack of competition;
 - it is likely that high profits are made
 - It is likely that little switching will occur because customers don't have an alternative



- Model looks intuitively plausible, could however not be validated on the basis of market data ; effectively even weak signs of the opposite

Second model: efficiency

- Efficiency:
 - A high concentration ratio is a good indicator for the existence of efficiency and competition; efficient banks will be profitable and are able to gain market share (and buy up competitors); customers will have sufficient choice: switching rates will be low



Stijn Claessens and Luc Laeven, August 2003:

We find no evidence that banking system concentration is negatively associated with competitiveness. At the opposite, we find some evidence that more concentrated banking systems are more competitive. Similarly, we have some, although never significant evidence that the competitiveness of banking systems relates negatively to the number of banks in the country. We find that these results remain using several robustness tests.

Third model: contestability

- Contestability:
 - Concentration ratio does not matter, what really matters is the total number of (possible) competitors that compete for the market; the mere credible threat of entry may lead to a lowering of prices or improvement in service levels in a market
- For the Netherlands:
 - It is not relevant that 3 banks cumulatively have 89 % market share (and 5 banks: 98 %); what matters is that there are at least 30 national and international competitors in the Netherlands

Questions and considerations

Main model assumed

Contestability Efficiency

What does a high concentration ration mean?

Not so much Efficient market

Structure-Cond

Inefficiency

market driven
mobility

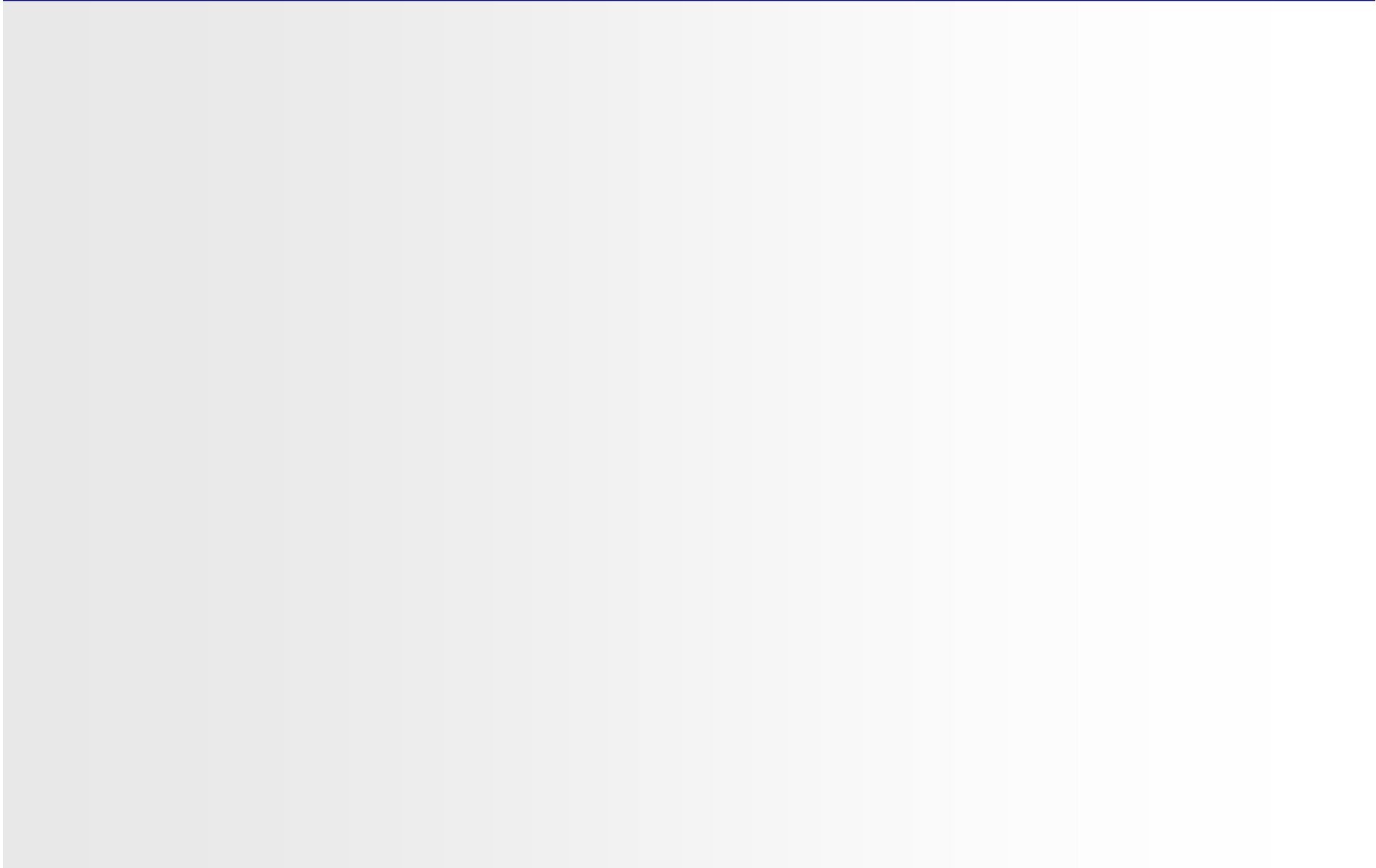
domestic
switching

cross border
opening

cross border
switching

Conclusion

- Implicit assumptions influence the analysis and discussion of scenario's
- In order for our further discussion on user mobility and switching scenarios, which do we consider to be useful follow up actions on :
 - Bank strategies:
 -new-existing players, home bias, niche/full-service
 - Consumer behaviour
 -satisfaction ratio's, mobility/switch, search behaviour
 - Concentration, competition, user mobility
 - further study or leave as is?



- leftovers

KPMG tables

Figure 1.1 Do you agree or disagree with the following statement?

a. Banking in my country is good and I am happy with the system as it is.

Figure 5.1 Pleased with their bank

Thinking of your main bank, do you agree or disagree with the statement "Overall my bank gives me a good service and I am very pleased to bank with them".

12
19
17
17

Country:

All
Czech Republic
France
Germany
Italy
Netherlands
Poland
Spain
Sweden
Switzerland
UK

Key

Figure 5.2 Customer loyalty

How long have you banked with your present main bank?

Country:

All
Czech Repub
France
Germany
Italy
Netherlands
Poland

Spain
Sweden
Switzerland
UK

Key

Figure 5.3 Multiple financial service providers

Including your main bank, roughly how many financial service providers do you have a relationship with (thinking of current accounts, savings accounts, investments, credit cards, insurance, mortgages etc.)?

Country:

All
Czech Repub
France
Germany
Italy
Netherlands
Poland
Spain
Sweden
Switzerland
UK

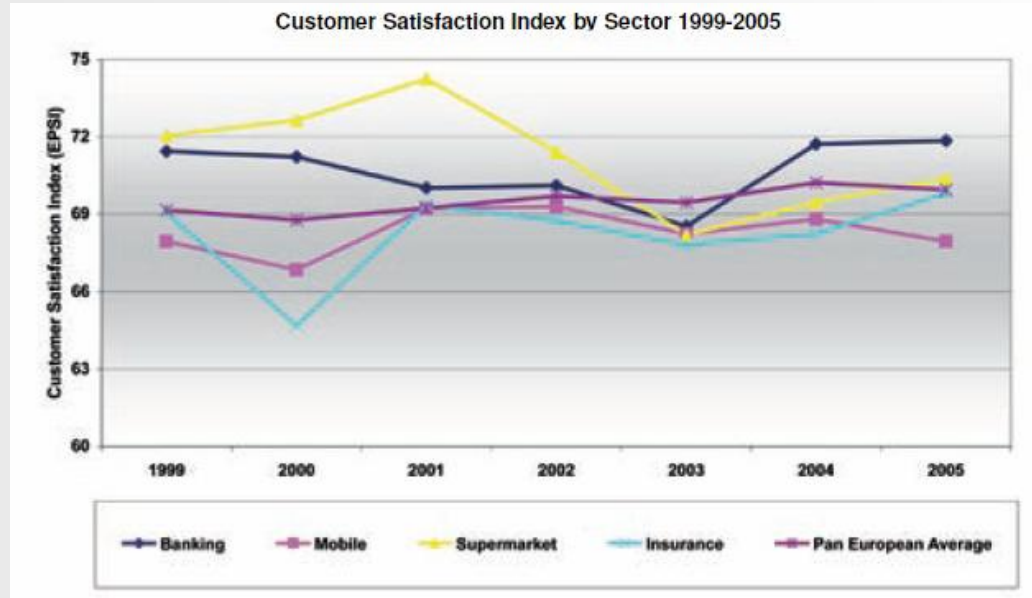
Key

Figure 6 Switching banks

Do you think you will switch main banks in the next 12 months?

Country:	Percentage of respondents:	
All	15	85
Czech Republic	6	94
France	20	80
Germany	13	87
Italy	29	71
Netherlands	9	91
Poland	25	75
Spain	17	83
Sweden	12	88
Switzerland	12	88
UK	9	91
Key	Yes	No

Customer rating is highest for banks



EPSI Rating Editorial Board, PanEuropean Benchmark, 2006