Banking on customer loyalty?

A guide for banks and financers on keeping customers loyal.

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Contents

A word from Michael Kalli.

Who thought banking could ever be fun? Just a decade ago, I think it would be fair to say that most certainly didn't. Long gone are the days of speaking to someone in a suit behind a piece of glass to withdraw money. Challenger banks, neo banks and the natural acceleration of fintech have really shaken up the market over the past five years and shown that you can get a great experience from your financial provider – whether you're a business or consumer.

With fintech providers now popping up all over the globe and offering brilliant customer experience through streamlined digital journeys and instant customer service, we now expect traditional high street banks to deliver the same level of service but with less agile systems. Banks that want to keep customers loyal need to provide a service with this agile approach – any less just won't cut it.

While this new approach is exciting, different, and wholly necessary, it also means that it tends to be harder to retain customers than it was a decade ago, particularly for traditional institutions. It's not necessarily switching that's the problem for banks; many customers are now keeping hold of their historic accounts but opening multiple accounts with a range of providers to fulfil different requirements. The problem here is that the custom of one person is now typically split three or four ways rather than just one.

So how can banks – both traditional and challenger – keep pace with this constantly evolving market and foster a loyal customer base? We'll give you some tips in this report.

To form the report, we surveyed 2,016 consumers to uncover how valuable a customer is to a brand throughout their lifetime. We look at consumer perception of loyalty today, what sways their purchasing decisions, what they're looking for in a bank/financial services provider and most importantly, what key factors will ensure they stay put with their existing provider.

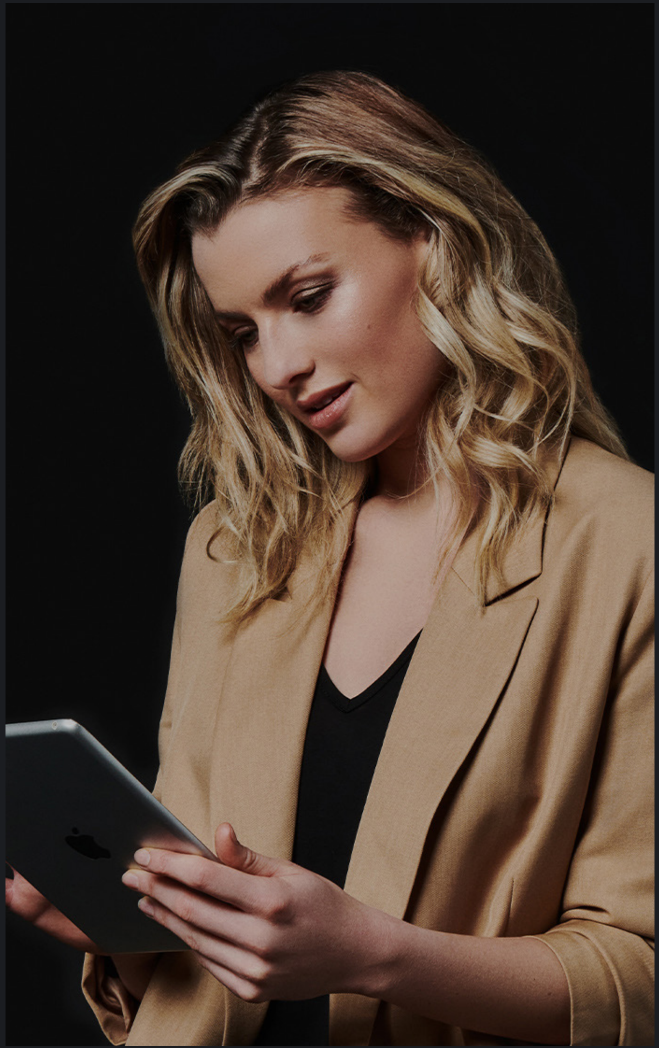
We also homed in on key differences between various demographics, surveying Gen Z, Millennial, Gen X, Boomer and Silent Generation respondents. We delve into what influences their decision to choose a provider and would instil loyalty when it comes to remaining with them.

We hope you find this content useful.

Michael Kalli, Managing Director, Ello

The research.

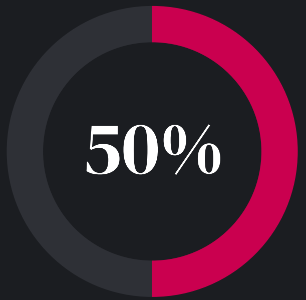
To form this report, we surveyed 2,016 consumers to uncover the key factors impacting their brand loyalty, what makes them stick with a bank/financial services provider for the long term and what could influence increased spend. We also looked at how valuable a customer is to a provider throughout their lifetime, drilling down precisely what they currently spend on their banking/financial services.



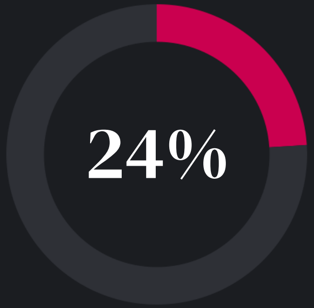
Standout stats.

What's impacting consumer loyalty across the UK's finance industry?

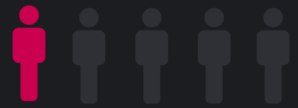
60% admit bad interactions impact their loyalty to a brand and often result in them cutting ties



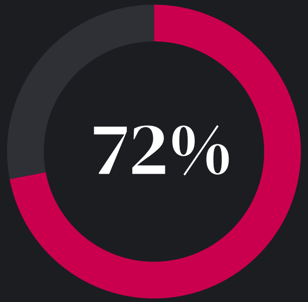
would pay a brand more for a product/service over their competitors if they trusted them/knew they were reliable



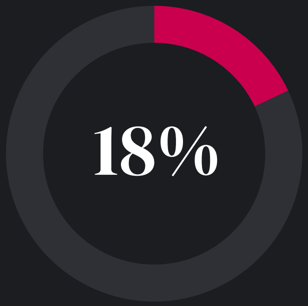
would leave a brand if they found out they mistreated employees



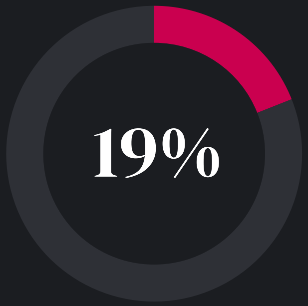
One-fifth admit they want brands to take an active stance on environmental issues



say they're loyal to their bank/ finance provider, compared to 23% who say they are not



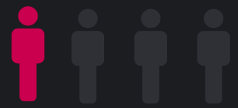
of consumers believe it pays to be loyal to their bank/ finance provider



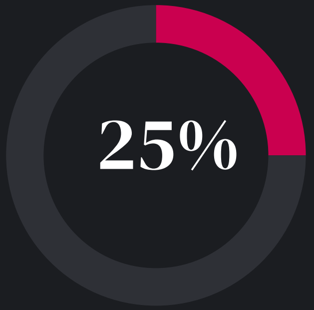
of consumers admit they feel like their bank values them as a customer

7 years

On average, consumers are typically loyal to their provider for 7 years



25% admit they're rarely offered any perks from their bank



say they wish their bank offered them more perks

Part one.

What's influencing loyalty across the UK's finance industry?

What does loyalty mean?

Banks and financial services companies are operating in a completely different landscape than they were just five years ago – many who've been in the sector for decades might even find it unrecognisable. As a result of countless innovations in recent times, loyalty is getting increasingly difficult for banks to hold onto, as customers look to make the most of new offerings and diversify where they put their money. With this only set to accelerate over the coming years as fintech continues to thrive, financial services firms would be wise to assess their customer experience and loyalty strategies now and get ahead before it's too late.

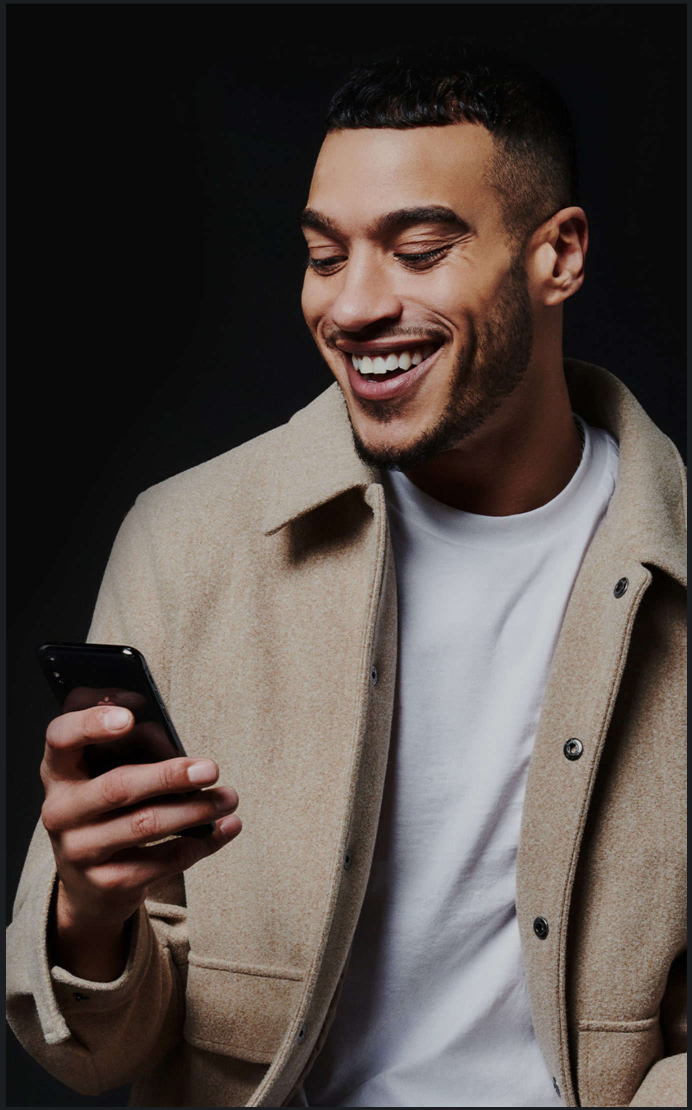
Before we dive into what impacts loyalty, we first thought it was useful to define it in the customers' eyes. On being asked how they define loyalty, the vast majority (65%) of consumers said it is continuing to purchase a product from a brand over a long period (specifically five or more years). While 58% base loyalty on length of membership/brand usage.

What's impacting customer retention?

There are a wealth of reasons a customer would leave their existing bank/financial services provider. In fact, of those surveyed, 60% admit bad interactions impact their loyalty to a brand and often result in them cutting ties. Further to this, more than one-fifth (21%) say they would leave a brand if they engaged in unethical practices. While 24% would leave if they found out they mistreated employees (such as not paying them fairly or forcing them to work long hours).

On the contrary, 50% admit they would pay a brand more for a product/service over their competitors if they trusted them and knew they were reliable. We also found that 35% would put up with a period of poor customer service if the product was good quality, yet 27% wouldn't.

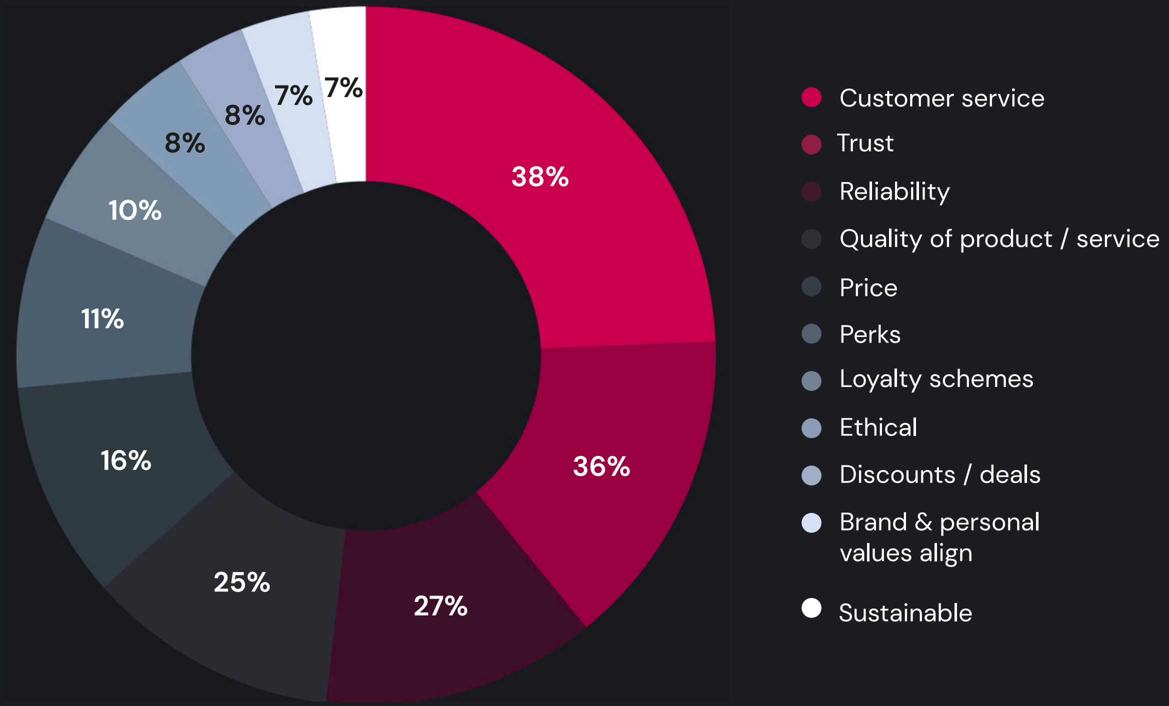
When looking at the elements that impact a customer's decision to stay with a brand, we see that both traditional and challenger banks fit the bill for some but not all. While traditional banks tend to be more trusted for legacy, credibility and reliability, online-first challenger banks have the upper hand with technology, great customer experience, and humanising the banking process. Both players will be keen to see if there is a way to provide a happy medium to customers and, in turn, increase retention levels.



Loyalty across various sectors.

When it comes to ranking customer loyalty across different industries, banks/financial services providers are currently amongst the top performers when compared to various other sectors – with only supermarkets ahead of them. This is good news but also means there's still room for improvement and a huge opportunity for finance providers to adopt some key learnings and determine what they could be doing differently.

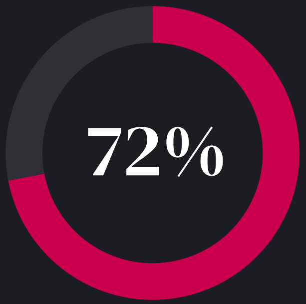
On how various industries perform when it comes to customer loyalty, the data confirmed:



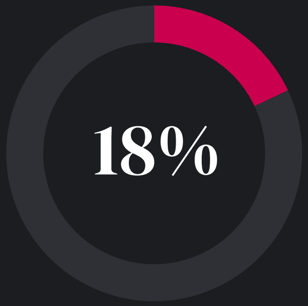
Instilling customer loyalty.

While banks and financial services providers come out pretty high on the loyalty scale, there's still more work that they could (and should) do. Many customers admit they are loyal to their provider, but sadly, most don't feel valued. With competition fiercer than ever, this can't continue. Luckily, there are many factors banks can consider to increase their loyalty standings, and perhaps more importantly, to convince customers to use them for more than just their standard bank account.

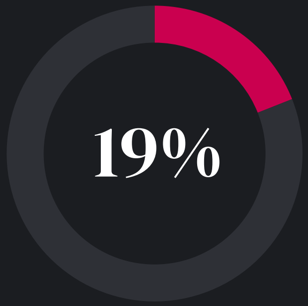
On consumer loyalty, the research uncovered that:



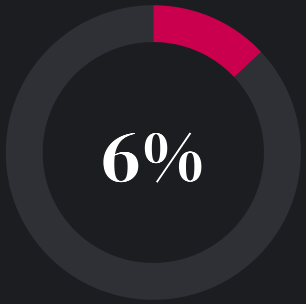
of consumers say they're loyal to their bank/finance provider, compared to 23% who say they are not



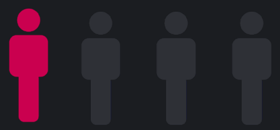
Just 18% of consumers believe it pays to be loyal to their bank/finance provider



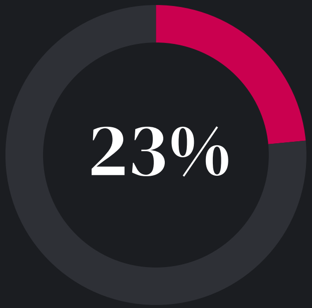
Just 19% of consumers admit they feel like their bank values them as a customer



Only 6% of customers are often offered perks

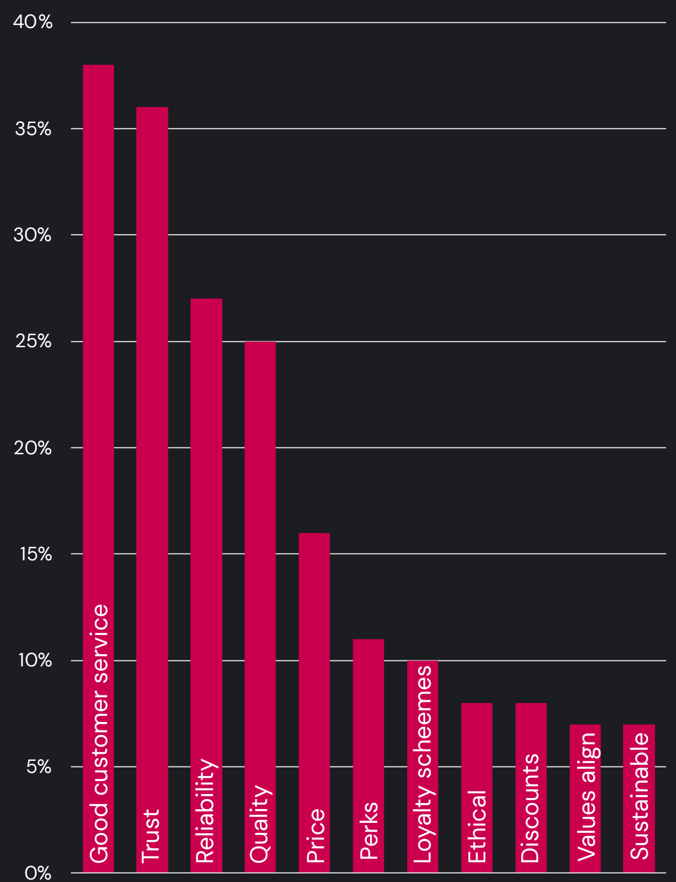


25% admit they're rarely offered any perks from their bank

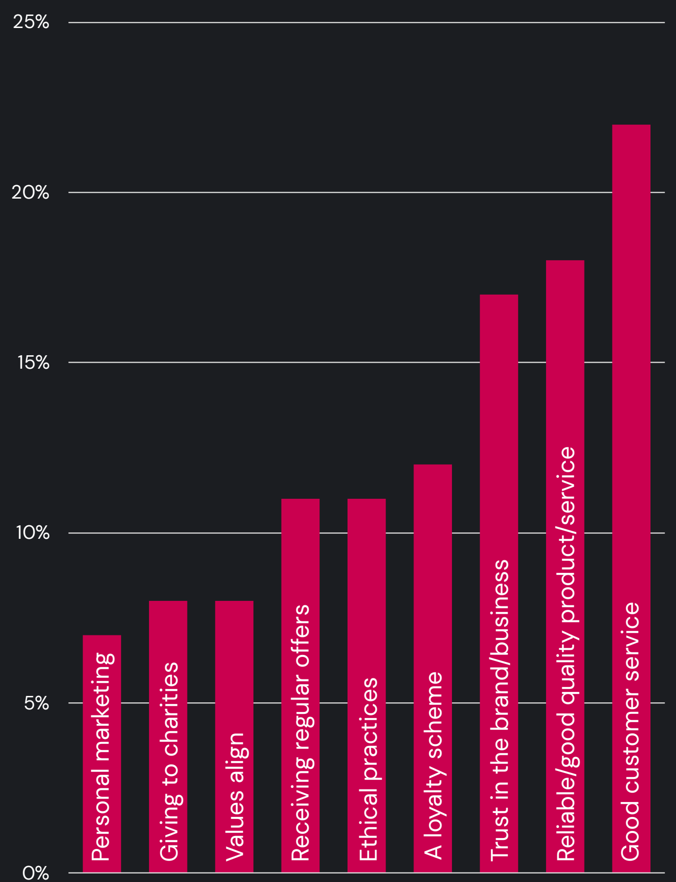


23% say they wish their bank offered them more perks

Factors influencing brand loyalty, in order of importance, are:



The factors likely to result in increased spend are:



Consumer buying habits are constantly evolving. And while we know factors such as quality and good customer service will always be essential when building a loyal customer base, there are other avenues the sector could be exploring. Building a loyal community isn't easy. Even more so when, in many cases, competitors are rewarding customers to jump ship. But there are ways to do it. Providers should be considering the other factors that are important to consumers.

The trust factor is ranked highly by customers – both in terms of what keeps them loyal to a brand and increases spend – so it's an important starting point for banks, who have spent the past 10+ years trying to rebuild this following the 2008 crash. Banks should consistently be working towards building consumer trust – not only when it comes to how safe customers feel trusting them with their money, but also more widely in the ethics and values of how they do business.

We know consumers are increasingly choosing to shop with brands that reflect their personal values and ethics – an area where traditionally they've found it difficult to relate to banks. However, this is something that is slowly changing as perceptions of the sector change. We've begun to see some of the big banks doing a great job of using their external communications and advertising to build empathy, connection and trust through the duration of the pandemic. That's not to mention the challenger/neo banks that spend a large portion of their budgets building connections with customers.

Part two.

A lifetime of loyalty – what's it worth?

We know extended loyalty can be incredibly valuable from both a retention and profit standpoint. But what exactly is it worth long term to a financial services provider?

Our research found that over 12 months, the average consumer spends £140 on banking/financial services (not including big-ticket purchases such as mortgages etc.), while they're typically loyal to their supplier for seven years.

With the average cost to acquire a new customer in the sector estimated to be over £215 , based on the exchange rate in August 2021, the return on investment (ROI) of focusing more on retention for the long-term vs acquisition of new customers could be substantial.

The lifetime value of a bank/financial service's customer:

£70	6-month period is roughly £70
£140	12-month period is around £140
£350	5-year period is approximately £350

On average, consumers are typically loyal to their provider for 7 years.

While the true value of a customer tends to be a bit trickier to figure out in the financial services sector than it does in many others, the fact that customers typically stay with their provider for seven years demonstrates the potential value they bring.

We know that while many neo banks have disrupted the sector for good, low-cost products and service offerings mean they'll likely need to wait years before they turn a profit. While they've always known this type of disruption is a long-term effort, by fostering an army of loyal, trusting customers in the 'building' years, they'll be much more likely to turn them into paying customers when introducing higher value items, such as investments, credits and business accounts. We'll likely also see innovations in AI and machine learning that will allow neo banks to upsell and offer high-value advice services to customers (such as wealth and investment management) without the hefty price tag.

Turning our focus to the traditional banks, which already have higher value items to sell – such as loans and mortgages – their challenge is in the tech, disruption, and customer service fields that neo banks already own. Providing this same level of service may be nigh on impossible for the more traditional banks. However, there are ways they can start to generate long term loyalty through offering tailored perks and rewards. These need to go further than 'here's £10 cashback for opening another account' – instead, offering customers tailored rewards in line with their buying habits. Banks might also want to incentivise customers for using multiple products/services rather than simply keeping their legacy account with them.

1. https://www.soprabanking.com/insights/how-to-reduce-customer-acquisition-costs/

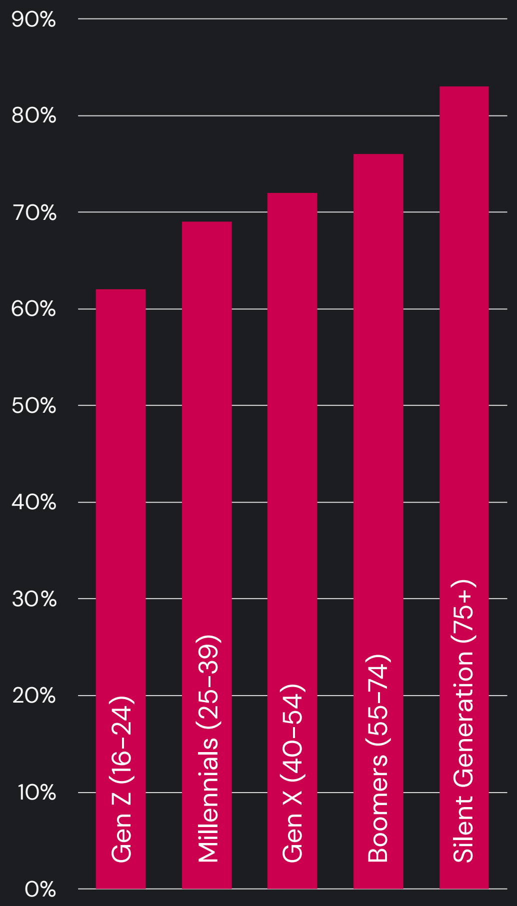
Part three.

‘Generation loyal’ – who are they and what drives their decision making?

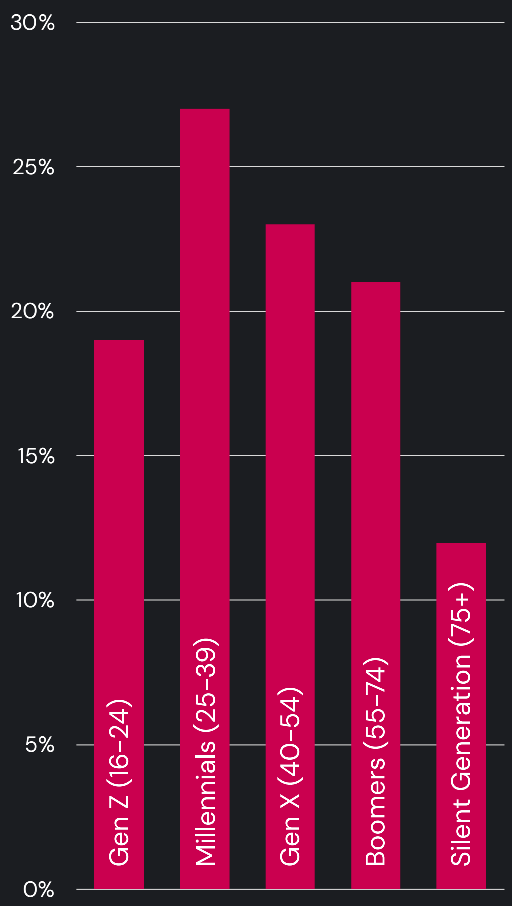
For the final part of our report, we wanted to assess the buying habits and loyalty factors based on generation. Unsurprisingly, the older generations tend to be more loyal to their bank, while the digitally savvy younger generations are shopping around more.

Each generation is important to financial service providers for different reasons – whether that's young people who hold the possibility of a lifetime of loyalty ahead of them or older people who are more financially secure and have more to spend right now. Providers need to assess generational needs and adapt their strategies in line with them.

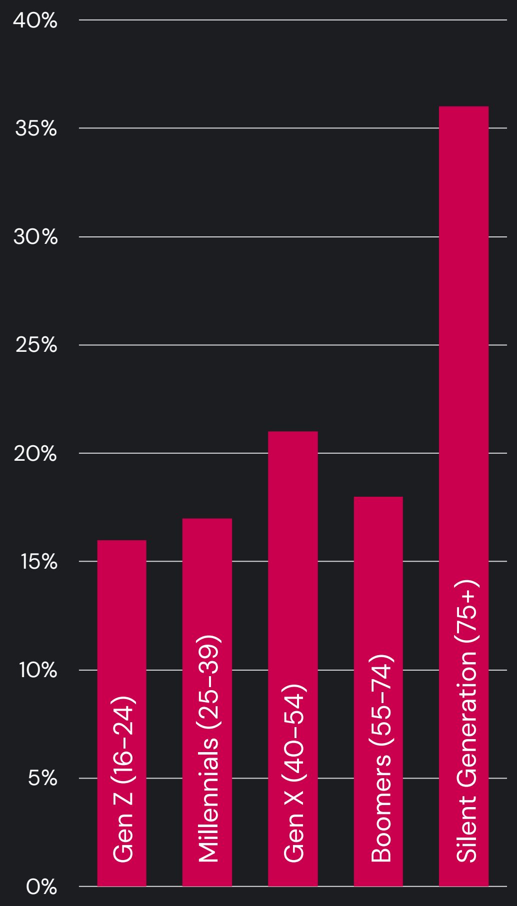
Loyalty to bank/financial services provider by generation.



Perks from the bank.



Feeling like a valued customer.



On the biggest factors influencing why they stick with their provider, this is what various generations said:

Gen Z

Good customer service (21%)

Perks (21%)

Trust (20%)

Reliability (18%)

Loyalty schemes (11%)

Price (11%)

Millenials

Trust (29%)

Good customer service (28%)

Reliability (26%)

Quality of product/service (19%)

Price (11%)

Loyalty schemes (15%)

Gen X

Good customer service (37%)

Trust (35%)

Quality of product/service (28%)

Reliability (26%)

Price (15%)

Loyalty schemes (12%)

Boomers

Good customer service (50%)

Trust (47%)

Reliability (31%)

Quality of product/service (32%)

Price (17%)

Loyalty schemes (6%)

Silent Generation

Good customer service (62%)

Trust (41 %)

Reliability (39%)

Price (14%)

Ethical company (13%)

Sustainable company (7%)

Unsurprisingly, trust and customer service top the list of why they'd stick with a provider across the generations. However, we can start to see generational differences across perks and loyalty schemes – which are popular choices for the younger generations. This signals a shift towards customers feeling they deserve more than just a great product and good customer service in reward for their custom.

Key actions.

Our top pointers for banks/financial service providers.

3 recommendations to instil customer loyalty:

1. Build on the fact that you're already high up the loyalty rankings by working towards keeping these customers loyal in the long term and offering bespoke perks and rewards for using multiple products/services. This will be crucial in the long run, particularly for neo banks who need to turn their focus towards turning a profit.

2. Leverage innovations in technology to further improve your customer service – as the number one reason customers would stay with a provider, this will remain crucial as competition gets tougher.

3. Make your customers feel that it truly pays to be loyal to you by using data around differences in the buying habits of the different generations to provide service, experiences and rewards that are unique to them.

In conclusion…

Undoubtedly, over the next few years we'll see innovations coming out of the sector thick and fast; with these will come increased competition. Advances in technologies – notably AI and machine learning – are going to make personalisation a breeze, but it's how financial service providers use this data that will make all the difference. However, for all providers, it's going to be crucial not to lose sight of the bigger picture whilst wrapped up in these innovations and shiny new trends. Building trust, making customers feel valued with bespoke rewards, and offering great service and products is what will keep customer loyal in the long term. We're confident the next few years will bring with them a huge range of opportunities for providers to build huge gains on the loyalty front, and while these are too varied to cover off in one report, we hope it's been a helpful starting point.

About Ello.

Ello creates everlasting connections between brands and consumers by providing brands with the tools to give consumers genuinely rewarding acquisition, engagement and loyalty schemes. And in return, brands watch those consumers stick around.

It believes the most impactful programmes are the ones that feel like an extension of a brand, not a partner offer. With its home-grown products, expert services, nimble tech and experienced people, it does just that to achieve real commercial results, increasing acquisition and engagement for brands.

Already providing some of the UK's most recognisable brands with sophisticated propositions, Ello's capabilities are ever-growing to help more brands deliver incremental commercial revenue and delight consumers.

We'd love to hear your thoughts.

To discuss the information contained within this report further or to comment on the findings, please reach out to
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