

# Institute of Customer Service response to Competition and Markets Authority consultation on The Retail Banking Market Investigation Order 2017

**December 2016**

The Institute of Customer Service is an independent not for profit professional membership body, with over 500 organisational members. Our purpose is to help organisations strengthen their business performance by focusing on raising the standards of their service delivery which in turn will improve their customers' experiences.

## Overview

The Institute of Customer Service welcomes the Competition and Markets Authority's focus on the importance of customer service in its review of retail banking.

Twice a year The Institute publishes the *UK Customer Satisfaction Index* (UKCSI). This is a national measure of customer satisfaction, which includes over 40,000 responses from 10,000 individual customers across 13 sectors. UKCSI tracks the state of customer satisfaction over time and enables organisations to benchmark against others in their sector.

The UKCSI shows that customer satisfaction with banks and building societies is currently 1.2 points above the UK average at 78.6 (out of 100). The sector's score is at the same level as in July 2015. However, it is the only sector whose score has not improved since then. This shows there is much room for improvement. One key area for focus should be how banks can be easier to deal with across all channels and touchpoints, with written/email communications a particular area for improvement. Another key area for improvement is complaint handling with the increase in complaints citing staff attitude, quality/reliability of service and late delivery/slow service a particular areas of focus.<sup>1</sup>

Given the importance of banking services and the reputational damage from past scandals, from which the sector is yet to recover, there is a need to focus on customer service to help re-build trust in the sector. Research by The Institute of Customer Service demonstrates that customer satisfaction, loyalty, recommendation and trust are highly correlated. For example, of customers who score an organisation between 8 and 9 out of 10 for customer satisfaction, 50% give that organisation a 9 or 10 out of 10 in terms of trust. This rises to 96% if the customer scores them between 9 and 10 out of 10 for customer satisfaction. The implication is that the highest levels of trust and satisfaction are highly related and that these are then related to high levels of customer loyalty and recommendation.<sup>2</sup>

Much of the CMA's justification for intervention is based on ensuring that consumers are receiving a competitive product in terms of price. This is important but it is worth noting that

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<sup>1</sup> The Institute of Customer Service, *UK Customer Satisfaction Index - The state of customer satisfaction in the UK* (July 2016), Banking and Building Societies sector report

<sup>2</sup> The Institute of Customer Service, *UK Customer Satisfaction Index - The state of customer satisfaction in the UK* (July 2016), p19

evidence exists that suggests price is not the only issue consumers are concerned about. Our research shows that most customers prefer a balance of price and service. When asked to weigh the relative importance of price and service on a scale of 1 to 10, where 1 means no frills service but lowest price and 10 means excellent service but at a higher price, 58% give a score of between 4 and 7. The data also shows only 15% of consumers seek the cheapest possible deals and will sacrifice levels of service to achieve.

Specifically in banking, 26% of consumers prefer high levels of customer service, even if it means paying more. This is a 5% increase on the result from 2014. There are also significant differences in attitudes to the cost of excellent service between generations. A greater proportion of younger customers (aged 18 – 44) are likely to favour excellent service at a higher price, compared to customers aged over 45.<sup>3</sup> This demonstrates that there are wider advantages to improving customer service and information about service to consumers as this will allow consumers to make an appropriate judgement as to the level of service and price that they prefer.

In addition to these insights about preferences around price versus service, our research shows the possible effects customer service, in itself, may be having on consumer behaviour when it comes to switching between providers. The UKCSI reveals a tentative correlation between banks' customer service and net gains and losses in terms of personal current accounts. Data from the Current Account Switch Service when mapped against the UKCSI results shows banks whose average customer satisfaction was higher than the sector average gained over 20,000 net new accounts. Banks with lower than average customer satisfaction suffered a loss of over 9,000 customer accounts over the same period.<sup>4</sup>

Further research shows most people stay with their current bank because they are happy with them and more than half of banking customers do not switch because other providers have bad reputations. In addition, 63% of banking customers say that better customer service was either important or very important in their decision to switch to another provider.<sup>5</sup> This provides further justification for requiring banks to publish their service metrics as it appears that customer satisfaction may have an impact on consumers' decision to stay with or leave their provider.

Given our research findings we welcome the requirements of Part 3 of The Order in general. However, we have made some specific comments below on some of the implementation considerations that arise from these requirements.

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<sup>3</sup> The Institute of Customer Service, *UK Customer Satisfaction Index - The state of customer satisfaction in the UK* (July 2016), p21-23

<sup>4</sup> The Institute of Customer Service, *UK Customer Satisfaction Index - The state of customer satisfaction in the UK* (July 2016), p18

<sup>5</sup> Results taken from unpublished research conducted by TLF on behalf of The Institute of Customer Service in October 2016. An online survey of 2001 people asked respondents whether they had switched their current account provider in the previous 6 months. It then asked them to rate how important a series of factors were in their decision to either switch or remain with their existing provider.

## **Comments on the draft order**

### **Article 16 - Commissioning of survey work**

The requirement to collect service quality information in Article 16 implies the need to commission a third party to carry out customer surveys. We note that the explanatory notes accompanying the order make reference to the BBA leading on developing proposals on how the service quality information will be gathered.

We think that commissioning a third party to carry out customer surveys on the stated measures is necessary in order to provide an objective comparative benchmark of banks' service performance from the perspective of customers. We recommend that the commissioning process is as open and transparent a process as possible to ensure credibility and so that all relevant parties have the opportunity to tender. We encourage the CMA to ensure this a part of its approval process of the mechanism for the collection of service quality information. We also suggest that it is not necessarily the case that commissioning a single agency to conduct the research is the best approach and encourage providers to consider if multiple providers would be more effective.

### **Article 16 – survey methodology**

The explanatory notes accompanying the order state that face-to-face or telephone surveys are preferable (para. 37). They also say the CMA has significant concerns about the use of online surveys. We think that a survey methodology should include an appropriate mix of survey methods including telephone, face-to face and online surveys to ensure it is inclusive and accessible for a broad range of banking customers. We do not think it appropriate to rule out a certain type of survey because this may inhibit the ability to collect information from certain categories of people.

### **Article 16 - sample demographics**

The explanatory notes accompanying the order set out the demographics which should be surveyed for both PCA and BCA customers. We concur with the proposed approach. However, we think that it is important to ensure that these demographic categories are as representative as possible, and not over-simplified or stereo-typical, of an organisation's customer base.

We know from our own research with customers that there can be variations in satisfaction between different demographic groups. In assessing the relative performance of organisations it will therefore be important to understand the extent to which this might disproportionately influence an organisation' score.

In the surveys for BCAs it may be desirable to make a distinction between the experiences of different sizes of business. It is possible that there will be significantly different ratings by different size of organisation. Whilst we recognise that it may not be practical to publish all headline ratings by a variety of size bands, this information may be highly relevant and useful for an organisation. For example, it will be useful for an organisation with fewer than 50 employees to understand how banks are rated by similar size organisations as well as for all businesses. We would therefore recommend that customers should be made aware of and be able to access this information should they want to.

## **Article 16 – question phrasing**

The explanatory notes indicate what the preamble to the survey questions could say to ensure respondents are considering the overall experience and not just the price or reputation of the business (para.38).

We have conducted extensive research over 8 years showing the range of priorities which are important to consumers covering professionalism of employees; quality of products and service; timeliness; ease of doing business; and, ability to deal with problems / complaints. Staff competence and staff doing what they say they will do are important in banking - as they are in most sectors. In addition, banking customers prioritise ease of doing business and speed of resolving complaints to a greater extent than do customers when considering all sectors. Over the last five it is notable across all sectors how much more important employee attitudes and behaviours are to customers.<sup>6</sup>

We suggest that in the future customer surveys could include some of these more specific questions even if they are not published alongside the headline results. This information could be made available to customers to provide valuable and relevant information on aspects of the service experience which are particularly important to them.

## **Article 17 – prominence of published results**

Articles 17.1.1 and 17.1.2 specify that service quality indicators should be displayed prominently and the explanatory notes indicate the possibility of compliance being monitored through mystery shopping and receipt of complaints. We note the discussion points in the explanatory notes on what might constitute prominent display but are concerned that this is not specific enough to ensure customers will always have good access to the information. We suggest that the CMA should prepare more detailed guidelines about how to assess appropriate prominence to enable compliance monitoring to take place on as clear and objective basis as possible.

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<sup>6</sup> The Institute of Customer Service, *UK Customer Satisfaction Index - The state of customer satisfaction in the UK* (January 2016), p36-43

## **About The Institute of Customer Service**

The Institute of Customer Service is the professional body for customer service delivering tangible benefits to organisations and individuals so that our customers can improve their customers' experience and their own business performance.

The Institute is an independent not for profit membership body with a community over 500 organisational members, over 17% from the FTSE 350 and over 3,000 individual memberships – from the private, public and third sectors.

The Institute provides members with a range of products and services to help organisations improve their business performance and the experience they give their customers:

- Benchmarking
- Accreditation
- Professional Qualifications
- Research and Insight
- Training
- Networking Events

The Institute also holds an Annual Conference and organises the UK Customer Satisfaction Awards.

For more information about The Institute of Customer Service go to:

**[www.instituteofcustomerservice.com](http://www.instituteofcustomerservice.com)**