A Datamonitor report

Customer Retention in UK Retail Banking

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Providing you with:

- Insightful data from the B2B 2004 customer retention survey, illustrating the views of 58 leading retail banking providers in the UK
- A series of case studies, illustrating customer retention practices in the UK retail banking industry
- Comprehensive assessment of various customer retention strategies, with input from in-depth interviews with senior industry sources
- Discussion of the latest developments in the field of customer loyalty and retention in the individual UK retail banking sectors

Use this report to...

Improve your perspective on customer retention issues against the background of the latest developments in the UK retail banking market

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An introduction to the report

This report attempts to solve one of the most acute dilemmas facing retail bankers today - how to prevent customers from defecting. It examines the reasons behind customer attrition and factors contributing to a customer's decision to leave. It discusses various types of retention strategies, assesses their usefulness and illustrates their effect through a number of case studies.

Over the last ten years, retail banks have endured an era of relative prosperity by pursuing the strategies of revenue diversification, consolidation and risk reduction. While these tactics have allowed companies to create significant value for their shareholders, they came with a price of weakened customer relationships. Today, retail banks are facing sobering reality: while they were focusing on getting broader and bigger, their customers were becoming increasingly alienated.

Key findings and highlights

- Today's retail banking industry finds itself in a curious position where, rather than being rewarded for loyalty, customers are actively encouraged to switch their providers. Yet, successful customer retention has a profound impact on profits - it is between 3 and 10 times more expensive to acquire a new customer rather than retain an existing one.
- 90 per cent of survey respondents thought the trend of customers switching main providers was rising or rising strongly. Unsecured personal loans have the highest defection rates, with around 24 per cent of customers leaving their lender within a year. Current account customers are the most loyal, with only 17.5 per cent of them opting to defect.
- Value for money and service play the most important role in a customer's decision to remain with a lender. Convenience of a single provider - an important historical driver of bank loyalty - is fast becoming a thing of the past. Today's customers increasingly expect added value in return for keeping all of their financial products in one place.

Reasons to buy

- **Improve** your perspective on customer retention issues against the background of the latest developments in the UK retail banking market
- **Benchmark** your retention tactics against those of the best practitioners in the market
- **Gain** an insight into the views and experiences of the leading UK retail banking providers

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Factors Driving Customer Retention

In contrast, the success of the past where each from the factor used to be a more tempting image. Development of direct it easier to maintain a visiting several different and it becomes again a distribution channel. In addition, today's cost keeping all or none of such value, the single more a part of call for a...
EXECUTIVE SUMMARY
- Introduction
- Customer retention trends in 2004
  - Shopping around, buying from different providers and customer defection are on the rise
  - Customer retention trends in the context of the retail banking market
- Factors driving customer retention
  - Logical factors are most important in terms of successful customer retention
  - The majority of customers defect on the basis of price
- Retention strategies and their applications
  - Loyalty schemes are at the top of providers’ lists when it comes to successful retention strategies
  - Customer service initiatives are important in holding on to ‘lost’ customers
  - Preventing ‘stolen’ customers from defecting is all about cross-selling and communicating the benefit of the current provider
- Conclusion

INTRODUCTION
- The retail banking industry has neglected the issue of customer retention
- Yet, customer retention can bring real benefits
- What is this report about?
- Who is the target reader?
- How to use this report

CUSTOMER RETENTION TRENDS IN 2004
- Introduction
- Examining customer retention trends in 2004
  - Shopping around, buying from different providers and customer defection are on the rise
  - However, the level of these trends varies across individual product lines
- Customer retention trends in the context of the retail banking market
  - Customer inertia still plays an important role in the current account market
  - The unsecured personal loan market has witnessed dramatic price falls
  - Credit card customer retention levels suffer from a tough competitive environment
  - The mortgage market - aggressive acquisition tactics at the expense of retention
  - The savings market has been shaken up by new aggressive entrants
- Conclusion

FACTORS DRIVING CUSTOMER RETENTION
- Customers will remain with their provider because of logical, emotional or personal reasons
- Logical factors are at the top of the lenders’ successful retention strategies lists
- Emotional retention factors, meanwhile, are decreasing in importance
- There is another important driver instrumental in customer retention - inertia
- The majority of defecting customers can be split into three segments
  - Bought, lost and stolen - why customers choose to defect
  - Not surprisingly, ‘bought’ customers account for the largest part of all defectors
- Conclusion

RETENTION STRATEGIES AND THEIR APPLICATIONS
- Introduction
- Ongoing, predictive and reactive - different types of retention strategies
  - A number of different types of retention tactics are available to retail banking providers
- Successful retention - looking at the effectiveness of individual tactics
  - Loyalty schemes are at the top of providers’ list when it comes to successful retention strategies
  - Customer service initiatives are the second most successful customer retention technique
  - But, price cuts come poor third
- Tailoring retention strategy to the type of defection
  - Considering that ‘bought’ customers is the largest defecting segment, can loyalty schemes stop them?
  - Customer service initiatives and monitoring of customer satisfaction are useful in holding on to ‘lost’ customers
  - Preventing ‘stolen’ customers from defecting is all about cross-selling and communicating the benefit of the current provider
  - Customers who defect for personal reasons do not have to be lost to the provider completely
- However, these strategies can only be successful and price-effective if they are applied selectively
- An effective CRM system is the key to intelligent customer retention
- Conclusion

CONCLUSION AND ACTION POINTS

APPENDIX

LIST OF TABLES
Table 1: While new personal loan business has declined in 2003, outstanding balances in this product category still represent nearly a half of the UK’s consumer credit total in 2003, 1999-2003

“...Physical barriers, such as exit charges, may offer a short-term answer. However, they will not stop a customer leaving, once a tie-in period is expired, and will often serve to prevent any potential referrals from that customer...”
Many companies dismiss former customers as lost causes. However, customers who leave can provide a view of the business that is unavailable on the inside. Whatever caused one individual to defect may cause many others to follow.

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Source: Datamonitor Customer Research
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