

The psychology of personal current accounts

Annexe E of Personal current accounts in the UK - an OFT market study

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Summary

This report examines the psychology of personal current account usage, with a focus upon account switching and bank charges. Each year, only a small fraction of people switch current accounts and the overall switching rate is low. Each year, a large proportion of people incur bank charges. Six psychological factors that may affect switching and charge-incurring behaviour were considered. Key findings include:

- Interviewees believed that, when switching, payments may be missed and were averse to possible practical losses. The suggestion is that people are not concerned about general financial loss during switching, but more concerned about the inconvenience and hassle of losing features or having to correct missed payments.
- However interviewees' perceptions of their control over switching were high, suggesting that, despite problems, they believed that they could switch as long as they had the necessary resources and ability to change and were not limited by outside forces.
- Interviewees showed a strong focus on the here-and-now at the expense of a future orientation, and may constantly defer taking action to switch. In order for a person to take action, the expected future gain received will need to be financially much larger than the future consequence.
- Interviewees were overconfident in their financial management, and underestimated the likelihood that they would become overdrawn and be charged. This overconfidence means that people probably underestimate the cost of banking and are more optimistic about the cost of banking. This optimism could result from psychological overconfidence in one's own abilities, but it may also result from a failure to correctly identify unpredictable outside consequences that may cause one to become overdrawn.
- Interviewees reported spending little time thinking about their finances.
- Perceptions of charges showed that, in principle, the existence of charges were not viewed as particularly unfair, with more favourable perceptions

associated with increased awareness and advance warning of charges.

Potential market interventions were considered in the light of these findings.

1 Introduction

1.1. This report assesses the relationship between the way people choose, use, and are charged for their current accounts and individual psychological differences. The report also considers the psychological impact of possible market interventions.

Methodology

1.2. Two sources of data are used in this report. An initial sample of about 2,000 participants took part in a 20 minute quantitative survey, answering a series of 50 specific questions about their current account usage, their experience of bank charges, and their experience and motivations for opening and switching accounts.

1.3. A sub-sample of 40 people was selected from the quantitative survey to take part in an in-depth 45 minute qualitative interview. Those selected for the qualitative interviews had indicated a willingness to participate during the preceding quantitative interviews. The sub-sample was constructed to include 10 people who had recently switched current accounts (within the last year) and 10 who had not. Each interview began with a semi-structured discussion of the interviewee's financial products and current account usage, feelings about (potentially) switching current accounts, and perceptions of how fairly they had been treated by their bank. Interviews were run individually.

1.4. The qualitative interview finished with a set of about 30 questions designed to measure five psychological variables. Eight people who changed current accounts in the last year (*switchers*) and ten with long-held accounts (*non-switchers*) completed these items. This sample size is extremely small. These findings do not represent the behaviour of the population at large, but only those interviewed. As such they should be considered as an indicative exploration of the underlying drivers of behaviour.

Switching rates

1.5. Respondents from the quantitative survey were segmented into switchers and non-switchers. Table 1 provides a summary of the responses to Q36 ('How many times have you switched?') and Q38 ('When did you last switch?'). Using Q36 and Q38 people were partitioned into those who had switched within the last two years (N = 162) and those who had not (N = 1912). In the remainder of this report, in the context of the initial quantitative survey, the terms *switchers* and *non-switchers* are used to refer to groupings by the Q36 and Q38 partitioning. Eight per cent of quantitative survey participants were classified as having switched current account in the past two years.

Table 1.1 Switchers in the quantitative survey

Q36 How many times have you switched current account provider? (N = 2074)	
Answer	Percentage
Never	64
Once	24
Twice	7
Three times or more	5

Q38 When was the last time you switched provider? (N = 741)

Answer	Percentage
In the last six months	7
More than six months ago up to one year ago	9
More than a year ago up to two years ago	6
More than two years ago up to five years ago	14
More than five years ago up to ten years ago	18
More than ten years ago up to 20 years ago	26
More than 20 years ago	20

- 1.6. Assuming that the annual switching rate is constant (i.e., that the probability that a person switches accounts is independent of the time they have held the account) and that the rate is the same for each individual, the annual switch rate can be calculated at four per cent. In other words, four per cent of people switch accounts each year.
- 1.7. This annual rate could be considered low. With a rate of four per cent, the average age of a current account would be about 23 years. With a rate of four per cent, in the next ten years only one third of people would switch to a new current account and in the next twenty years only just over half of people would have switched. This suggests that the market may be too static and therefore perhaps not sufficiently competitive.

Candidate psychological factors

- 1.8. The six psychological factors of most interest were selected jointly by Stewart and the OFT from a larger list. Table 1.2 lists the six factors and provides a brief description of each factor.

Table 1.2 Psychological factors

Factor	Description
Perceived behavioural control	Measures the extent to which people believe they can take control of switching themselves
Temporal myopia	Measures discounting of future events, with high levels leading to a short-term focus
Overconfidence	Measures the discrepancy between reality and overly optimistic predictions
Loss aversion	Measures the drive to avoid losses
Cognitive engagement	Measures the time and effort spent engaging with an issue
Fairness	Measures the acceptability of charges within the customer-provider relationship

1.9. In the following sections each of these factors is considered in turn.

Caveats

1.10. Qualitative research such as this gives us an insight into the experiences of current account holders and helps fully understand their views and actions. It uses small but representative samples which identify the range of views and opinions, in this case, that of current account holders. However, despite using robust measures, the small sample size means that the results may not be reliable. That is, if this study were repeated the same pattern of results may not be obtained. To help quantify reproducibility, a p_{rep} ¹ statistic is reported for each difference (Killeen, 2005). This gives a statistical estimate of the probability that, if the study were repeated, a difference in the same direction would be found. For example, a p_{rep} of .83 means that there is an 83 per cent chance that, if the study was repeated, the same pattern would be found.

¹ The probability that a repeat survey would replicate the result.

1.11. In interpreting the results of this study, it is important to distinguish between correlation and causality. The design of this study only allows one to show an association between variables. Finding such an association does not indicate that one variable causes another. For example, it could be that some unknown third factor causes both a certain level on the psychological variable and a certain behaviour. Alternatively, the experience of a particular behaviour could even cause differences in the psychological variable. Care must be taken not to attribute causality on the basis of the results of this study alone.

2 Perceived behavioural control

- 2.1. A core goal in psychology is the prediction of people's behaviour. Studies in the 1960s and 1970s found only poor links between people's attitudes and their actual behaviours. In response to this, the theory of planned behaviour was developed by Ajzen.² At the heart of this theory is the idea that intentions (for example, to switch current account) are driven by attitudes (towards switching), social norms (perceptions of attitudes of relevant others towards switching), and perceived behavioural control (perceptions of the ease with which one might switch). Perceived behavioural control measures the degree to which people believe that they have control in a given situation, independently of their desires and intentions. A person with high perceived behavioural control would believe that they have the necessary resources and ability to change and believe that there are few outside forces preventing them from making the change.
- 2.2. Previous research about switching financial service providers indicates a key role for perceived behavioural control: Beliefs about the ease of switching mortgage provider were found to be good predictors of actual subsequent mortgage switching behaviour (Bansal & Taylor, 2002). Thus beliefs about the ease of switching current accounts are good candidates for predicting switching behaviour.

² Ajzen, I. (1999). Organizational Behavior and Human Decision Processes.

2.3. The six items used to measure perceived behavioural control are listed in Table 2.1. They are adapted from questions used successfully in the study of mortgage switching.

Table 2.1 Perceived behavioural control items

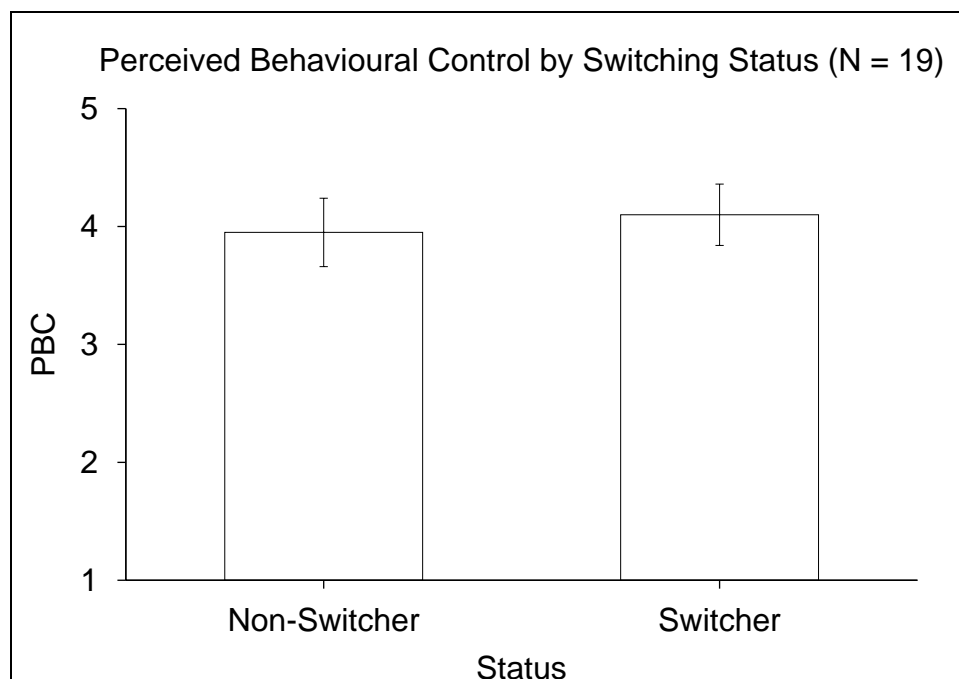
Item	Scale
How much control do you have over switching your current account?	Absolutely no control - Complete control
The number of events outside my control which prevent me from switching my current account are*	Very few - Numerous
I believe that I have the resources and ability to switch my current account	Strongly disagree - Strongly agree
I face very high barriers in switching my current account*	Strongly disagree - Strongly agree
It would be a lot of time and hassle to change current accounts*	Strongly disagree - Strongly agree
How easy do you think it would be to switch current account?	Very difficult - Very easy

Note: * indicates reverse items

2.4. If perceived behavioural control does play a role in current account switching, one would only expect people with both a positive attitude to switching and a belief that they are able to switch to switch. Thus the prediction is that switchers will be higher on perceived behavioural control. There may also be many non-switchers who, though high on perceived behavioural control, do not switch because they do not have a positive attitude to switching.

- 2.5. Responses to items in Table 2.1 were collapsed to give a single perceived behavioural control score for each participant as follows. Individual scores for each item ranged from one to five. To collapse the data, scores for reverse items were subtracted from six before scores from all items were averaged together. The resulting average score ranged from one to five, with one indicating least control and five indicating most control.
- 2.6. Figure 2.1 shows that switchers and non-switchers have similar levels of perceived behavioural control, (for the difference $p_{rep} = .67$). Here, and elsewhere, the error bars in the figure indicate the standard error of the mean. The true mean will normally lie within two standard errors of the sample mean.

Figure 2.1 Perceived behavioural control for switchers and non-switchers



2.7. It was possible to use some of the responses to the initial quantitative survey to examine perceived behavioural control. A large proportion of participants from the quantitative survey who had never switched current account could be considered as wanting to switch. When asked why they had not switched (Q37), only about half (48 per cent) spontaneously reported liking their current account provider, only eight per cent reported that there would be no benefit to switching, only 24 per cent reported not having wanted to switch and only one per cent reported not knowing that you could switch (N = 1326). However the fact that people do not switch does not seem to be because of a lack of control. Participants who had never switched were not able to generate spontaneously a large number of control-related reasons why they did not switch: only seven per cent felt a switch would be too time consuming, only five per cent have not got time, only nine per cent felt it would be too complicated, and only three per cent were too lazy (N = 1326). This finding agrees with the finding from the psychological items that both switchers and

non-switchers have quite high levels of perceived behavioural control.

- 2.8. Switchers and non-switchers responded differently to a question about hypothetically switching if it were free and easy (Q23a). Switchers agreed more strongly that they would switch. On an agreement scale from one ('agree strongly') to four ('disagree strongly'), switchers' mean rating was 2.1 and non-switchers' mean rating was 2.4 ($p_{rep} > .90$) (N = 2073). That switchers reported a greater readiness to switch is perhaps surprising given that they had just switched, but probably indicates either a greater propensity for switching or a stronger belief that the premise - that switching is free and easy - is accurate.
- 2.9. Switchers also reported greater knowledge of switching services (Q35) than non-switchers. On a knowledge scale from one ('know a lot') to four ('never heard of'), switchers' mean score was 2.3 and non-switchers' mean score was 2.70 ($p_{rep} > .90$) (N = 2073). The direction of causality in this relationship cannot be determined from these data: either switching causes awareness or awareness facilitates switching. Perhaps of more interest is that, averaged over switchers and non-switchers, the mean rating score was 2.7 (between 'know a little' and 'have heard of but don't know about'), suggesting a generally low level of awareness of switching services.
- 2.10. Finally, it is possible to compare perceptions of the ease of switching from those who have experience of switching current accounts (Q43) with confidence that switching would go smoothly for those who have no experience of switching (Q37a). Eighty two per cent of participants who have switched current accounts thought it was easy to switch current accounts (N = 267). Compare this with the finding that only 52 per cent of those who have never switched were confident that a switch would go smoothly (N = 1,326). The discrepancy suggests that people are overly pessimistic about the switching process and that, should they actually switch, the switch would most likely be smoother than they anticipated. Although people do believe that there will be problems with switching current accounts, the high levels of perceived behavioural control described above indicate that people believe that, if they chose to switch, they could overcome these obstacles.

- 2.11. The need for behavioural control may affect the choice of channel that people select for their banking. A crude ranking would be that control is higher with higher levels of personal engagement (that is, higher for branch, then telephone, and lowest for internet).
- 2.12. In summary, the results of the qualitative survey show quite high perceptions of behavioural control in both switchers and non-switchers, with people agreeing that they have control, ability, and resources sufficient for switching. Related results from the quantitative survey corroborate this finding and also suggest that people are overly pessimistic about switching and are not familiar with the switching services that are available.

3 Temporal myopia

- 3.1. People often discount the future quite heavily. That is, people behave as if they only care about the here-and-now without regard for the future. Further, there are large individual differences in the degree to which people discount future consequences. For example, people may have a high discount rate and value delayed rewards at a fraction of their immediate equivalents. Alternatively, some people may have a low discount rate and value delayed rewards at about the same level as more proximal awards. These people will behave with consideration for the future.
- 3.2. The temporal discounting of money has been shown to relate to various behaviours, such as alcohol and drug misuse and levels of exercise and dieting. Those who misuse drugs and alcohol tend to discount money more heavily and those who exercise and diet tend to discount the money less heavily. Findings like these suggest that measures of financial discounting tap into a core psychological attribute.
- 3.3. In order to investigate whether there is a relationship between the level of temporal discounting and current account switching decisions, the discounting scores for the switchers and the non-switchers were compared. Two different measures were used. In the first measure, people were asked to imagine choosing between receiving an amount of

money immediately or waiting and receiving a larger amount in the future (Table 3.1). They were told that the money was guaranteed, but it was explained that if they chose the future amount, they should imagine waiting for it. These sorts of choices have provided reliable measures of temporal myopia in previous studies (see Loewenstein, Read, & Baumeister, 2003, for many examples).

Table 3.1 Temporal discounting choices

Question	Immediate option	Delayed option
1	£97 now	£100 in one month
2	£435 now	£500 in one month
3	£35 now	£100 in one year
4	£366 now	£500 in one year

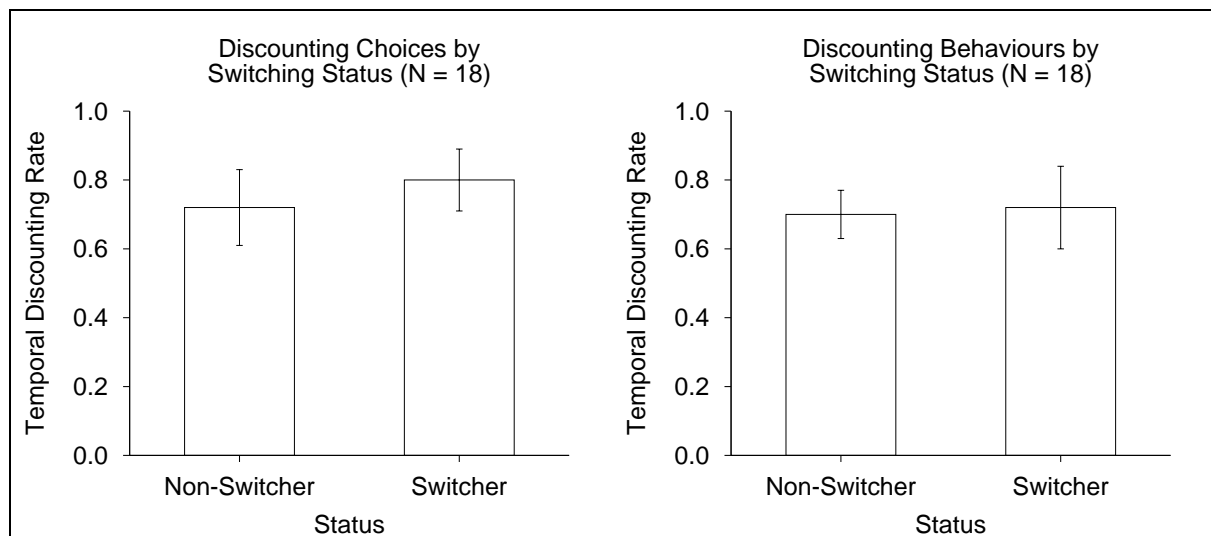
- 3.4. The questions were designed with different implicit indifference points to capture the range of individual differences. For example, a person with a moderate temporal discounting rate might prefer the immediate option in a low-rate question (for example, preferring £97 now to £100 in one month) but the delayed option in a high discount rate question (for example, £500 in one year over £366 now).
- 3.5. A second set of questions was used to assess a small sample of temporal discounting behaviours (Table 3.2).

Table 3.2 Temporal discounting behaviours

Items	Response	
	Myopic	Long-term
I have taken a loan or used a credit card to buy a holiday	Agree	Disagree
I pay my credit card bill off in full at the end of each month	Disagree	Agree
For my lunch at work I	Buy food at work	Take a packed lunch
I use store cards regularly	Agree	Disagree

- 3.6. Theoretically, investing energy in switching current accounts now should lead to a future pay off. But the future pay off will seem less valuable to people with high discount rates (that is, people who do not care about the future). So discount rates may be higher for the non-switchers.
- 3.7. For both the discounting choices and the discounting behaviours, the four items were collapsed together to give a single temporal discounting score for each participant. Scores ranged from zero to one, with zero indicating low levels of discounting and one indicating high levels of discounting. Both the choice and behavioural items worked well and captured the range of individual differences (that is, had some low scorers and some high scorers). However, there was little evidence that switchers and non-switchers differed in their temporal discounting levels (Figure 3.1).

Figure 3.1 Temporal discounting for switchers and non-switchers



3.8. These mean scores hide quite large individual differences in the levels of temporal discounting. When asked whether they were someone more focused on the future or someone who makes the most of the present, interviewees gave a variety of answers:

Interviewee 1: Making the most of the present. I'm not very good with the future.

Interviewee 2: I think more on the future.

Interviewee 3: Oh gosh at my age you have to enjoy the present but you've got to make provisions for the future

Interviewee 4: Present.

Interviewee 5: Actually, I'd say I was somewhere in the middle.

3.9 The tendency for people to undervalue future consequences is shown by the generally high discount rates that people display. In application to current account usage, this finding suggests that, in order for a person to take action, the future gain received will need to be financially much larger (and thus psychologically about equal to) than the future consequence.

4 Overconfidence

- 4.1. People typically rate their performance and abilities too favourably. This phenomenon is called overconfidence. In application to PCA switching, people are likely to underestimate the chances that they will incur punitive bank charges as a result of, for example, going overdrawn. Thus incurring bank charges will be most surprising for those who demonstrate the greatest overconfidence.
- 4.2. The items used to measure overconfidence are listed in Table 4.1. These items did not work well, because they failed to capture differences between people. Almost everybody responded that they would not go overdrawn or have a payment rejected at all in the next 12 months.

Table 4.1 Overconfidence in bank charges

Item
How many times, if at all, during the next 12 months would you expect your bank to make a payment that would take you overdrawn / exceed your overdraft limit?
How many times, if at all, would you expect to exceed your authorised overdraft limit in the next 12 months?
How much in total would you say that your bank will charge you for exceeding your authorised overdraft limit / attempting to make payments with insufficient funds in the next year?

Note. A question about overconfidence and interest payments was not administered.

- 4.3. The measures of overconfidence employed were not sensitive enough to discriminate between switchers and non-switchers. It may be necessary to sacrifice the concrete questions (which often function well) and instead to use ratings scales (for example, 'How confident are you that you will not be charged in the next 12 months?') to measure levels of confidence.

4.4. However, the fact that virtually every participant did not anticipate going overdrawn, having payments rejected, or paying bank charges does indicate a high level of overconfidence. Within the qualitative survey, 24 of 40 respondents had experienced bank charges. Seventeen per cent of respondents from the quantitative survey reported experiencing bank charges in the last 12 months (Q12 and Q18, N = 2074), 24 per cent reported going overdrawn (beyond their authorised limit) in the last 12 months (Q10 and Q16, N = 2023), and 15 per cent reported missing a payment (Q7, N = 2074).

4.5. This overconfidence can be seen in the way that interviewees described the possibility of future bank charges:

Interviewer: So, do you know how much you would be charged if you went overdrawn on your account?

Interviewee: I believe it is £25 but again, I haven't actually totally read that yet because you know, I am not planning on doing so but, I have got the information and will look at it.

4.6. In summary, there was a high level of overconfidence. Even if people are aware of the bank's charging structure, those who are overconfident will be surprised that they have been charged.

4.7 This overconfidence means that people probably underestimate the cost of banking. Although it might be most rational to add up the cost of banking over the previous year and use this as the best estimate of the cost for the coming year, people are more optimistic than this. This optimism could result from psychological overconfidence in one's own abilities, but it may also result from a failure to correctly identify unpredictable outside consequences that may cause one to become overdrawn.

5 Loss aversion

- 5.1. Typically people are loss averse in the face of risky choices. They behave as if losses loom larger than gains so that, for example, the loss of £10 is psychologically worse than the receipt of £10 is good. Switching current accounts may be perceived by some customers as a risky choice, with some possible gains and also some possible losses. In the face of uncertainty about the advantages and disadvantages of switching, the potential losses may loom larger than potential gains making a switch seem less favourable. In this case, people will prefer the status quo and defer a switching decision.
- 5.2. Two sets of items were used to measure loss aversion. The first set posed hypothetical opportunities to gamble (Table 5.1). Participants were asked whether they would choose to play a gambling game that offered, for example, at the toss of a coin either a gain of £10 or a loss of £10. Rejecting the opportunity to play indicates that the loss of £10 is psychologically worse than the gain of £10 is good. These questions cover the range of individual differences in loss aversion.

Table 5.1 Hypothetical gambles to measure loss aversion

Question	Loss	Gain
1	£10	£10
2	£10	£50
3	£100	£100
4	£100	£500

- 5.3. The second set of questions (Table 5.2) was designed to probe loss aversion in this specific current account switching scenario.

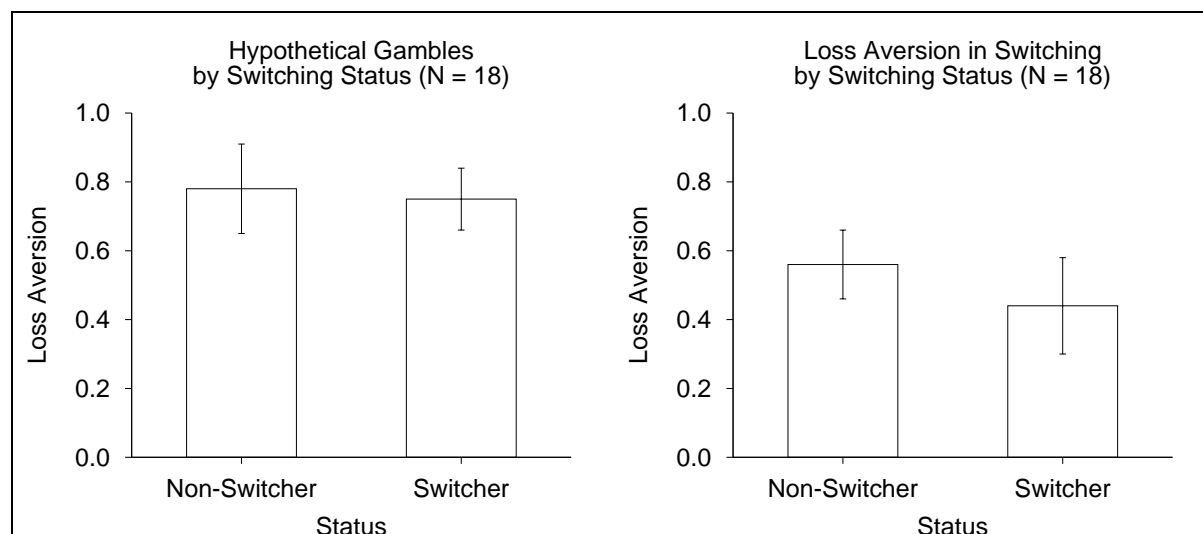
Table 5.2 Loss aversion in current account switching

Item	Response	
	Risk neutral	Loss averse
I worry that I'd lose features of my current account that are important to me	Disagree	Agree
I worry I'd be unable to arrange a new overdraft	Disagree	Agree
I worry that important payments would be missed if I switch current accounts	Disagree	Agree
I worry that it will be harder to access my money if I switch current accounts	Disagree	Agree

5.4. For each loss aversion measure, the four items were collapsed together to give a single aversion score for each participant. Scores ranged from zero to one, with zero indicating low concern about losses and one indicating high concern about losses.

5.5. The hypothetical gambles show quite high levels of loss aversion. On average, people chose to play one of the four gambles, most often opting to play for a gain of £50 or a loss of £10. However, as Figure 5.1 illustrates, there was no difference between switchers and non-switchers ($p_{rep} = .62$) in the qualitative interviews. General attitudes to financial risk do not seem to predict switching behaviour.

Figure 5.1 Loss aversion for switchers and non-switchers



- 5.6. The lack of a difference between switchers' and non-switchers' responses to the hypothetical gambles suggests that interviewees were not concerned about financial loss. However, there does seem to be some concern about practical losses. The items designed to measure loss aversion in the current account switching domain do show small differences between switchers and non-switchers in the qualitative survey. Switchers demonstrate lower levels of concern about potential losses than non-switchers ($p_{rep} = .72$). This difference was mainly driven by concern over missed payments. It could be that the switchers switch because they are less concerned missed payments. Alternatively, it could be that the experience of a successful switch reduces concern about missed payments.
- 5.7. Often, risky behaviour does not generalise across different domains. For example, risky health behaviour, risky sporting behaviour, risky financial behaviour, and risky sexual behaviour are only weakly correlated. So, with hindsight, the difference between the results of the hypothetical gambles and the results of the current account specific items is not surprising. The difference suggests that people are not concerned about general financial loss during switching, but they are concerned about the inconvenience and hassle of losing features or correcting missed payments.

- 5.8. Some of the items in the initial quantitative survey are related to loss aversion. Of those who had never switched (N = 1,326), only four per cent stated that too much could go wrong if they switched, only one per cent were concerned about adverse effects on their credit rating, and only one per cent were concerned about losing their overdraft (based on responses to Q37). The low levels of concern are reassuring and do not contradict the levels shown in the qualitative survey responses - the primary item driving concern in the qualitative survey was missed payments, and concerns about missed payments were not probed in the quantitative survey. The concern about missed payments is not misplaced: based on reports from the quantitative survey of problems experienced when switching during the past five years (Q42, N = 269), 19 per cent had problems with direct debits, 12 per cent had problems with standing orders, and 30 per cent reported some problems. Few (three per cent) reported problems with overdrafts.
- 5.9 In summary, those switchers in our qualitative survey were slightly less worried about losses that might be incurred whilst switching. Either reduced loss aversion makes them more likely to switch or a positive experience of switching reduces their concern about losses. But some concern is justified - almost one third of those who switched accounts in the past five years reported problems and, of those, almost one third have not had all problems resolved to their satisfaction (Q42a).

6 Cognitive engagement

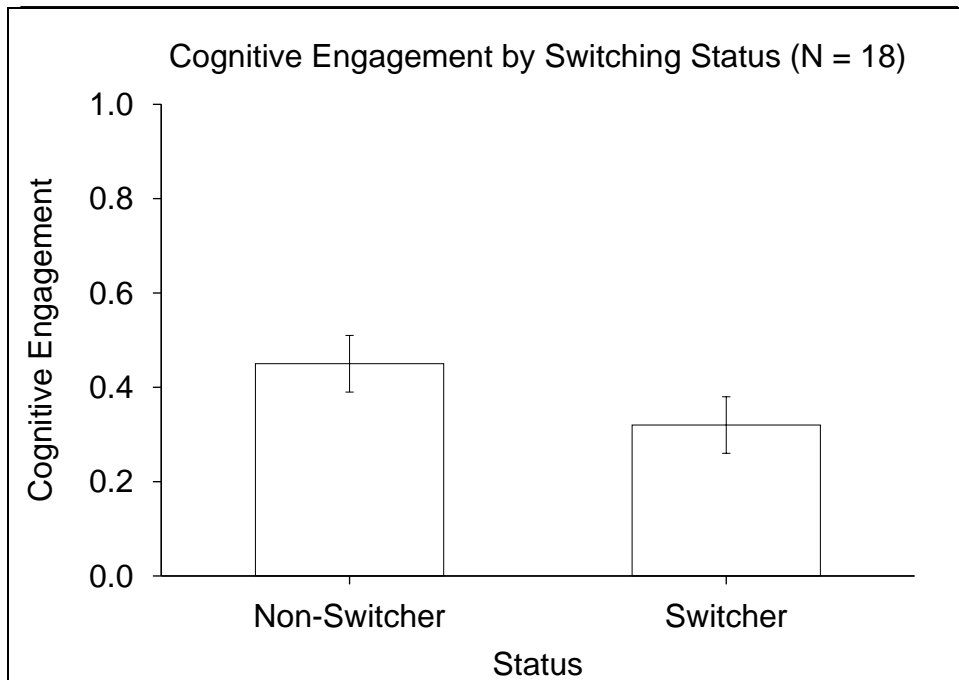
- 6.1. Those who have little interest in their finances are unlikely to invest effort in switching their current account. While steps can be taken to simplify the process of switching PCAs, these will have little impact on those with low levels of engagement unless steps are taken to engage them. Table 6.1 lists four questions designed to measure cognitive engagement in financial matters.

Table 6.1 Cognitive engagement items

Item	Scale
I regularly read the financial pages of the paper	Disagree - Agree
I find dealing with my personal finances boring*	Disagree - Agree
I don't understand some of the financial products I own*	Disagree - Agree
Thinking about personal finances makes me feel anxious	Disagree - Agree

* Indicates reversed items

6.2. These items worked well, and captured the full range of individual differences. Responses to these four items were collapsed into a single score for each participant, with zero indicating low engagement and one indicating high engagement. Figure 6.1 shows that switchers displayed lower levels of cognitive engagement ($p_{rep} = .81$). It could be that those least engaged are most likely to encounter an event that triggers switching or it could be that people reduce their level of engagement after a switch. However, this finding is unexpected.



- 6.3. The quantitative survey also included some items related to cognitive engagement. Q23a of the quantitative survey asked participants to rate the statements 'I am always on the look out for a better deal' and 'I make a conscious effort to keep up to date with what other providers are offering', both of which could indicate cognitive engagement. Switchers (N = 162) agreed more than non-switchers (N = 1,912) for each statement, suggesting higher engagement. Though the differences are highly statistically significant because of the large sample size (both $p_{repS} > .90$) the size of the differences is not large (about a quarter of a point on a four-point scale). The higher engagement for switchers than non-switchers here seems to contradict the opposite pattern found in the qualitative survey. One explanation concerns differences between the items in each survey - these items are specifically about awareness of other providers (unavoidable if one is switching accounts), whereas the psychological survey items are about financial awareness more generally.
- 6.4. Q58 from the quantitative survey is also relevant to engagement. Q58 asked respondents to rate their engagement with their bank statements on a four-point scale from one ('thorough reading') to four ('never read or check'). Switchers (N = 159) and non-switchers (N = 1894) showed no difference on this item, and scored almost identically with scores in

between 'thorough reading' and 'check details but not thoroughly' ($p_{rep} = .56$).

6.5. In addition, in the qualitative survey, a further item was administered to classify people into those engaged, those disengaged, and those disinterested. People were asked to pick one of the following phrases that best describes how they think about their current account:

- it is in the front of my mind and I am always on the lookout for better accounts
- it is in the back of my mind but I would take notice of a better deal if it came along
- it is something that I pretty much forget about.

6.6. Using this item, about half of participants classified themselves as disinterested and the other half were disengaged. Only one out of 27 interviewees selected the engaged phrase. The difference between switchers and non-switchers was small in our qualitative interviews ($p_{rep} = .67$), though a single item has limited ability to detect differences with such a small sample.

6.7 In summary, the qualitative survey found that people showed low levels of engagement. More specific items in the quantitative survey found that switchers examined alternative current accounts more than non-switchers, but were no more engaged with their bank statements.

7 Fairness

7.1. Fairness is an important principle of social organisation, with many social structures designed to enforce fair behaviour and punish those who deceive or cheat. The observation that people are extremely astute at identifying cheating and other unfair behaviours has caused some researchers (for example, Cosmides, 1989) to go as far as to suggest a specialised brain area responsible for cheater detection.

7.2. Holders of PCAs may feel aggrieved by unexpected bank charges, by failure to meet expectations (however erroneous these feelings might be), or by other poor service which they regard as unfair. Because fairness is so deeply embedded in our social behaviour, both in our own development through childhood and also within our social evolution, such feelings are likely to be extremely powerful motivators. Media coverage about bank charges, campaigns to help people recover bank charges, and the OFT test case create an expectation that bank charges will be perceived as unfair. Indeed, some interviewees were influenced by the coverage:

Interviewer: Do you think the charges which were applied were fair?

Interviewee: No, absolutely not. In fact I know they're not fair. All the programs that I've seen, and as an accountant I was used to doing costing exercise, there is no way it costs £30 to write a standard letter, it's impossible.

7.3. The first part of the quantitative interview probed for people's feelings of fairness and asked about their experience of bank charges. Implicit in this questioning is the idea that people may perceive bank charges as unfair, and that imposition of unfair charges may drive switching behaviour. To test whether people do indeed perceive bank charges as unfair, each interview was scored for imposition of bank charges and also for statements about fairness. The cross tabulation is shown in Table 7.1.

Table 7.1 Cross tabulation of frequency of charging experience and fairness perception (N = 36)

Charging experience	Fairness perception	
	Fair	Unfair
Charged	16	8
Uncharged	12	0

- 7.4. Most striking is that the majority of participants thought that in principle the existence of such charges were fair. In the qualitative survey, many interviewees took that the attitude that, if charges were known up front and the customer went overdrawn through their own fault, then a charge was a 'fair cop'.

Interviewer: Did you expect the charges to be higher, lower? Did you think they were fair?

Interviewee: I think they were fair, really, yes.

Interviewer: Do you think that it is fair that customers are charged for exceeding overdrafts and going overdrawn?

Interviewee: Yes, there has to be some consequences if you are borrowing money from them without their consent.

Interviewer: ...and did you feel that generally it is fair to charge people when they go overdrawn or if they go into the overdraft?

Interviewee: If you go overdrawn without getting permission from the bank itself, then they should be charged. Yes, I feel that's fair.

- 7.5. There were fewer comments on the overall level of charging and, presumably, not all interviewees were aware of the current media discussion. So these comments on fairness are best interpreted as comments on the fairness of charges in principle, not the fairness of the absolute level of the charges. That said, in the qualitative survey, people sometimes thought that it was fair for the bank to charge a punitive rate to deter people from going overdrawn and enforce good banking behaviour.

Interviewer: ...so charging in itself is not necessarily unfair, but if they charges are sort of significantly more than the admin charge that they're supposed to cover, is that fair, would you say?

Interviewee: Yes, you've got to have some disincentive; otherwise people would just go overdrawn at the drop of a hat, wouldn't they?

- 7.6. But in other cases, interviewees had strong feelings that the banks shouldn't be allowed to profit with punitive charges.

Interviewer: So you think that it is fair that these charges are significantly more than the administration costs with the bank?

Interviewee: No, it should be in line with their costs and it shouldn't be in any way penalised.

- 7.7. The perception of unfairness seems to result when charges are either very large compared to the size of the unauthorised overdraft or when charges are levied in a situation that is not the fault of the customer (e.g., with a direct debit taken too early).

Interviewer: And do you think the charges were fair?

Interviewee: I don't know, I don't know whether 'fair' applies, I don't know if it reflects their costs in me going overdrawn. It was quite a small amount overdrawn; no, it didn't feel fair.

Interviewer: So it didn't feel fair because?

Interviewee: Because I'd only gone a little bit overdrawn, and it was quite a lot of money to pay for that.

- 7.8. Overall, these results are surprising given (a) a strong prior expectation of negative perceptions after critical media coverage of charging, and (b) a vast over representation of switchers (that is, the most proactive consumers) in the psychological survey. But there was a link between perceptions of unfairness and charging ($p_{rep} = .86$), with those charged most likely to perceive their treatment as unfair.
- 7.9. This pattern is replicated in the quantitative survey. In Q34, participants rated the fairness of charges of their current provider on a 10-point scale, from one (very poor) to 10 (very good). Overall, the mean rating was 6.2, just into the positive part of the scale (that is, above 5.5) (N = 1,913). This confirms the above findings - people do not have strong negative feelings towards bank charges. (Because switchers would be rating their

new provider but were likely to have been charged by their old provider, they were omitted from the analysis. The above results are only for non-switchers.)

7.10. Q12, Q14, and Q15 (for those with overdrafts) and Q18, Q20, and Q21 (for those without overdrafts) asked people whether they were charged in the past year ($N = 543$), whether they were aware of the charges ($N = 399$), and whether they were warned in advance of the charges ($N = 399$). Answers to these questions were quite highly correlated. Of those charged, 78 per cent reported being aware of the charges. Of those charged, 51 per cent reported being warned. Those charged rated the fairness of charges more negatively (4.1 vs. 6.7, $p_{rep} > .90$). The difference was smaller when people were aware of the charges (4.3 vs. 6.6 $p_{rep} > .90$), and smaller still when people were warned in advance (4.6 vs. 6.4, $p_{rep} > .90$).

7.11 In summary, people do not feel that the existence of charges is unfair. Those charged do, unsurprisingly, have more negative perceptions of charges, but the discrepancy is minimised when people are aware and warned about charges. Even punitive charges were sometimes justified as enforcing proper behaviour.

Summary

Six psychological factors have been considered:

- Perceived behavioural control: People's perceptions of their behavioural control of current account switching were high overall.
- Temporal myopia: People's discounting of future events was not related to switching behaviour.
- Overconfidence: People were overconfident about the likelihood that they would encounter charges.
- Loss aversion: Concern about losses during switching was slightly lower for switchers, but the overall level of concern was not misplaced.

- Cognitive engagement: The overall level of cognitive engagement was low: People do not spend much time or effort thinking about their current account.
- Fairness: Overall, charges were not perceived as unfair, though those who were charged rated charges less favourably than those who were not charged. Increased awareness of charges and warnings about charges were associated with a smaller difference in fairness ratings between those charged and those not charged.

8 Interventions

8.1. This section describes possible interactions between potential market interventions and the psychology revealed by the survey. A wish-list of interventions is considered below, but two boundary conditions are worth considering.

Comparison to savings accounts

8.2. Rates of switching savings accounts probably represent an upper limit on the rates of switching current accounts. With savings accounts, there is a financial incentive to switch (interest), switching is much easier (no direct debits, etc.), and savers are probably more financially engaged, less temporally myopic, and have higher levels of perceived behavioural control.

Comparison to ISAs and mortgages

8.3. It is always possible to put off the action necessary to switch current accounts, because it can always be done tomorrow. Indeed, this seems to be what a large proportion of people may be doing, given the responses to items from the quantitative survey showing that many do not like their provider, most perceive a benefit in switching, and many have wanted to switch.

8.4. Comparison to ISAs and mortgages might be informative, because these products have in-built switching times. With ISAs, it is the end of the tax

year, by which time the annual saving limit expires. With mortgages, it is the end of the initial fixed-rate or discounted period. Examination of switching rates for these products should give an upper limit on switching behaviour that might be achieved if the psychological tendency to put off switching until tomorrow could be overcome.

Introductory free banking

- 8.5. If charges were made for banking, the offering reduced or zero fees during an introductory time period to switchers would be psychologically appealing, just as they are for other products (for example, credit cards, mobile phones, etc.). Because people behave in a temporally myopic way, a small gain in the near future will offset a larger but more delayed cost.

Modification of switching services

- 8.6. In the qualitative survey people expressed concern about missing payments when switching bank accounts. In the quantitative survey, about 30 per cent of people who switched experienced problems switching, with problems with direct debits and standing orders causing most problems. A modification of the switching service could address this concern in a number of ways. The most obvious solution would be to reduce the number of problems with direct debits and standing orders during switching though this might perhaps be technically difficult. Psychologically, it would be important to advertise any improvements, as residual perceptions of problems may still prevent switching, but advertisement would be hard in the face of low levels of engagement. Some compensation could be made to offset losses incurred by missed payments, but, given the finding that losses loom larger than gains, the amount of compensation would need to be considerably larger than the cost of missing a payment.
- 8.7. At present, the banks aim to switch current accounts in 10 working days. Psychologically, this is quite a long time - people are impulsive creatures. In the financial choices in the qualitative survey roughly half of people prefer the smaller sooner amount. For example, a preference for £366 now over £500 in one year implies financially implausible interest rates of

36 per cent APR. That is, unless one can invest the £366 with at least 36 per cent APR, £500 in one year is ultimately more valuable. The importance of time delays is well known by the industry. Compare the 10 days for switching, for example, to the time taken to arrange large loans and mortgages, which can often be arranged almost immediately. Retailers work hard to achieve immediate interest free credit and to allow consumers to take home goods immediately or with next-day delivery. Any reduction in the 10 working day target should have significant psychological impact.

Allow consumers to keep account numbers

- 8.8. At present, when people switch banks they must change their bank account number and sort code. Attaching numbers to banks rather than to consumers has two impacts. First, it makes switching more difficult. Second, it gives the psychological impression that the account belongs to the bank and not to the consumer.
- 8.9. There may, of course, be considerable technical difficulty in allowing consumers to keep an identifier (for example, account number and sort code) when they switch providers, but it has been done in other industries, most notably the domestic and mobile phone markets. Examination of the changes in the rates of switching when portable identifiers were introduced could allow prediction of rates for current accounts. In addition to increasing the consumer's sense of ownership of their account, allowing portable numbers would immediately remove anxieties about problems with direct debits, standing orders, and BACS salary payments during switching.

Increased transparency about charges and interest rates

- 8.10. It is probably true that interest rates and charges could be advertised more prominently, and that changes in interest rates and charges could be made less subtle. However even very transparent presentation will not have a maximum impact. There are several psychological reasons for this. First, rates and charges are not presented in the right 'psychological currency'. There is good psychological evidence that people have a poor

understanding of interest rates. To be concrete, a person does not experience an interest rate of 0.1 per cent, they experience an interest payment of 50p over the year. Though one could argue that this is less true for charges, often charges are compounded and going overdrawn may trigger a series of charges for the overdraft and for missed payments. It would be better to translate rate and charge information into the relevant experienced units. Minimally, the interest and charges for the average customer could be displayed. More accurate would be to display the predicted cost for the current statement period for a particular customer on the basis of that customer's recent financial history. A neutral, regulator run switching web site may help (analogous to the fsa.gov.uk/tables pages), with a list of providers rank-ordered by cost, contingent upon the answers to some simple questions about banking behaviour.

- 8.11. A second reason for a lack of transparency is that charges and interest payments are not presented in the right context. There is very strong evidence that the context in which a gain (for example an interest payment) or a loss (for example a charge) is presented has a very large effect on the perception of that payment. At present, charges and payments are normally intermixed within all of the transactions on the account. In this context, a charge of £30, for example, might feel small when compared to other transactions such as £100 on supermarket shopping, or £1,000 for a mortgage repayment. Charges and interest payments should be separated from the other transactions on the account. Presenting charges and interest payments separately might encourage more reasonable comparisons.
- 8.12. Finally, overconfidence will play a role. Increased transparency will improve people's understanding of bank charges. But if people are overconfident about the likelihood that they will be charged then they will still misestimate the effective cost of banking. An analogy would be with crime, where the length of the sentence for a crime has been shown to be a lesser deterrent than the probability of getting caught.

9 Conclusions

- 9.1. This exploratory study investigated the psychology of current account usage, switching and charges.
- 9.2. People showed high levels of perceived behavioural control, believing that they do have the ability to switch. People showed quite high levels of temporal myopia, which might prevent them from switching current accounts. People also showed quite high levels of overconfidence, underestimating the number of times that they will be overdrawn, miss payments and be charged in the coming year. Such overconfidence will make it hard for people to estimate the cost of banking, even if they are fully aware of charges. People were concerned that payments might be missed if they switched, and this concern was somewhat justified given the number of people reporting payments being missed during a switch. People displayed low levels of cognitive engagement in the current account banking.
- 9.3. Regarding charges, there was not strong evidence that people perceived the existence of charges to be unfair, either in the psychological survey or in the quantitative survey. Of course, this perception does not mean that charges actually are fair - fully informed people could reach different conclusions. Unsurprisingly, those charged viewed charges as less fair than those who were not charged, but this difference was smaller when people were aware of the charges and when people were warned about the charges.
- 9.4. Finally, the psychological impacts of several possible market interventions were considered. Changes to switching services should address concerns about missed payments. Because of loss aversion, psychologically adequate compensation for missed payments should be financially larger than the potential loss. Because of temporal myopia, reductions in switch time could have a large impact. Measures to increase transparency of charges would not address overconfidence, as even if people understand charges they will not realise they apply to them. Changes to the free-if-in-credit banking model should address fairness issues.

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