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Actions speak louder…

BEHAVIOURAL INSIGHTS INTO CUSTOMER RESEARCH

Online selling has still further expanded the use of market research, so you can hardly buy a toothbrush without being asked for feedback and a satisfaction rating. But is all this information that businesses gather really "important to us", or downright misleading? In this bulletin, Frontier looks at the flaws in traditional market research methods in retail banking – a field where unconscious influences are particularly important.

Policy-makers, regulators and businesses have all become more or less aware that advances in behavioural economics have fuelled a leap forward in our understanding of customer decisions. But many are struggling to find ways of moving on from traditional market research, or integrating new approaches into old methods. At the request of Lloyds Banking Group, Frontier examined this problem in a submission to the Competition and Markets Authority ("CMA"), reviewing the tools used to assess customer behaviour in retail banking markets.[1]

DON'T LET'S THINK ABOUT IT

One key insight from behavioural science is that considered thinking is (physically) hard work. So we ration cognitive effort, and frequently use unconscious heuristics, or short cuts. Paradoxically, this use of (less effortful) unconscious thinking occurs frequently in markets like financial services, where we might suppose – or kid ourselves – that considered thinking was the order of the day. The explanation is that these markets suffer from low "customer engagement" – i.e., people don't much like thinking about the decisions they have to take in financial services, don't want to spend much time doing so and easily drop into "habitual behaviours" before getting on with cognitive effort they really enjoy, like choosing the best value hotel and flight for their holiday.

Context and emotion hugely influence not only the way we take decisions – but also the way we answer questions about them afterwards. And so we can make the problem of gaining meaningful feedback worse by adding in influences through our research methods, making the results even more unreliable.

These unconscious influences on our decisions aren't easy to surface through market research, because, of course, if I'm not aware of them I can't tell you about them. Worse still, I may provide the researcher with a perfectly coherent post-hoc rationalisation of how/why I took a decision – but one that just doesn't happen to reflect the way the decision was actually made. The same is true of customer responses as to what they will do in the future. In complex markets like these, people rarely do what they say they are going to do, and even more rarely do it for the reasons they tick in a questionnaire.

Market research routinely removes, or significantly alters, the context in which the decision is made, and replaces it with an artificial one. Everything from the introduction, choice of wording and question topics, to the presence of other people in the research forum has been shown to bias response.

BANKING ON THE ANSWERS?

These are some of the difficulties that confront the CMA in seeking to understand customer behaviour, in order to conduct an effective inquiry into retail banking. Such inquiries have historically relied heavily on the collection of satisfaction metrics by traditional, questionnaire-based, methods. Satisfaction ratings are used to compare performance over time, between companies in the sector and with other sectors.

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[1] *How behavioural economics can improve customer research in retail banking markets*, Frontier Economics, Nov 2014

But these can yield as much confusion as light. As the CMA has itself pointed out, satisfaction ratings don't seem to drive account-switching: banks with lower ratings don't seem to have lost market share, and those with higher ratings don't seem to have gained. The conventional regulatory response to such results has been to deal with such a "market failure" by obliging banks to supply their customers with yet more information. This, it was supposed, would encourage them to do more comparisons ("considered thinking") and respond to dissatisfaction by moving.

The only limit seen to that approach was a fear that "vulnerable" customers lacked the capacity to absorb the information and make the comparisons. Yet even a cursory glance at these customers' ability to absorb information in other markets requiring considered thinking (e.g., at the travel agents) would suggest there was something else going on in retail banking – a lack of customer engagement as much as customer capacity.

When relying on traditional market research in a retail banking inquiry, the CMA needs to be particularly aware of the strength of unconscious influences in this area:

1. **Context.** Everything from the "voice" asking the questions to the order in which they are put is known to affect responses. A customer may well reply differently to a regulator than to a provider, and the normal sequencing of questions (designed to build up a story, or follow a transaction from start to finish) can seriously influence the answers given.

2. **Ease of recall.** Behavioural experiments have made clear the extent to which people are influenced by recent events, even if they asked for their views of service or performance over a long period. And when asked for their views on complex bundles of products and services (such as bank accounts), respondents usually focus on those features which are easiest to recall, over-extrapolating views of these into a view of the whole bundle. In banking, concepts such as "price" and "quality" are much less easy for customers to form a view on than the ease of use of an app or the friendliness of the relationship manager.

3. **Misattribution and cognitive ease.** A related problem follows from customers' instinctive responses to features of the retail banking bundle. For example, people routinely fail to distinguish between the ease with which they can access information and the quality of the products this information describes. And while it's a good lesson for providers to learn that explaining things simply and well will cause customers to rate their services more highly, this may distort the regulator's understanding of the quality of the underlying service. Equally, if a survey offers a range of alternative answers, respondents will tend to be drawn towards the option that is best expressed or easiest to understand.

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4. **Focalism and expected answers.** The very act of asking about something, such as a feature of a retail banking bundle, involves the presumption that such a feature must be relevant to the way the customer takes a decision, even if in reality it isn't. And even when customers are offered a cop-out response (such as "don't know"), if this is clumsily framed they will still be inclined to choose one of the specific responses, however irrelevant. Moreover, an inability to articulate the real drivers of their decision-making (because these are largely unconscious) will lead respondents to choose the answers they think they are expected to give.
5. **Habitual behaviour and loss aversion.** Customers frequently act habitually, and unconsciously attribute a psychological cost to changing their habits. Pushed for answers as to why they have not, for example, changed their bank account, they will tend to rationalise their decision by reference to all sorts of factors that may not, in fact, have been influential. Meanwhile, loss aversion – identified by Nobel prize-winner Daniel Kahneman as the single greatest insight provided by behavioural economics – may come powerfully into play in financial services without being consciously recognised. People generally try to avoid change, and are much warier of the potential downsides than appreciative of the potential gains.
6. **False differentiation.** When customers have not actively considered alternative products and providers, asking them to compare and contrast these is unlikely to yield valid results. Respondents will be highly influenced by the factors they are offered to explain why they "prefer" A to B. This may be even more the case when they are asked how they rate aspects of service they have not yet experienced, which is why traditional research techniques are almost useless in exploring customers' likely reactions to future technological change – an issue of obvious importance in any examination of retail banking.

MAKE DO AND MEND

The good news is that there are some things that can be done, which go beyond the normal controls that are used with traditional market research techniques. With so much at stake in regulatory investigations, finding ways to remove these influences is critical to getting results that can be relied on.

- Taking care to avoid inadvertent "priming" in the introduction to a survey is essential; letting customers know that the following survey is going to be used for a CMA investigation may unhelpfully prime customers to think about banking from a particular perspective.
- Using data on actual behaviour to help find appropriate participants means that customers will always be talking from experience rather than in hypotheticals. For example, asking customers about overdraft use may only be useful if customers have indeed used one. Using customer data in

advance helps identify the right respondents. Likewise, questions should only be asked about alternatives if the researcher is confident the respondent has assessed or sampled these.

- Avoiding the use of suggested answers as much as possible. Where these have to be used, each should be is as clearly-expressed (i.e., requires as little cognitive effort) as the others. In addition, offering better-phrased, more attractive 'cop-out' options can reduce the weight of expected answers.
- Providing short time-frames for periods over which the respondent is asked about experience/provider performance can better focus customer attention. For example, asking customers whether they have been into their bank branch in the last fortnight is likely to focus customers' attention better than a question without a specific timeframe.
- Focusing on behaviour rather than reasons helps to find out what respondents have actually done, rather than on what they say they might do. This can be done by ensuring that the questions are clearly linked to actual behaviour. Further to this, checking answers against actual behaviour, such as transaction data, where possible is a good sense-check of customers' awareness of and ability to report their own actions.

The risks identified earlier suggest that however carefully traditional methods are used, they will have severe limitations in this area and need to be supplemented – or complemented – by other approaches. The fundamental problem of low customer engagement in financial services, a reluctance to expend cognitive effort that could be more pleasurably deployed in other areas, will colour all the results – and careful crafting may only have the effect of getting respondents to tick the "no opinion" box more often. While the results may then have greater integrity, they may offer only a meagre harvest for researchers.

TRIAL AND ERROR

There are a number of other techniques that can be used to help construct a fuller picture of consumer decision-making. Field trials and behavioural experiments can both play a powerful role in helping regulators to identify the true drivers of customer behaviour. By varying what researchers believe to be these drivers, and measuring the results, they can avoid dependence on what customers say, and instead look at what they actually do.

Field trials offer the unique advantage of testing behaviour in a "real world" environment. But they are expensive, slow and may not always be possible. So regulators have begun to use other innovative testing techniques. For example, the Financial Conduct Authority is a keen advocate of the use of behavioural economics and has used its tools in several recent market studies. In its market study on general insurance add-ons, the FCA complemented its quantitative and qualitative consumer research with an experiment testing consumers' reactions to the add-on mechanism in a simulated market environment.

There are several tools that can be used to measure indicators of behaviour. Implicit-association testing can be used to detect the strength of a person's unconscious associations with different concepts, such as financial products. Eye-tracking measures eye position, movement and gaze, and is useful for understanding what captures consumers' attention, and what information feeds into their decision making process.

Such experiments can enable researchers to unpick the reasons for, and consequences of, low customer engagement in retail banking choices, and the reasons why low satisfaction ratings don't seem to result in more switching. To carry out its inquiry, the CMA will need to develop a more experimental approach than the traditional reliance on consumer research.

CONCLUSION

Behavioural economics has given us a much better understanding of the limitations of traditional market research methods, and their propensity to mislead. These methods, and the customer satisfaction metrics that they generate, have long been the basic tools of regulatory investigations. In its submission to the CMA, Frontier has sought to illuminate the particular risks associated with relying on those tools in a market characterised by low customer engagement.

Our brief report identifies a number of specific problems, suggests some ways of mitigating these, and most importantly points towards ways of complementing the results with innovative testing and trialling techniques securely grounded in an understanding of consumer behaviour. Using these techniques to discover how people actually respond to different stimuli is more powerful than collecting questionable information on what they say they will do, and why. Actions, as ever, speak louder than words…

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