This product is part of the RAND Corporation technical report series. Reports may include research findings on a specific topic that is limited in scope; present discussions of the methodology employed in research; provide literature reviews, survey instruments, modeling exercises, guidelines for practitioners and research professionals, and supporting documentation; or deliver preliminary findings. All RAND reports undergo rigorous peer review to ensure that they meet high standards for research quality and objectivity.

TECHNICAL
REPORT

Consumer Use of Banks and Credit Unions

Findings from a Survey for the California and Nevada Credit Union Leagues

Jinkook Lee, Teryn Mattox, Kyoung-Nan Kwon,
Arie Kapteyn, Tania Gutsche

Sponsored by the California and Nevada Credit Union Leagues

RAND LABOR AND POPULATION

The research described in this report was sponsored by the California and Nevada Credit Union Leagues and was conducted by RAND Labor and Population, a division of the RAND Corporation.

Published 2009 by the RAND Corporation
1776 Main Street, P.O. Box 2138, Santa Monica, CA 90407-2138
1200 South Hayes Street, Arlington, VA 22202-5050
4570 Fifth Avenue, Suite 600, Pittsburgh, PA 15213-2665
RAND URL: http://www.rand.org
To order RAND documents or to obtain additional information, contact
Distribution Services: Telephone: (310) 451-7002;
Fax: (310) 451-6915; Email: order@rand.org

PREFACE

The growth of credit unions in the United States has weakened in recent years. Credit unions, as cooperatively owned and not-for-profit financial institutions, serve the interests of their members by providing affordable financial products and services. Credit unions' rates on financial products are determined by policies set by a member-elected board. In the current financial climate, it is increasingly important that the public be made aware of the availability of credit unions, which generally offer competitive prices for financial products.

Using the American Life Panel (ALP), RAND Corporation researchers conducted an Internet survey with the goal of understanding consumer attitudes and behavior related to the use of commercial banks and credit unions. Survey questions asked consumers, for example, why they select a particular institution and what caused them to switch from one to another. The survey was sponsored by the California and Nevada Credit Union Leagues (CCUL).

The research was conducted within RAND Labor and Population, which has built an international reputation for conducting objective, high-quality, empirical research to support and improve policies and organizations around the world. Its work focuses on labor markets, social welfare policy, demographic behavior, immigration, international development, and particularly, the issues related to financial decision making.

This research will be of interest to those in the financial services industry and in academia who are interested in consumer attitudes toward, and use of, financial institutions. Comments regarding this document are welcome and may be addressed to Jinkook Lee by email at Jinkook_Lee@rand.org. For more information about RAND Labor and Population, contact the Director, Arie Kapteyn, by email at kapteyn@rand.org. Lee and Kapteyn can be reached by phone at (310) 393-0411 or by mail at the RAND

Corporation, 1776 Main Street, Santa Monica, California 90407-2138. For more information about the RAND Corporation, visit us on the Web at www.rand.org.

Table of Contents

LIST OF FIGURES

LIST OF TABLES

EXECUTIVE SUMMARY

The RAND Corporation survey was designed to address issues related to consumers' perceptions of credit unions and financial institutions in general, and to produce information to help the California and Nevada Credit Union Leagues understand consumer behavior and ensure that credit unions serve customer needs and continue to grow. The ALP population is a nationally representative internet panel. The survey instrument is found in Appendix A. Key findings of the survey and policy recommendations follow.

Survey findings

Consumer selection of financial service providers is based primarily on convenience of branches, convenience of ATMs, and bank fees. Bank users are more focused on convenience, while credit union users more interested in fees; however, both types of users are focused on both issues.

- Bank users largely based their decision to use their current financial institution on branch convenience, while credit union users were primarily focused on fees.
- Bank users who switch to a credit union cite fees, free checking, and better service as primary reasons for the switch, whereas bank users who switch to another bank cite a household move and better service as primary reasons for the switch.
- Those who leave credit unions for a bank for reasons other than a household move do so primarily for the sake of convenience.
- Credit union members are more likely to use the credit union as a "one-stop shop" for financial services, while bank customers are likely going elsewhere for such financial products as loans and savings accounts.

Credit union members stay with credit unions because they provide low fees, competitive interest rates, and high-quality services. Members leave their credit unions primarily due to a change in residence or because they desire more convenient branch locations.

- Nationally, 13 percent of current bank customers switched to their bank from a credit union. More than half of these customers cited a move to a new residence as one of the reasons for their switch, and nearly one-third cited convenience of branch locations.
- Nationally, 82 percent of current credit union members say that if they had to switch financial institutions, they would consider another credit union. 16 percent of current credit union members responded that they would not consider a credit

union if they had to switch financial institutions. 38 percent of these respondents said that their response was due to inconvenient branch locations.

Unhappy customers choose their primary financial institutions largely based on convenience considerations. **A change in place of residence is the most frequently cited reason for switching** institutions.

- Dissatisfied customers make up 13 percent of our national sample. They are younger, are largely bank users, and report that they would be more likely than satisfied customers to leave their current financial institution in the next six months.

- One-third of dissatisfied customers cite convenience of branch location as the number one reason for selecting their current institution.

- A household move is the most frequently cited reason given for previous financial institution switching.

- On average, the effort and stress of switching financial institutions is a greater concern than the money costs of doing so for consumers.

- While a "switch kit" service does not appear to be enough of an incentive to convince satisfied customers to switch financial institutions, dissatisfied customers were on average much more likely to switch if offered this service.

A lack of understanding about credit unions is the primary barrier for new members.

- Bank users who responded that they would not consider switching to a credit union if they had to switch institutions primarily cited a lack of knowledge about the services provided by credit unions. The second most frequently cited reason was inconvenience of branch locations.

- Bank customers have less understanding of credit unions than credit union members. In particular, bank users are more likely to believe the following: credit union members must belong to a labor union, credit unions lack data security, and credit unions offer limited services.

- The words "join," "membership," "cooperative banking," and "ownership" are positive for both current bank customers and credit union members. Bank users, however, are less positive about these words in relationship to their financial institutions.

Strategic recommendations

Given these findings, what could financial institutions do to attract new customers and retain existing ones? We suggest the following:

- **Target individuals who are moving to a new residence or job.** For example, link advertising to United States Postal Service mail forwarding requests.

- **Financial institutions can network.** For example, credit unions can work with other credit unions to ensure that an individual who leaves one credit union because of a move will consider another credit union in the new location.

- **Increase consumers' awareness of and sensitivity to interest rates and product fees.** Credit unions could promote consumer awareness of financial product fees and interest rates and emphasize the better rates offered by credit unions.

- **Create convenience for consumers.** Shared branching of ATMs has proved to be a good solution to create added convenience for many consumers. Shared branch offices can similarly benefit consumers. The industry can develop such a partnership among individual credit unions, which could benefit all participating credit unions and their members.

- **Dispel misunderstandings about credit union membership.** Credit unions may consider emphasizing the fact that credit unions are "cooperative banks" owned by individual members, rather than stockholders, and that individual members have ownership of and monitoring rights over their credit union.

- **Provide "switch kits."** Dissatisfied customers are more likely to switch from their current financial institution if there is a "switch kit" service available. "Switch kit" service provides customers an easy, stress-free transition from one institution to another.

The rest of this report goes into greater detail in support of these findings. Section 1 gives additional background on the project and the survey, Section 2 discusses our findings at the national level, and Section 3 summarizes the findings and provides policy recommendations.

SECTION 1: PROJECT BACKGROUND

Credit unions are member-owned, not-for-profit financial cooperatives. Credit unions differ from banks and other financial institutions on several important grounds:

- Ownership: The members who have accounts in the credit union are the owners of the credit union. Each credit union member has equal ownership and one vote— regardless of how much money a member has on deposit. Unlike most other financial institutions, credit unions do not issue stock or pay dividends to outside stockholders – all earnings and losses go back to their members in the form of fees and the interest rates of savings and loans.

- Governance: Credit unions are run by a volunteer board of directors elected by and from the membership itself. Credit union members elect their board of directors in a democratic one person–one vote system regardless of the amount of money invested in the credit union. The elected board of directors determines interest rates, fees, and other policies governing the credit unions.

- Tax-exemption: Congress exempts credit unions from federal income taxes. The exemption was established in 1937, affirmed by statute in 1951, and re-affirmed in 1998 in H.R. 1151, the Credit Union Membership Access Act, which states:

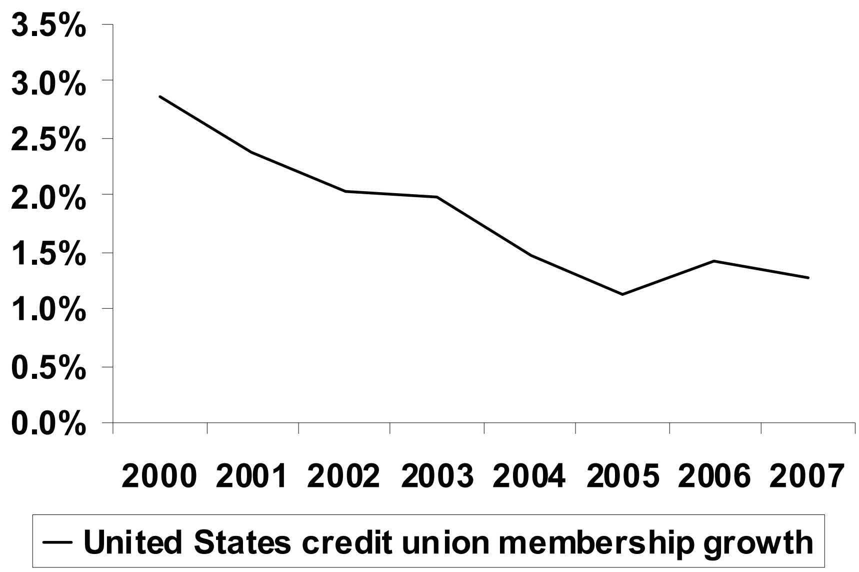
  > *"Credit unions, unlike many other participants in the financial services market, are exempt from Federal and most State taxes because credit unions are member-owned, democratically operated, not-for- profit organizations generally managed by volunteer boards of directors and because they have the specified mission of meeting the credit and savings needs of consumers, especially persons of modest means."*

- Products/services: Credit unions' tax-exempt status, combined with the absence of shareholders to whom they must pay dividends, allows them to offer competitive rates. Credit unions increasingly provide a broader range of financial products to their members. Yet credit unions are typically smaller than banks; for example, the average U.S. credit union has $93 million in assets, while the average U.S. bank has $1.53 billion, as of 2007.

- Membership eligibility: By current federal statute, credit unions cannot serve the general public. People qualify for a credit union membership through their employer, organizational affiliations like churches or social groups, or a community-chartered credit union. The community-chartered credit unions are open to all residents of a particular geographic area.

Despite favorable fee structures and competitive interest rates, recent credit union growth has been falling in California and nationwide (Figure 1). From 1992 to 2006, credit unions' market share has remained at a constant 6 percent of total assets in America's financial depository institutions. Credit unions are understandably concerned about the ability of their organizations to grow in the future, and eager to serve the financial needs of American consumers.

Figure 1: Credit union membership growth nationwide



The California and Nevada Credit Union Leagues asked the RAND Corporation to design, implement, and analyze a survey to address the following four key issues:

- Getting new members in the door: What are the key drivers of consumer selection of financial service providers?

- Member retention: Why do credit union members stay and why do they leave?

- Obstacles to switching: Why do consumers stay with providers they are unhappy with? What does it take to make the switch?

- Barriers: To what degree are the terms “credit union” and/or the notion of “joining” or being a “member” an impediment to membership growth?

The survey was administered to the American Life Panel (ALP). The ALP is an Internet panel of 2,000 respondents age 18 and over. Respondents in the panel access the Internet by using either their own computer or a “Web TV,” which gives them Internet access through their television and a telephone line. The Web TV technology allows respondents who did not have previous Internet access to participate in the panel and to browse the Internet and use email.

At least once a month, respondents receive an email request to visit the ALP URL and fill out questionnaires on the Internet. Typically an Internet survey will not take more than 30 minutes. Respondents are paid an incentive of about $20 per 30 minutes of interviewing (and proportionately less if an interview is shorter).

The respondents in the ALP are recruited from among individuals age 18 and older who are respondents to the Monthly Survey of the University of Michigan’s Survey Research Center. The Monthly Survey is one of the leading consumer sentiments surveys, and it incorporates the long-standing Survey of Consumer Attitudes and produces, among others, the widely used Index of Consumer Expectations.

The Survey Research Center recruits by screening Monthly Survey respondents. It asked respondents age 18 or older whether they would be willing to participate in Internet surveys (with approximate response categories “no, certainly not,” “probably not,” “maybe,” “probably,” “yes, definitely”). If the response category was not “no, certainly not,” respondents were told that the University of Michigan was undertaking a joint project with RAND. They were asked if they would object to the Survey Research Center sharing information about them with RAND so that they could be contacted later and asked if they would be willing to actually participate in an Internet survey. Many Monthly Survey respondents were interviewed twice. At the end of the second interview, an attempt was made to convert respondents who refused in the first round. This attempt included the mention of the fact that participation in follow-up research carried a reward of $20 for each half-hour interview.

The survey was put in the field on September 8, 2008, and closed on September 30, 2008. There were 1,542 total respondents to the survey, 124 from California and 11 from Nevada. Data from all of these respondents were analyzed. The full survey is attached as Appendix A.

In the next section of this report, we describe national-level survey findings in detail.

SECTION 2: NATIONAL SURVEY FINDINGS

Types of financial institution users

In this section, we describe basic characteristics of different types of financial institution users. First, we describe bank customers versus credit union members; then "satisfied" versus "dissatisfied" financial institution customers. Because the ALP survey data have been weighted based on demographic data, these numbers are close reflections of the characteristics of financial institution users nationwide.

Bank customers versus credit union members: characteristics and product use

In **Table 1,** we provide basic demographic information and financial service use of those customers who list banks as their primary financial institution, compared with those who list credit unions as their primary financial institution. Note that credit union members who use the credit union as their primary financial institution are only a subset of all credit union members. **Bank customers** comprise nearly 80 percent of the sample, and on average have been with their financial institution for a shorter time. Bank customers reported that they would be more likely to switch financial institutions in the next six months. **Credit union members** are similar to bank customers in age and household income, as well as stock and real estate ownership. They report, however, that they have been with their financial institution five years longer, on average, and responded that they are less likely to switch financial institutions in the next six months.

Table 1: Bank customers versus credit union members

	Bank customers	**Credit union members**	**P-Value***
Percent of sample**	78%	18%	
Average age	46 years old	50 years old	0.085
Percent of households with annual income			
less than $25,000	86%	14%	0.65
$25,000 - $39,999	78%	22%	
$40,000 - $59,999	85%	15%	
$60,000 - $74,999	76%	24%	
$75,000 or more	84%	16%	
Average number of years at current institution	12	17	**0.00**
Percent who own any stock	62%	50%	0.14
Percent who are "satisfied" customers ("satisfied" customers are defined in the next section)	87%	96%	**0.00**
Average likelihood of switching financial institutions in the next 6 months (1-7 scale, with 1=unlikely and 7=very likely)	**2.0**	**1.4**	**0.00**

* A p-value less than .05 indicates that the result is statistically significant at the 5% level.
**Four percent of the sample selected "Other" as their type of financial institution. This includes individuals who do not use a financial institution and those who use alternative financial institutions, such as investment management companies, as their primary financial institutions. In subsequent analyses, "Other" will be excluded.

We asked survey respondents which products they use in their primary financial institution, and this information is reflected in **Figure 2**. For both groups, checking accounts are used by nearly all customers, with nearly 100 percent of both bank and credit union users making use of a checking account through their primary financial institution.

Consumers may have relationships with more than one financial institution, choosing to use different providers for different services. Credit union members are distinct from bank users in that they are more likely to use a range of products with their primary financial institution, particularly savings accounts and auto loans. Ninety eight percent of credit union members responded that they have a savings account with their credit union, and only about 60 percent of bank customers responded the same. Because we asked respondents about their *primary* financial institution, these data indicate that bank customers may get more of their financial services and products from a secondary financial institution. This suggests that credit union members are more likely to use their credit union as a "one-stop shop" for financial services, while bank customers use their bank for basic services, such as checking accounts, debit cards, and savings accounts.

Figure 2: Percent of bank and credit union users using various financial products and services from their primary provider

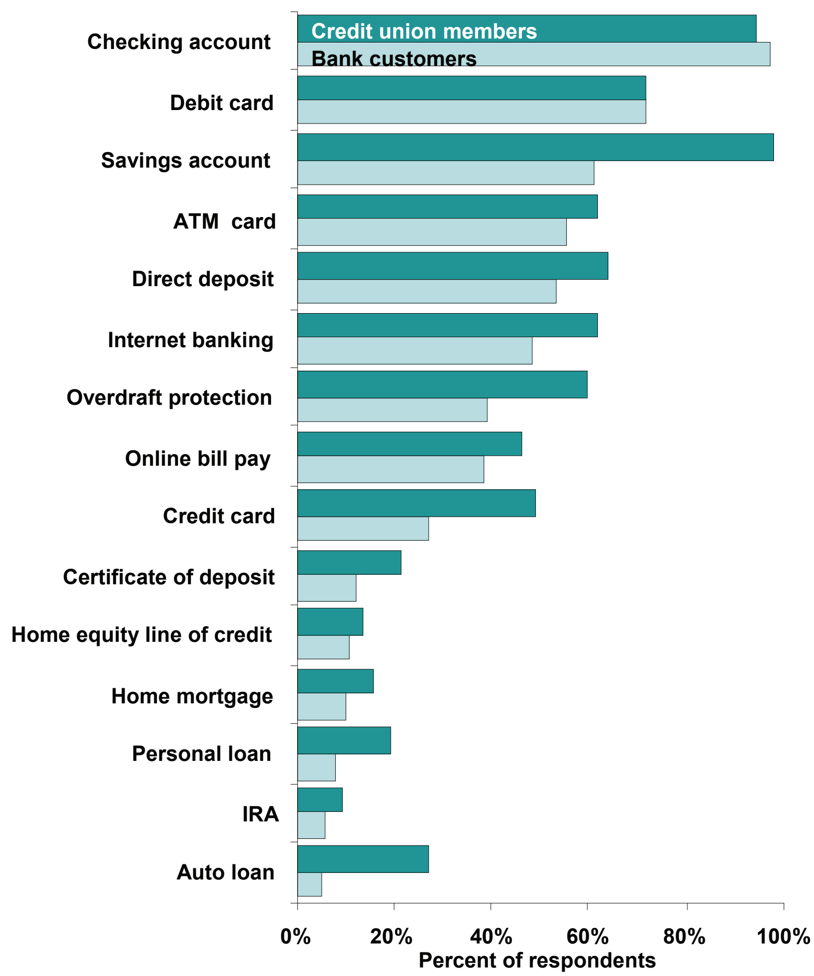
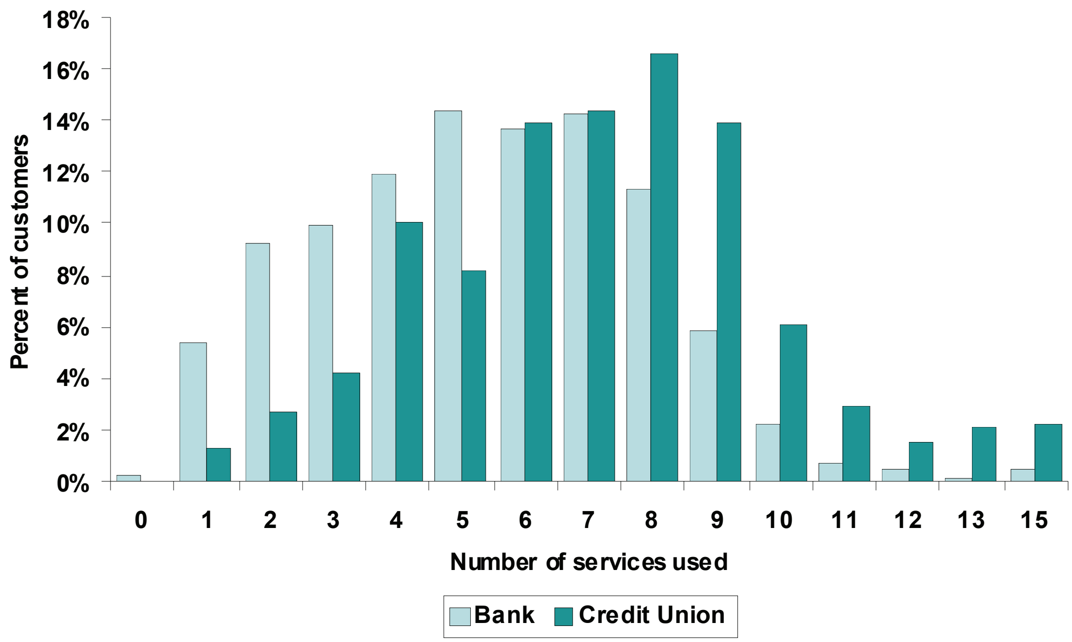


Figure 3 supports the idea that credit union members use more services with their primary financial institution than bank customers. On average, bank customers use 5.4 services with their primary financial institution, while credit union members use 7.1 services with their primary financial institution.

Figure 3: Number of services used, by primary financial institution



Satisfaction with financial institution

Respondents were asked several questions regarding their levels of satisfaction with their current primary financial institution and reported their likelihood of switching in the future. These were survey questions 6, 10 and 12 (see Appendix A for question text). We conducted a cluster analysis of respondents based on their responses to these questions, and this analysis revealed a dramatic grouping of respondents into two distinct types. We have named these types "satisfied" and "dissatisfied" customers, because they clustered around these sentiments in their responses to the survey questions mentioned above.

The cluster analysis described above identified **satisfied customers** as happier with the quality of the services and the range of products and services offered by their institution. Satisfied customers reported that they would be less likely to switch financial institutions in the next six months than the average for respondents overall. **Dissatisfied customers**, on the other hand, were identified as those who would be more likely to switch financial institutions in the next six months and were much less satisfied with the quality and type of services provided by their financial institutions. Overall, 87 percent of bank customers were classified as satisfied, and 95 percent of credit union members were classified as satisfied. In this report, we examine the characteristics of both types of consumers more closely. In **Table 2,** we list the basic demographic and financial service use characteristics of the two different types of consumers. We found two distinctive characteristics of dissatisfied customers: they are less likely to use a credit union as their primary financial institution and they are younger than satisfied customers.

Table 2: Satisfied versus dissatisfied customers

	Type 1: Satisfied customers	**Type 2: Dissatisfied customers**	**P-Value (bold = statistically significant)**
Percent of sample	87%	13%	
Percent for whom a credit union is their primary financial institution	20%	6%	**0.00**
Average age	48 years old	39 years old	**0.00**
Percent of households with annual income			
Less than $25,000	81%	19%	0.07
$25,000 - $39,999	87%	13%	
$40,000 - $59,999	90%	10%	
$60,000 - $74,999	89%	11%	
$75,000 or more	88%	12%	
Average number of years at current institution	13 years	11 years	0.19
Percent who own any stock	60%	49%	0.23

Reasons for selecting current financial institution

We asked survey respondents to rank the top three reasons they selected their current financial institution. Considering only the top reason, 25 percent of respondents chose fees and convenience of branch locations as their reasons for selecting a financial institution. This was followed by 9 percent of respondents who ranked recommendations of family and friends at the top. Likewise, when broadening the analysis to consider the top three reasons, convenience of branch locations and fees were the two most commonly ranked reasons, with online services third. The rankings of each of the reasons for selecting a financial institution are listed in **Table 3**.

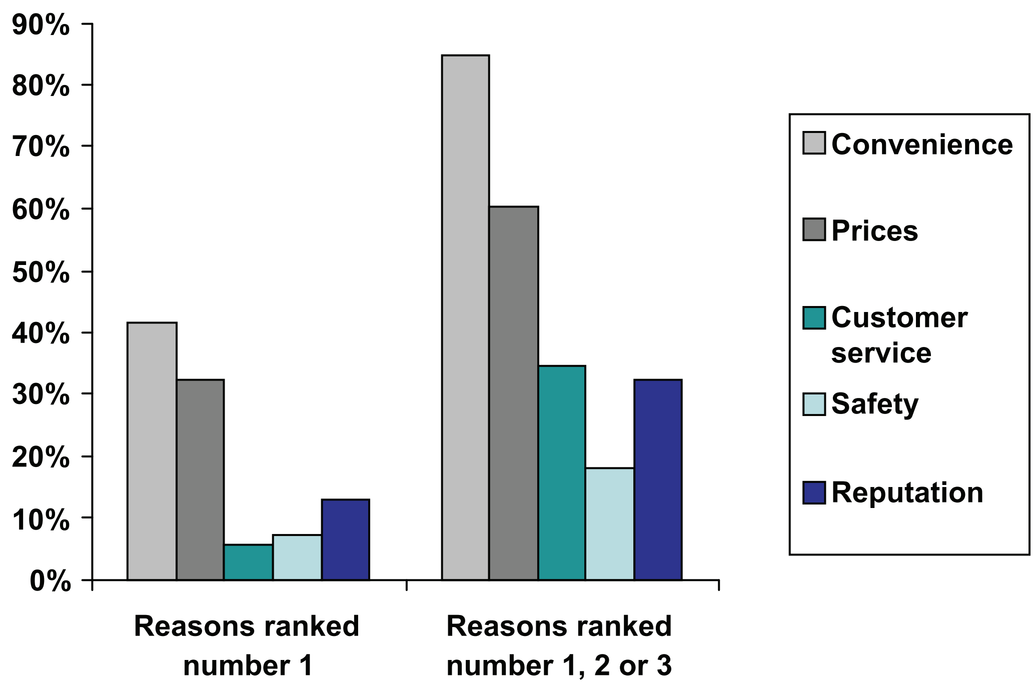
Table 3: Top reasons for selecting current financial institution

Reasons *ranked #1*		**Reasons *ranked in the top 3***	
Reason for selecting a financial institution	*Percent of respondents who ranked this reason #1*	*Reason for selecting a financial institution*	*Percent of respondents who ranked this reason #1, #2, or #3*
Fees	25%	Convenience of branch locations	59%
Convenience of branch locations	25%	Fees	50%
Family, friends, or acquaintances' recommendation	9%	Convenience of ATM locations	32%
Convenience of ATM locations	8%	Consumer service	31%
Availability of online services	6%	Availability of online services	30%
Consumer service	5%	Family, friends, or acquaintances' recommendation	19%
Image	4%	Image	17%
Deposit insurance	4%	Availability of a variety of products	13%
Loan interest rates	4%	Loan interest rates	12%
Deposit interest rates	3%	Deposit interest rates	12%
Confidentiality	3%	Confidentiality	11%
Availability of a variety of products	3%	Deposit insurance	9%
Communication	1%	Communication	6%

The reasons listed in Table 3 fall into five categories: prices, convenience, customer service, safety, and reputation. Under the category of "prices" are fees, loan interest rates, and deposit interest rates. "Convenience" includes branch convenience, ATM convenience, availability of online services, and availability of a variety of products. "Customer service" includes customer service and communication. "Safety" includes deposit insurance and confidentiality. Finally, under "reputation" are the concepts of image and recommendations from family or friends.

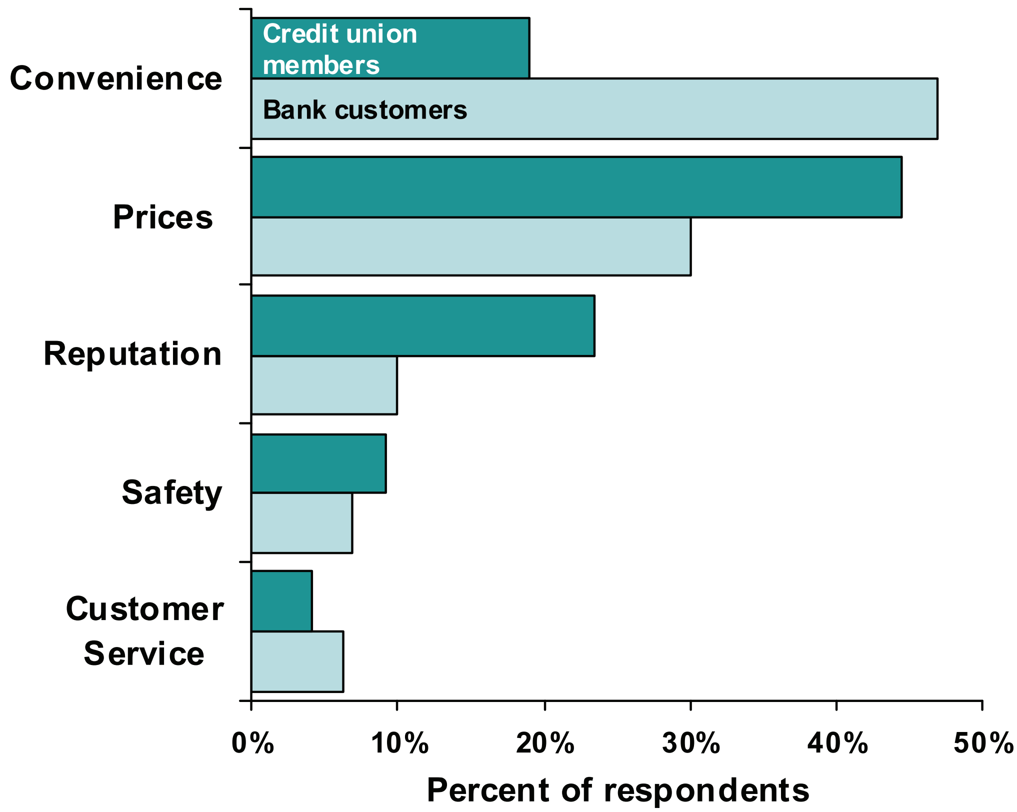
Based upon this categorization, convenience is the primary consideration among customers, with 40 percent of respondents indicating that convenience was the number-one reason that they chose their current primary financial institution (**Figure 4**).

Figure 4: Top reasons for selecting current financial institution



We can also examine these data for different types of users, as we have done in **Figure 5**. While prices are an important determinant of financial institution selection for both bank customers and credit union members, they are viewed as the most important reason by about 46 percent of credit union members. For bank customers, convenience is more important than prices, with almost 50 percent of bank customers naming convenience as their number one priority when selecting their financial institution, compared with only 19 percent of credit union members.

Figure 5: Percent of bank and credit union users ranking reason for selecting current financial institution as the #1 reason

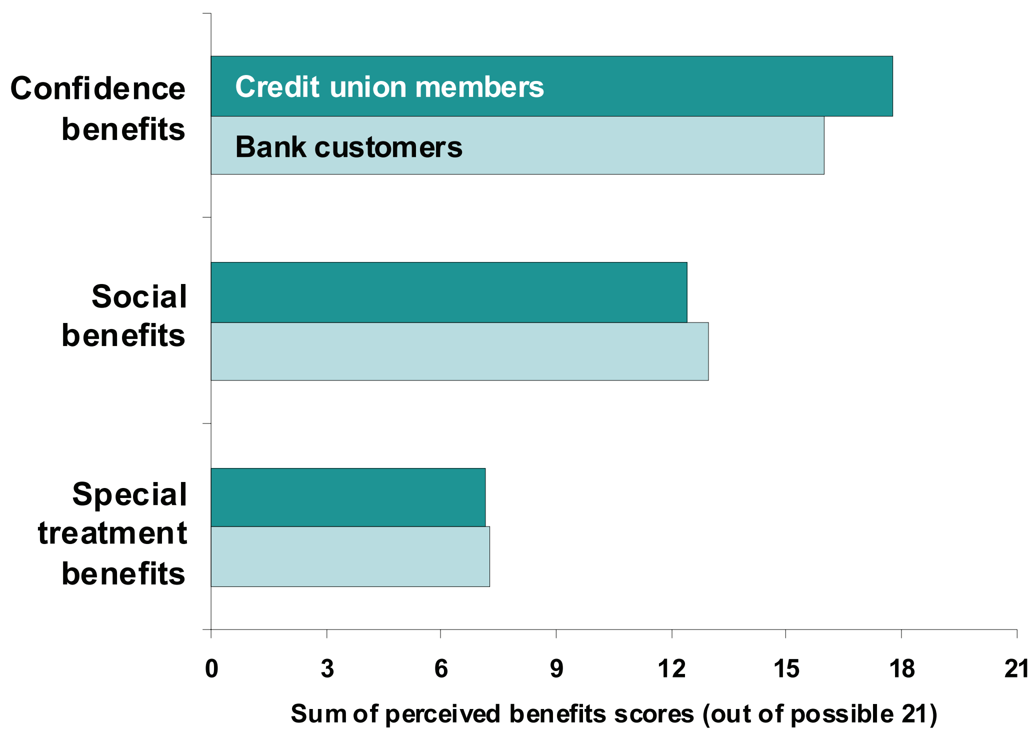


Furthermore, nearly 10 percent of credit union members reported that loan interest rates were their primary reason for selecting their financial institution, compared with only 3 percent of bank users. Credit union members were generally more interested in prices. Forty-four percent of members listed fees or interest rates on savings or loans as their top reason for choosing their current financial institution, compared with only 30 percent of bank customers.

Relational benefits from current institution

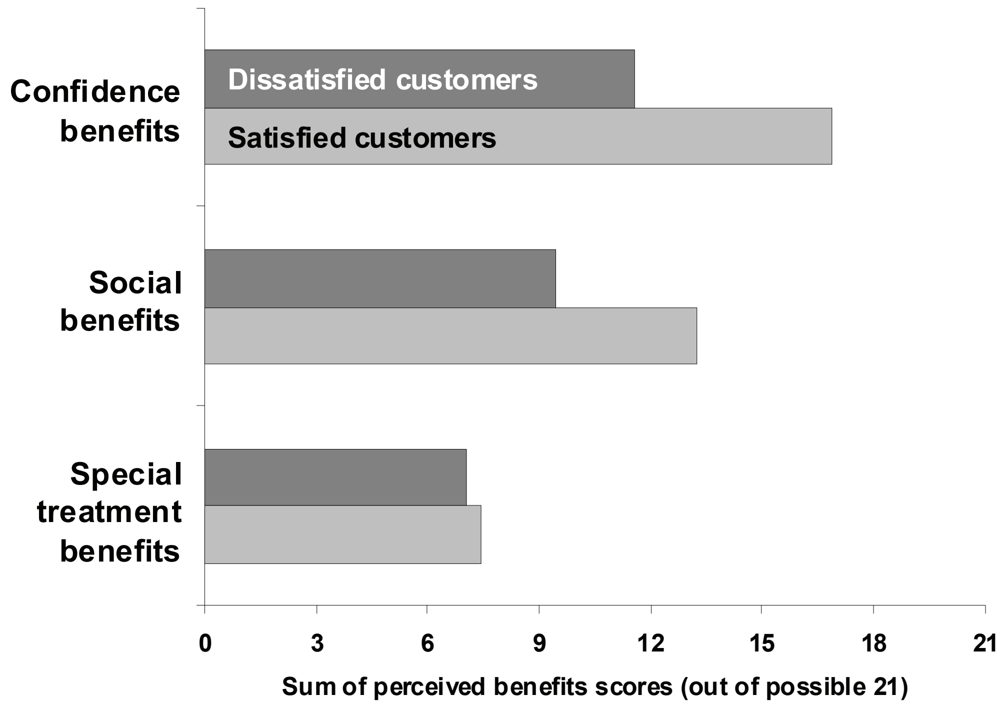
Bank customers and credit union members are similar in the degree to which they perceive they receive relational benefits from their current financial institution. Relational benefits are defined as benefits customers receive from long-term relationships above and beyond the core service performance of their financial institutions. We grouped these benefits into three categories: special treatment benefits, social benefits, and confidence benefits. Confidence benefits refer to the feelings of security, trust, and confidence in the financial institution. Social benefits include personal recognition by employees, familiarity with employees, and the development of friendship as a result of personal contact with employees. Special treatment benefits include the customer's perception of receiving special treatments in the form of special promotions, price breaks, and customized services. **Figure 6** shows that credit union members are statistically significantly more likely than bank customers to feel that they receive confidence benefits from their relationship with their credit union. No statistically significant difference between credit union members and bank customers is observed in social benefits and special treatment benefits.

Figure 6: Perceived benefits from relationship with financial institution for bank customers and credit union members



More dramatic differences appear, predictably, when we examine **"satisfied" versus "dissatisfied" customers (Figure 7)**. Satisfied customers are much more likely to perceive confidence and social benefits from their relationship with their financial institution than dissatisfied customers. It is difficult to tell whether these perceptions are the cause of the customers' dissatisfaction or whether the customers' dissatisfaction led them to have these perceptions; however, because these are the customers who are most likely to change institutions, appealing to such issues as trust, risk, and competence may be an effective strategy in marketing to these consumers.

Figure 7: Perceived benefits from relationship with financial institution for satisfied and unsatisfied customers



Switching: Types of switching, reasons for switching, and costs of switching

In this subsection, we consider the reasons that people gave for making the switch to their current financial institution. We also examine different approaches to marketing credit unions and how these approaches affect potential members' likelihood of switching to a credit union.

Types of switching

Seventy-three percent of respondents have switched financial institutions. Of those who had switched, we asked about their previous financial institution. We found that among customers whose previous primary financial institution had been a credit union, three-quarters switched to a bank as their current primary financial institution, as shown in **Table 4**. Likewise, most previous bank customers switched to another bank, whereas only one-fifth of previous bank customers switched from a bank to a credit union. In this subsection we examine the four types of consumers identified in Table 4.

Table 4: Customers' previous financial institution

	Current bank customers	Current credit union customers
Last institution was a bank	81 %	19%
Last institution was a credit union	75 %	25 %
*Note that individuals who switched to financial institutions marked as "other" are not included in this table		

Reasons for switching

Each type of respondent listed very different reasons for switching to their current institution. Of those who **switched from a credit union to a bank (Figure 8)**, a household move was the most frequently cited reason for doing so. Convenience of bank branches, hours, and ATMs was also ranked highly among reasons for switching. In the "other" category, getting married/divorced or changing jobs was the most frequently cited reason for people to leave a credit union for a bank, though several individuals noted that they are still with their credit union but do not use it as their primary financial institution.

Of those who **switched from a bank to a bank (Figure 9)**, a household move was the most frequently cited reason for doing so. Poor service at the previous bank was also ranked highly as a reason for the move. Fee increases at the previous bank, free checking at the new bank, and convenience of branch locations were also cited often.

Poor service was also listed as a factor for switching by one-third of individuals who switched from a **bank to a credit union (Figure 10)**; however, this motivation for switching was superseded by concerns about fees**—**free checking, in particular. In this case, 17 percent of respondents also noted "other" reasons, largely citing such reasons as consolidation of accounts, various comments alluding to the poor customer service at their previous institution, and marriage/divorce.

Again, for those respondents who switched from a **credit union to another credit union**, a move was the most frequently cited reason for a switch. However, there were only 40 respondents in this category; for this reason, there is not enough statistical power to make any other observations about this group of people.

These findings are consistent with our finding in the previous section that more credit union members are concerned with fees, while most bank customers are concerned with convenience. Fourteen percent of individuals who listed a move as one of their reasons for switching also listed branch convenience, and 10 percent also listed ATM convenience. Interestingly, 12 percent of individuals who switched due to a move cited free checking as another reason for the switch, indicating that a move is also a time when consumers reexamine their current financial institution's products and services. This suggests that an effective marketing strategy might be to target new customers who are moving to a new location.

Figure 8: Percent of respondents who switched from a credit union to a bank citing each of the following reasons (N=101)

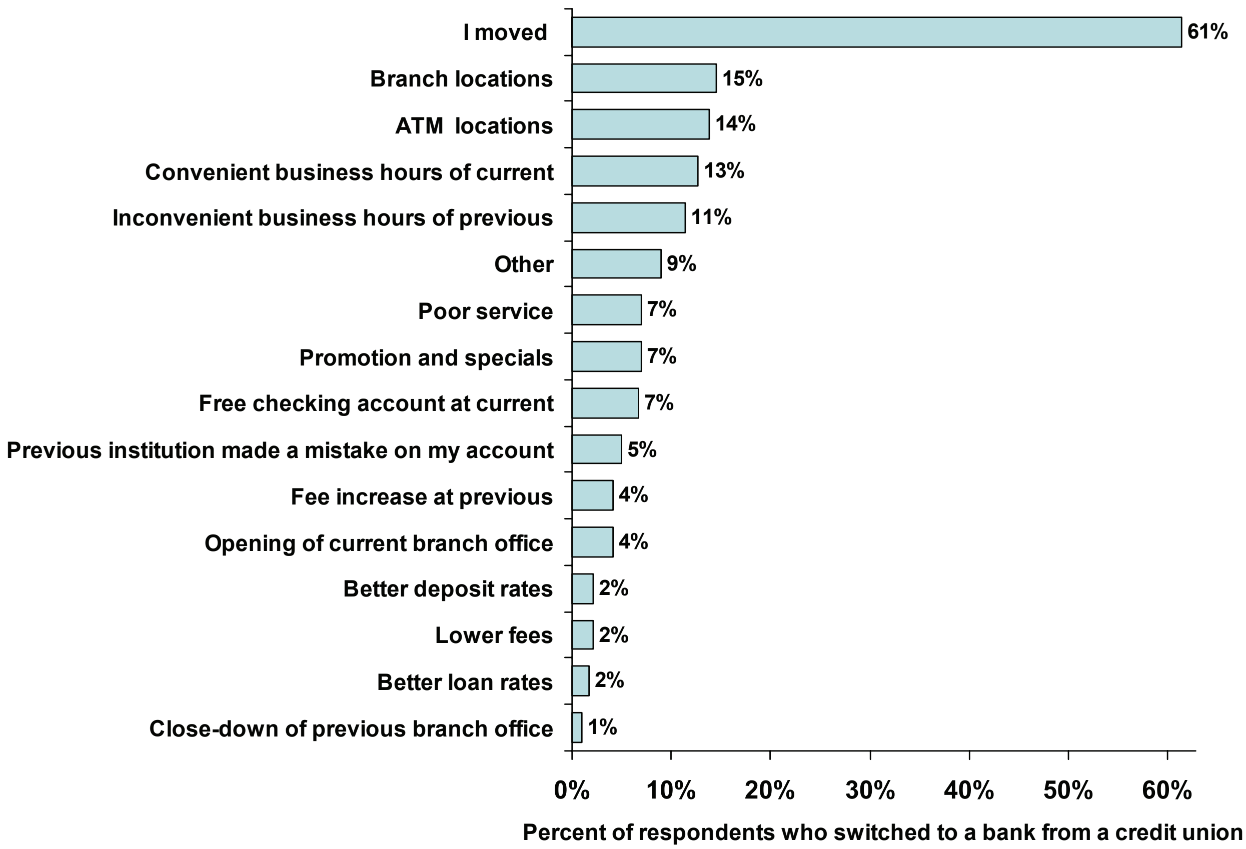


Figure 9: Percent of respondents who switched from a bank to a bank citing each of the following reasons (N=848)

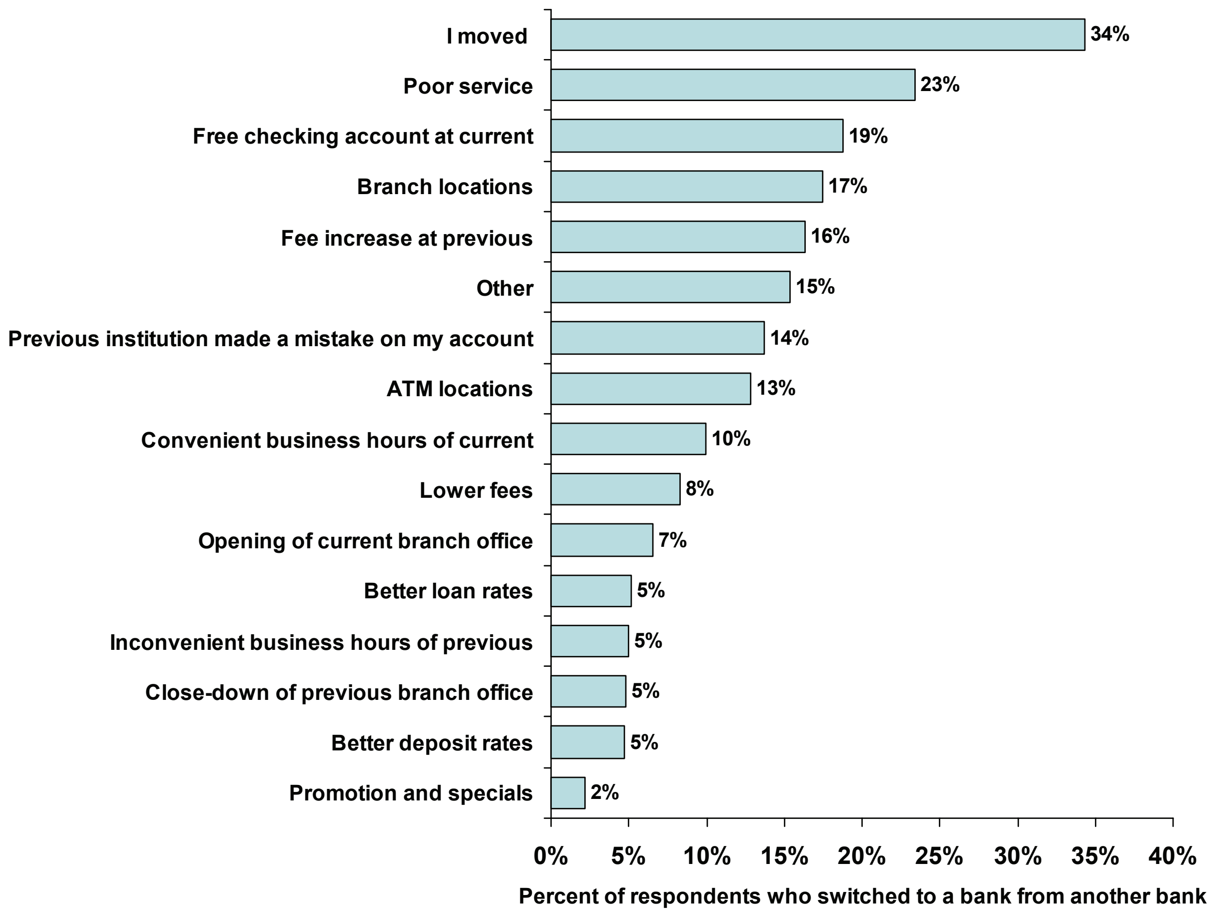
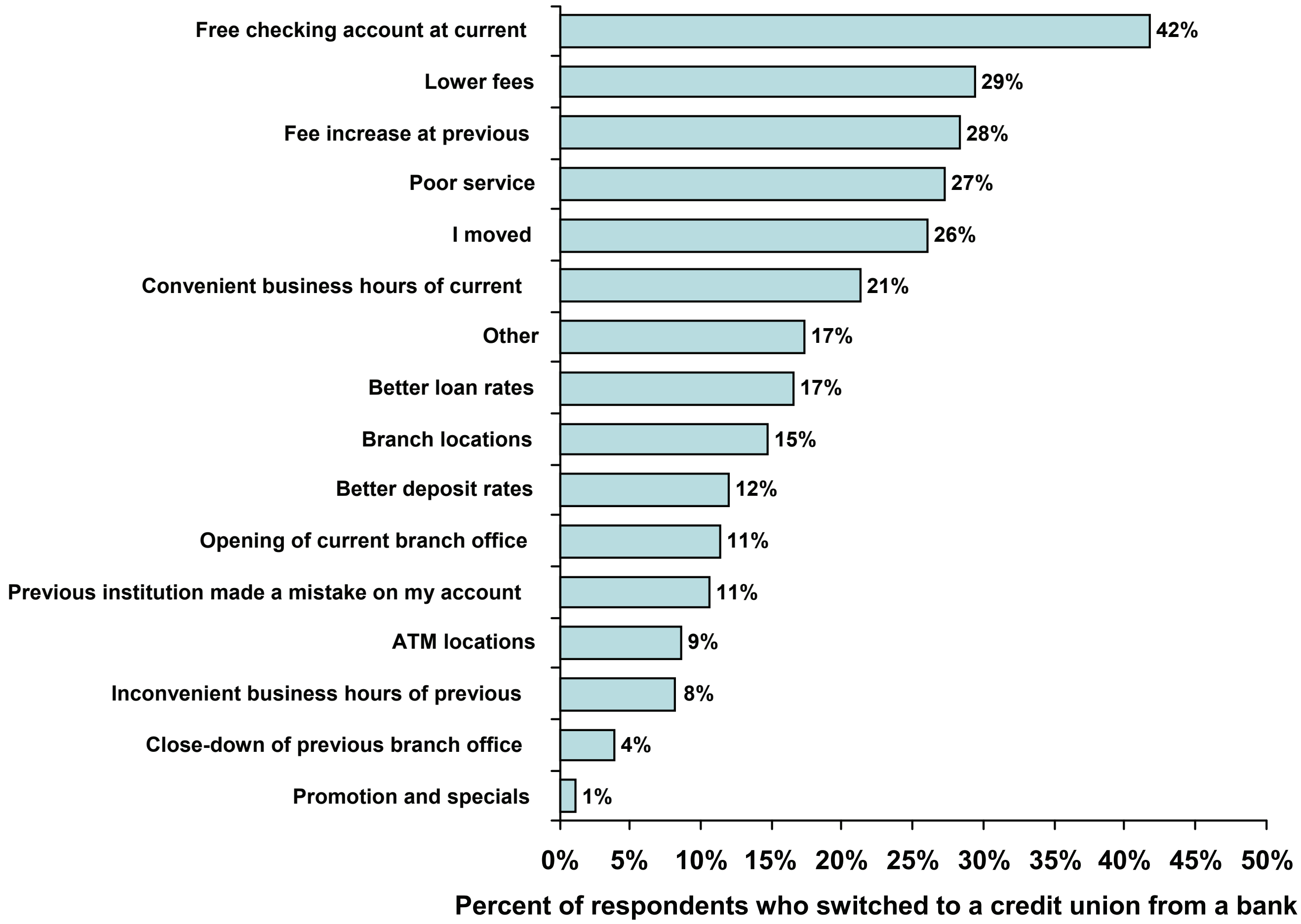


Figure 10: Percent of respondents who switched from a bank to a credit union citing each of the following reasons (N=219)



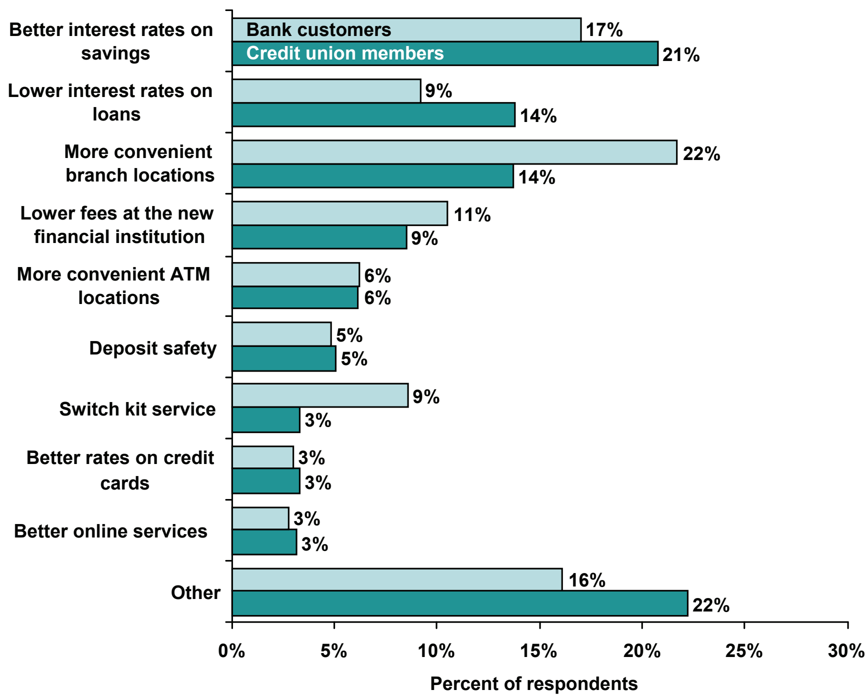
Reasons for possible future switching

In addition to the reason for the switch to their current financial institutions, respondents were asked, "If you had to switch financial institutions, what would be the most likely reason to do so?" Note that this is a hypothetical question that should be interpreted with caution. Respondents were allowed to choose only one option, as opposed to the questions about the previous switch, which allowed respondents to check all of the answers that applied to them.

The most frequently cited reason for leaving their current institution was for more convenient branch locations at the new financial institution (19 percent), followed closely by better interest rates at the new financial institution (18 percent). "Other" was also chosen 19 percent of the time; of these responses, a move to a new residence was cited frequently, as were bank closures, better customer service, and responses indicating that the respondent would not change institutions under any conditions.

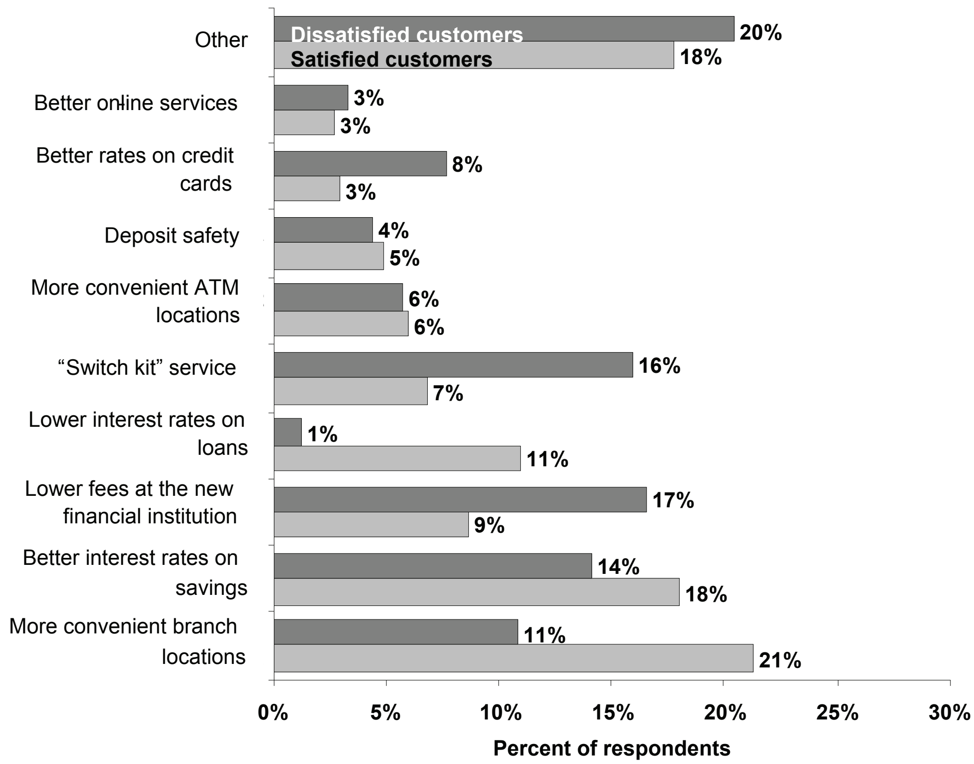
Figure 11 shows the reasons cited by that bank customers and credit union members for switching from their current financial institutions "if they had to." The number-one reason for bank customers was branch location convenience of the new financial institution. Credit union members most frequently chose a switch for better interest rates on savings, suggesting again that credit union users are more aware of the rates that they are getting for their financial products. Importantly, convenience was the second most frequent reason cited by credit union members for leaving their current financial institution, suggesting that convenience is still a very important factor in credit union member retention. Likewise, a better interest rate on savings at the new institution was the second most frequent reason cited by bank customers.

Figure 11: Ranking of reasons that respondents would switch from their current financial institution



Dissatisfied customers, on the other hand, are much more interested in lower fees than the average customer—particularly satisfied customers. In **Figure 12**, we can also see that 16 percent of dissatisfied customers cited a "switch kit" as the number-one reason they would leave their current financial institution "if they had to." The "other" category largely included responses such as "A residential move," "I can't think of anything," "I would never move," or "They did something wrong on my account."

Figure 12: Ranking of reasons that respondents would switch from their current financial institution



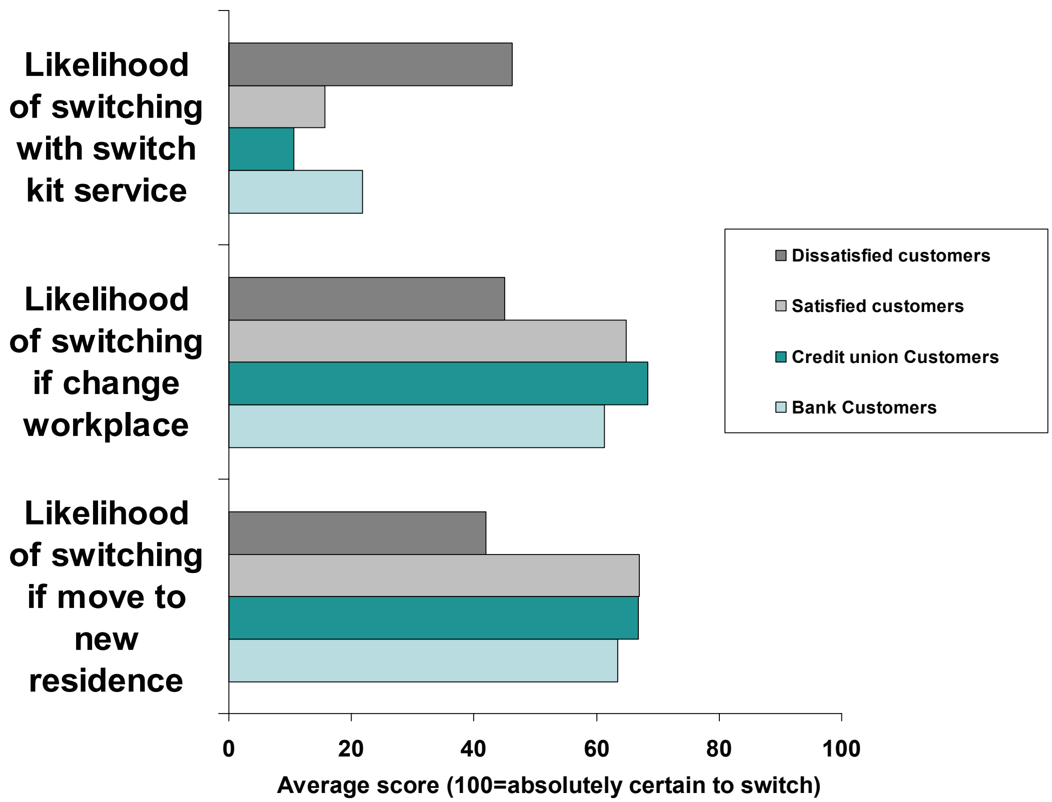
Likelihood of switching

The average likelihood of switching overall was low in response to the question: "What is the likelihood you would switch from your current financial institution to a new financial institution within the next 6 months?" The question was scored on a scale from 1 to 7, with 1 being "Unlikely" and 7 being "Likely." The average score for this question was 1.9. As discussed previously, these numbers are similar for both bank customers and credit union members, with credit union members rating themselves only slightly less likely than bank customers to switch (1.4 versus 2.0).

We also asked survey respondents to rate the certainty of switching from their main financial institution under different circumstances, using a scale from zero to 100 with 100 being "absolutely certain" and zero being "absolutely no chance." The results are displayed in **Figure 13**. Surprisingly, credit union members were only slightly more likely to switch institutions due to a move or a new job than bank customers, despite many credit unions being based on employment or region.

Respondents also asked their certainty of switching to a financial institution that offered a "switch kit" that would make the transition to the new institution easier. The average rating for this circumstance was 18, although dissatisfied customers' average was 44.

Figure 13: Average likelihood of switching under different circumstances for different types of respondents



Consider switching to credit union?

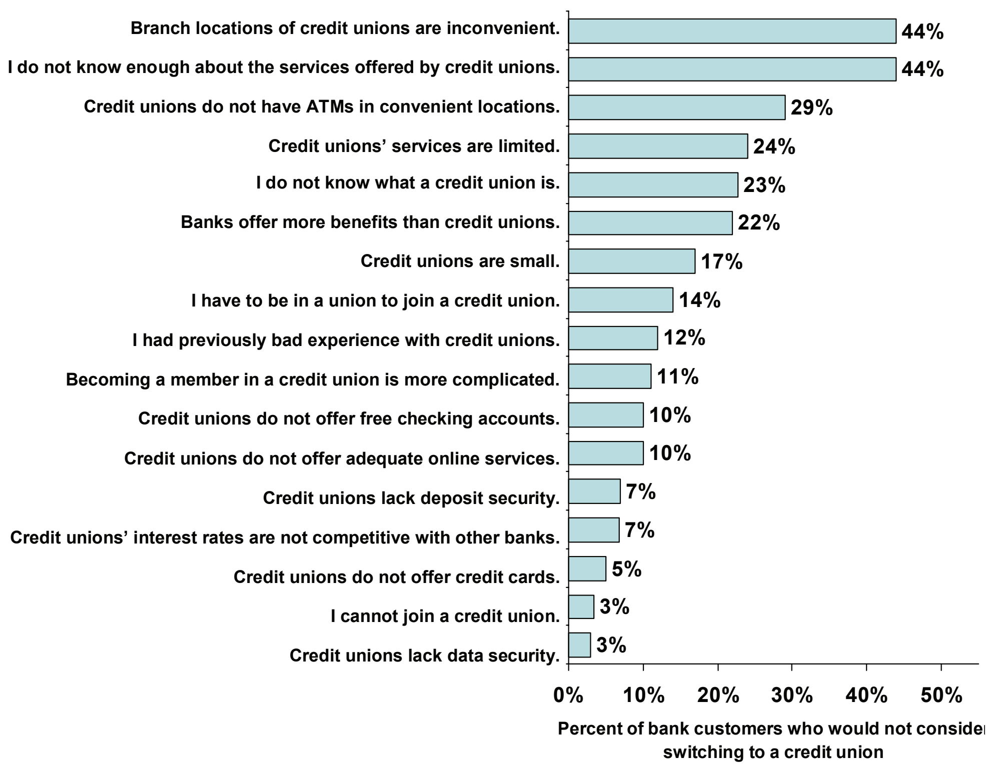
Respondents were also asked, if they had to switch, whether they would consider switching to a credit union. The results are summarized in **Table 5**. Ninety-two percent of credit union members responded in the affirmative, and this was also true for credit union members whom we categorized as "dissatisfied" with their current financial institution. Fifty-five percent of bank customers also noted that they would consider switching to a credit union as their primary financial institution. Among dissatisfied bank customers, however, 75 percent would consider a credit union for their next primary financial institution.

Table 5: Percent of respondents who would consider switching to a credit union if they had to switch

Bank customers	**55%**
Satisfied bank customers	*52%*
Dissatisfied bank customers	*75%*
Credit union members	**92%**
Satisfied credit union members	*92%*
Dissatisfied credit union members	*88%*

Of the 45 percent of **bank customers who would not consider switching to a credit union,** 44 percent cited reasons of branch convenience and a lack of knowledge of the services offered by credit unions. Convenience of ATM locations was also cited by nearly one-third of respondents (**Figure 14**).

Figure 14: Reasons bank customers would not consider switching to a credit union



On the other hand, of the 92 percent of **credit union members who said they would consider switching to another credit union**, a majority of members cited a previous good experience, as well as satisfaction with the range and types of services provided by credit unions (**Figure 15**). Among **bank customers who said they would consider switching to a credit union**, a majority cited competitive interest rates, full range of services, and a previous good experience with a credit union as the reason (**Figure 16**). Because there were not a significant number of credit union members who would not consider switching to another credit union, in order to ensure statistical significance of the results, these data have not been reported.

Figure 15: Reasons credit union members *would* consider switching to another credit union

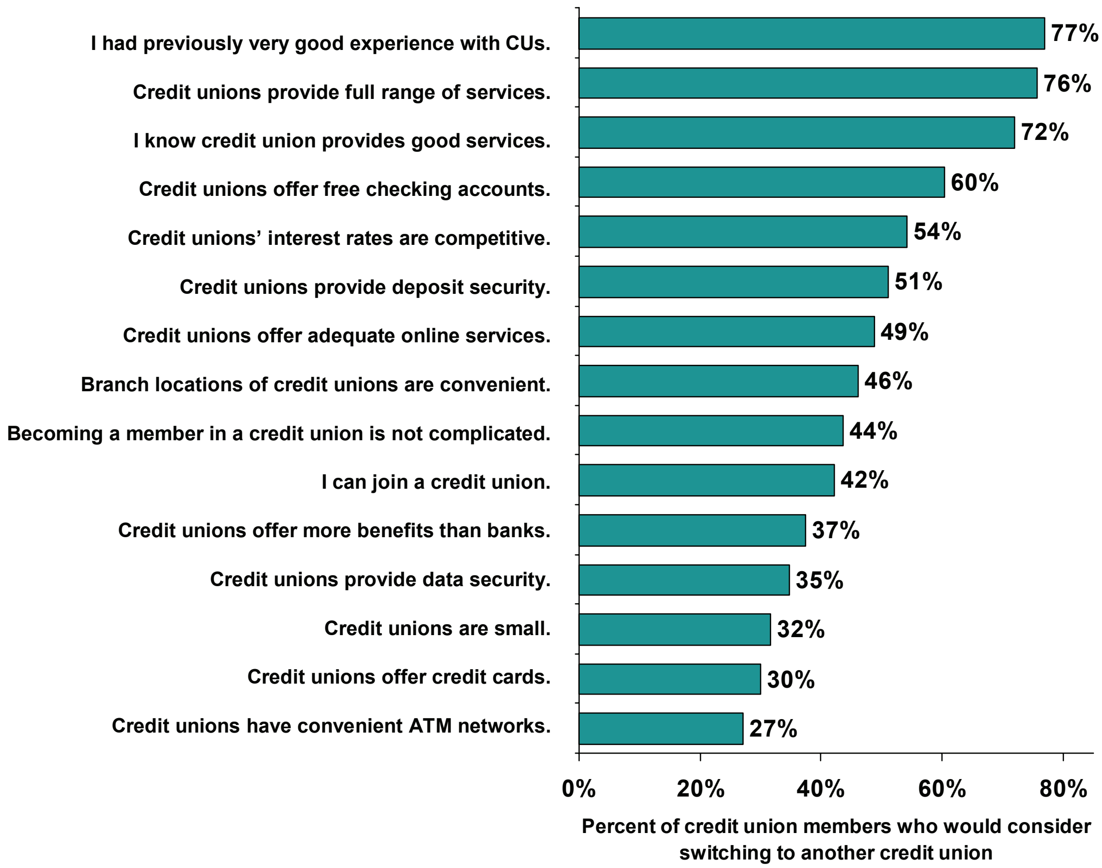
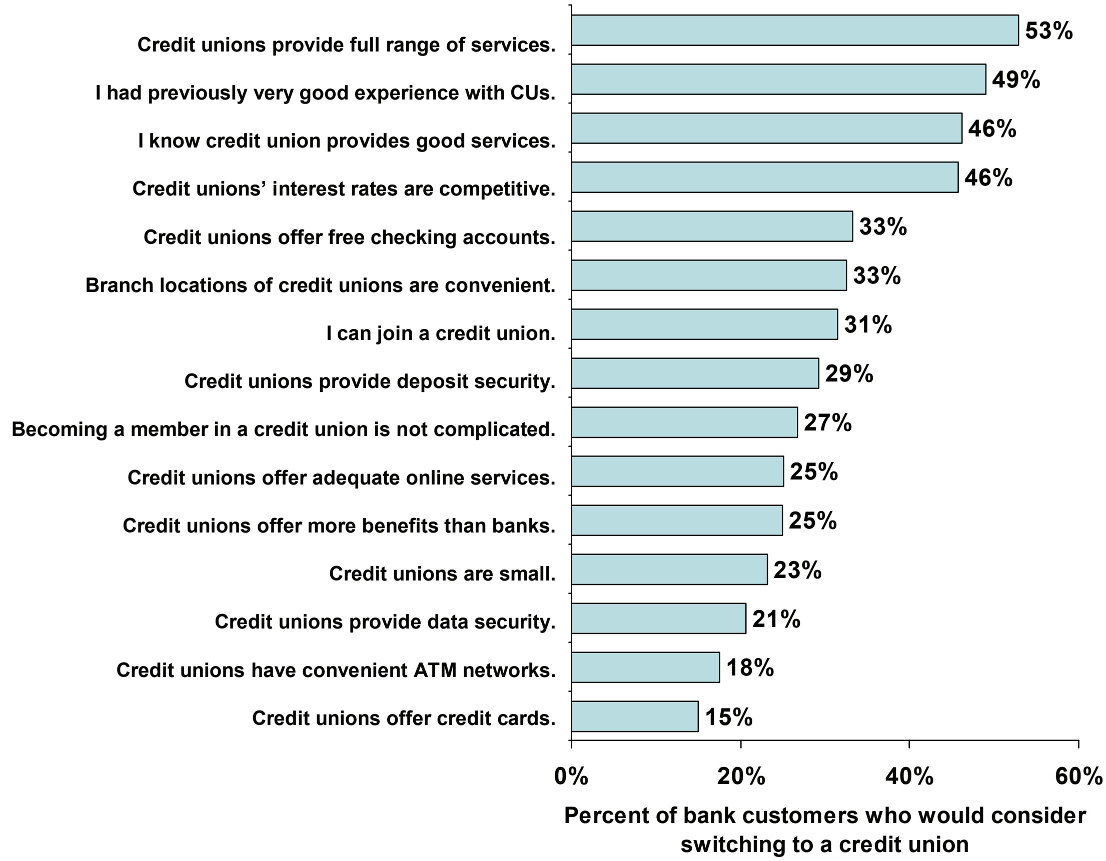


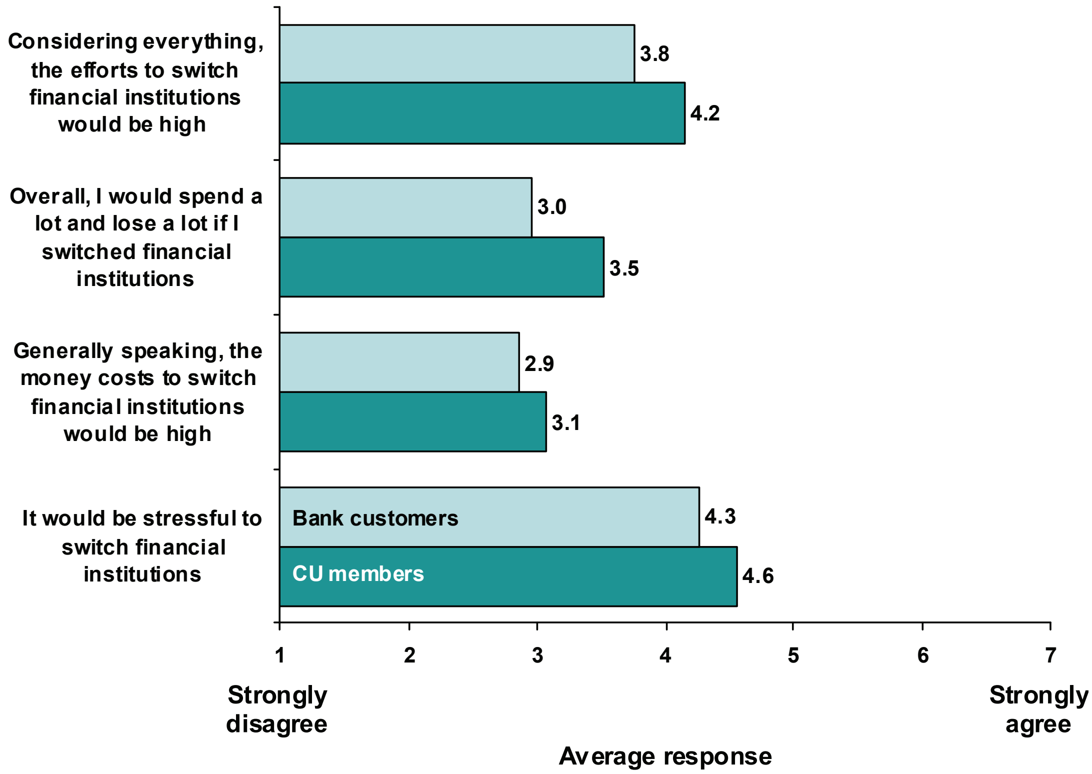
Figure 16: Reasons bank customers would consider switching to a credit union



Perceived costs of switching

We asked respondents the degree to which they would endure certain costs if they changed financial institutions on a scale from 1 (strongly disagree) to 7 (strongly agree). People seem to be more concerned with the stress and effort of switching financial institutions than with the monetary costs of switching. (See **Figure 17**). For both bank and credit union users, the perceived costs of the stress associated with switching financial institutions was higher, on average, than the monetary costs and the effort required.

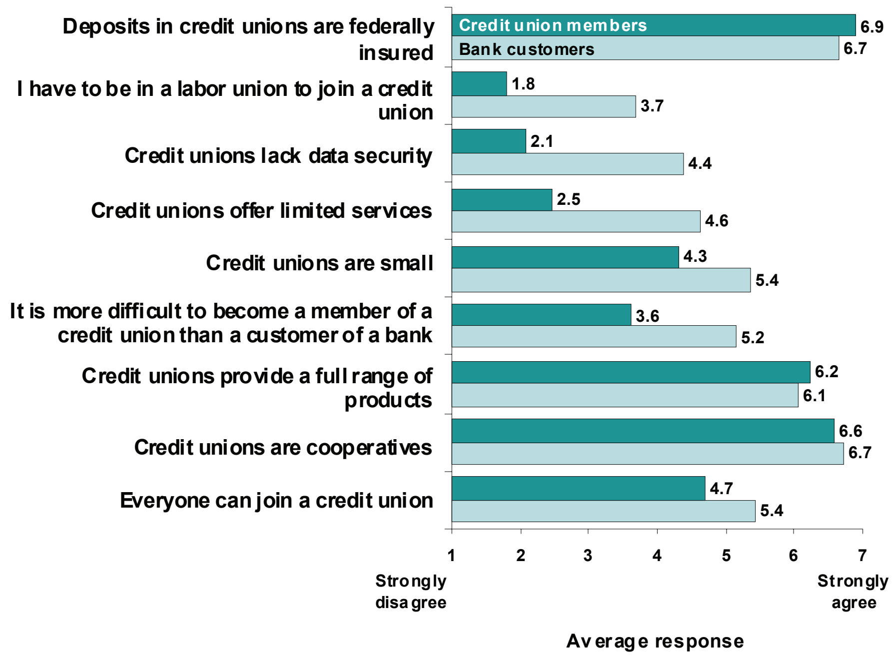
Figure 17: Perceived costs of switching financial institutions, bank and credit union users



Perceptions about credit unions

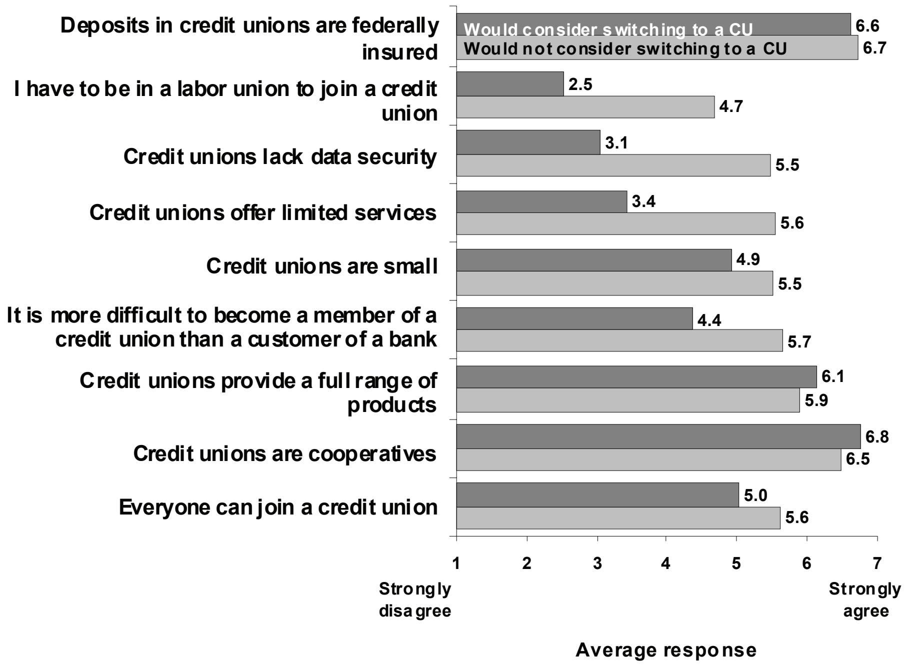
We asked respondents whether they agreed or disagreed with statements about credit unions on a scale of 1 to 7, with 7 being "strongly agree" and 1 being "strongly disagree." Bank customers and credit union members generally had similar and correct perceptions about credit unions. For example, there was strong agreement across both types of respondents that credit unions are federally insured (**Figure 18**). There was, however, some disagreement on four statements. Bank customers agreed more strongly with the statements: "I have to be in a labor union to join a credit union," "Credit unions lack data security," "It is more difficult to join a credit union," and "Credit unions have limited services." This suggests that some bank customers may not use credit unions based on the misperceptions that they need to be in a labor union to join a credit union, that credit unions lack data security, and that credit unions offer only limited services. Interestingly, while bank customers perceive that credit unions offer limited services, they also responded more positively to the statement that credit unions offer a range of products.

Figure 18: Bank and credit union users' perceptions about credit unions



In **Figure 19**, we examine these same perceptions, this time segmenting the data by those who responded that they would or would not consider switching to a credit union. Among those who responded that they would not consider switching to a credit union if they had to switch, the misperceptions noted above for bank customers were even more pronounced: I have to be in a labor union to join a credit union, credit unions lack data security, and credit unions have limited services. This time, there was also a significant difference in agreement with the statement, "It is more difficult to become a member of a credit union than a bank," suggesting that this perception poses a barrier.

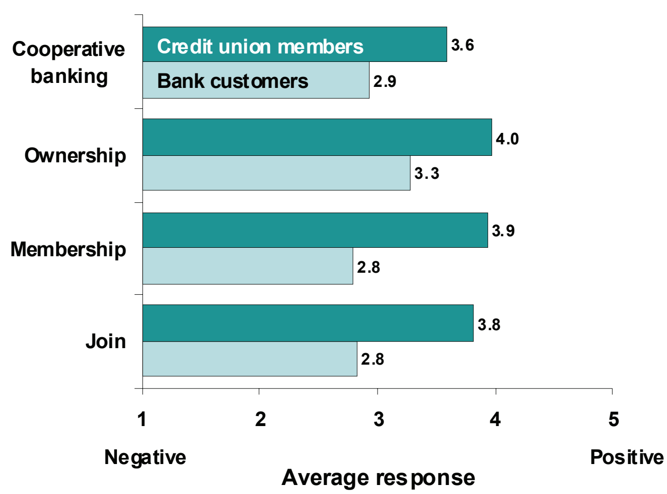
Figure 19: Perceptions about credit unions, by those who would and would not consider switching to a credit union



Consumers' feelings about concepts related to credit unions

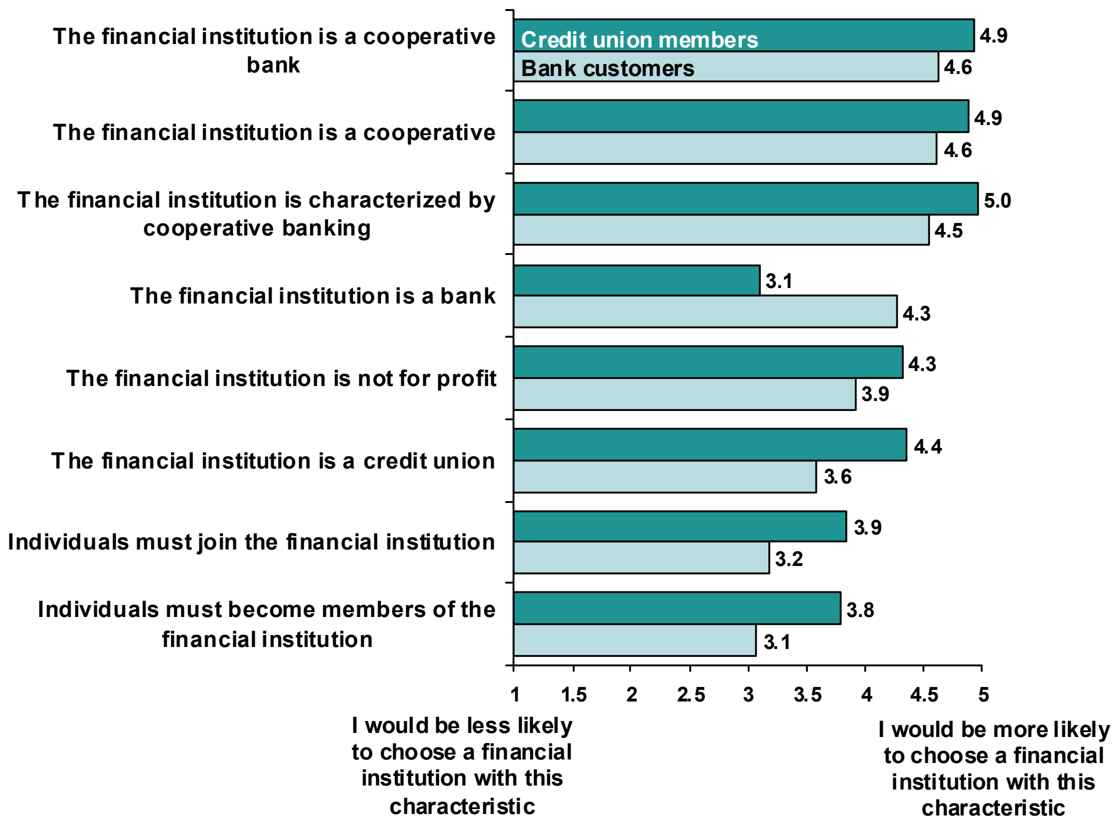
We asked survey respondents about certain words in relationship to financial institutions, on a scale of 1 to 5, with 1 being negative feelings, and 5 being positive feelings. As shown in **Figure 20**, bank customers were also less positive about words such as "join," "membership," "ownership," and "cooperative banking" when thinking about financial institutions. On average, credit union members were positive about all four of the concepts, while bank customers were slightly negative on all of them but "ownership."

Figure 20: Bank and credit union users' feelings about words describing financial institutions



Similarly, we asked survey respondents about different types of financial institutions and how different concepts would drive their selection of a financial institution. These concepts included cooperative financial institutions, not-for-profits, banks, credit unions, financial institutions that required people to join or to become members, institutions that were characterized by cooperative banking, and cooperative banks. Respondents were most positive about cooperative banking (**Figure 21**). Bank customers were least positive, as with the preceding question, about a financial institution that they were required to join or become members of, suggesting that this type of vocabulary may be less fruitful in attracting new members to credit unions.

Figure 21: Bank and credit union users' feelings about different characteristics of financial institutions



SECTION 3: CONCLUSIONS AND RECOMMENDATIONS

A move to a new residence or place of work is a strong determinant of financial institution switching.

- Even satisfied customers are likely to change financial institutions if they change residence or place of work. This suggests that targeting customers during a move would be an effective strategy. For example, advertising via USPS forwarding requests has been adopted by other vendors, such as hardware stores.

- Current credit union members are also likely to switch financial institutions if they move, although they also rate themselves as very likely to consider a credit union as their next financial institution if they switch. Different credit unions could work together to ease the transition during a household move.

Credit union members are more responsive to fees and interest rates offered by their financial institution; bank customers are more concerned with convenience.

- Awareness of and sensitivity to interest rates and product fees are a current strength of credit unions, but presence and visibility remain challenges. Shared branching may be a solution to improve the convenience of branch offices and ATMs. The industry might develop such partnerships among individual credit unions, which could benefit all participating credit unions and their members.

- Free checking was cited by many respondents as a reason to consider switching to a credit union, among both bank customers and credit union members. We found empirical evidence that emphasizing free checking reaches out to new consumers.

There are some common misconceptions about credit unions among bank customers. These misunderstandings are more pronounced among those who would not consider switching to a credit union as their primary financial institution.

- Bank customers are more likely to think that credit unions lack data security, offer limited services, and require that their members be in a labor union. These differences are more pronounced when we look at customers who are unwilling to consider a credit union as their primary financial institution.

- Bank customers are less positive about the words “membership” and “join” then they are about “ownership.” The credit union industry should dispel misunderstandings regarding how to become a member.

Bank customers are positive about the word “bank.”

- **Consider using “cooperative bank**”**—**emphasizing that individual consumers, rather than stockholders, own it.

- In the current climate of bank failure, cooperative banking will provide an opportunity to police the soundness of governance practice. The fact that the account holders, not the shareholders, have control will be seen as meritorious.

The stress and effort associated with switching financial institutions is high for everyone.

- Dissatisfied customers are more likely to switch from their current financial institution if there is a "switch kit" service available. "Switch kit" service reduces the stress and effort of switching institutions. This service would be particularly useful for those who are moving.

Consumers do not perceive credit unions to have widely available branches and ATMs.

- Encourage ways to create a cohesive network of credit unions to overcome the fragmentation of the credit union industry.

- Shared branching of ATMS has demonstrated a great success. Building on this success, shared branch offices across individual credit unions will bring convenience and heighten awareness, surpassing the convenience of large banks with a nationwide network of branch offices.

References

Bansal, Harvir S., Shirley F. Taylor, and Yannik St. James, "'Migrating' to New Service Providers: Toward a Unifying Framework of Consumers' Switching Behaviors," *Journal of the Academy of Marketing Science*, Vol. 33, No. 3, 2005, pp. 96–115.

Gwinner, Kevin, Dwayne D. Gremler, and Mary Jo Bitner, "Relational Benefits in Services Industries: The Customer's Perspective," *Journal of the Academy of Marketing Science,* Vol. 26, No. 2, 1998, pp. 101–114.

Pass, Michael W., "Western US College Students: Banking Preferences and Marketplace Performance, *Journal of Financial Services Marketing*, Vol. 11, No. 1, 2006, pp. 49–63.

Teas, R. Kenneth, "Consumer Expectations and the Measurement of Perceived Service Quality," *Journal of Professional Services Marketing,* Vol. 8, No. 2, 1993, pp. 33–54.

APPENDIX A: AMERICAN LIFE PANEL SURVEY INSTRUMENT

SECTION 1

Please answer all questions in Section 1 with regard to the *financial institution* that *you* ***currently*** have business with. If you use multiple institutions, please refer to the one that you **mainly** use.

Q1. What is the name of the financial institution that you have business mainly with? [FINANCIAL INSTITUTION]

Q1a. Is it a bank or a credit union?
1. Bank
2. Credit Union
3. Other, specify ______________________

Reasons for Selecting a Bank (Pass, 2005, Journal of Financial Services Marketing)

Q2. What were the most important reasons for selecting [FINANCIAL INSTITUTION]? Please rank the most important reasons up to three (1= most important, 2= second most important, 3=third most important).

a. Fees (i.e., costs of checking account, late fees, overdraft fees, etc.)
b. Deposit interest rates
c. Loan interest rates
d. Communication (policies are clearly explained in advance of action)
e. Confidentiality (personal information is confidential and safe from fraud)
f. Deposit insurance (i.e., federally-insured deposits)
g. Convenience of ATM locations
h. Convenience of branch locations
i. Availability of on-line services
j. Availability of a variety of products (e.g., student checking, safety deposit, etc.)
k. Consumer Service (e.g., friendliness, accuracy)
l. Image (e.g., reputation, well-known name)
m. Family, Friends or acquaintances' recommendation

Q3. Please indicate how each of the following statements would influence your decision to choose a financial institution (FI).
[5= I would be more likely to choose a FI with this characteristic;
3 = This characteristic would not affect my choice;
1 = I would be less likely to choose a FI with this characteristic;
9 = don't know]

a. The financial institution is a cooperative
b. The financial institution is not for profit
c. The financial institution is a bank
d. The financial institution is a credit union
e. Individuals must join the financial institution

f. Individuals must become members of the financial institution
g. The financial institution is characterized by cooperative banking
h. The financial institution is a cooperative bank

Behavioral loyalty

Q4. How long have you been using [FINANCIAL INSTITUTION]? ____ years.
Q5. Which of the following services/products do you have at FINANCIAL INSTITUTION? Please check all that apply.

a. Checking account
b. Savings account
c. ATM card
d. Debit card
e. Credit card
f. Auto loan
g. Personal loans
h. Home mortgage
i. Home equity line of credit
j. Certificate of deposit
k. IRA
l. Direct deposit
m. Internet banking
n. On-line bill payment
o. Overdraft protection
p. Others, please specify ______________________

Overall satisfaction (Bansal, Taylor, and James 2005, JAMS) Scale: 7-point scale

Q6. Overall, how do you feel about the products and services provided to you by [FINANCIAL INSTITUTION]?

a. Dissatisfied ... Satisfied
b. They do a poor job ... They do a good job
c. Unhappy ... Happy

Past Switching Behavior

Q7. Prior to [FINANCIAL INSTITUTION] were you a customer at a different financial institution?

1. Yes (go to **Q8**)
2. No, [FINANCIAL INSTITUTION] is my first financial institution (go to **Q10**)

Q8. Prior to [FINANCIAL INSTITUTION], what was the name of the financial institution you mainly used?

Q8a. [If it's not obvious from Q6,] Was it a bank or a credit union?

1. Bank
2. Credit Union
3. Other, specify ______________________

Q9. Now please think about when you switched from [FINANCIAL INSTITUTION 1] to [FINANCIAL INSTITUTION 2].What triggered you to stop using [FINANCIAL INSTITUTION 1] and to start patronizing [FINANCIAL INSTITUTION 2]? Check all that apply

a. I moved
b. My financial institution changed its name. I didn't change the financial institution.
c. Poor service of [FINANCIAL INSTITUTION 1]
d. [FINANCIAL INSTITUTION 1] made a mistake on my account
e. Close-down of [FINANCIAL INSTITUTION 1's] branch office
f. Opening of [FINANCIAL INSTITUTION 1's] branch office
g. Fee increase at [FINANCIAL INSTITUTION 1]
h. Free checking account at [FINANCIAL INSTITUTION 1]
i. Inconvenient business hours of [FINANCIAL INSTITUTION 1]
j. Convenient business hours of [FINANCIAL INSTITUTION 1]
k. Promotion and specials, such as a temporarily high interest rate for Certificate of Deposits, drawing of weekend get-away, etc.
l. ATM locations
m. Branch locations
n. Lower fees
o. Better loan rates
p. Better deposit rates
q. Other, please specify__________

<u>Overall Perceived Service Quality Scale (Teas 1993, Journal of Marketing)</u>

Q10. Using the scale provided, rate the overall quality of the service you receive in [FINANCIAL INSTITUTION].

a. 11-point "Extremely Low Quality=0/Extremely High Quality=10" scale
b. [FINANCIAL INSTITUTION] provides high quality customer service (5-point "Strongly Agree=5/Strongly Disagree=1" scale).

<u>Relational Benefits (Gwinner, Gremler, Bitner 1998, Journal of the Academy of Marketing Science):</u> Scale: 7-point scale (1=strongly disagree to 7=strongly agree)

Q11. Please assess the degree to which you receive each of the following benefits because of your relationship with [FINANCIAL INSTITUTION].

a. I believe there is less risk that something will go wrong.
b. I feel I can trust [FINANCIAL INSTITUTION].
c. I have more confidence their service will be performed correctly.
d. I am recognized by certain employees.
e. I am familiar with the employee(s) who performs(s) the service.
f. I have developed a friendship with the employee(s) of [FINANCIAL INSTITUTION].
g. I get discounts or special deals that most customers don't get.
h. I get better prices/terms than most customers.
i. They do services for me that they don't do for most customers.

Switching Intentions (Bansal, Taylor, and James 2005, JAMS)
Scale: 7-point scale

Q12a. What is the likelihood that you would switch from [FINANCIAL INSTITUTION] to a new financial institution within the next 6 months? *Please put questions 12a1-12a3 on the same page*

1. Unlikely ... Likely
2. Improbable ... Probable
3. No change ... Certain

Q12b.

1. If a new financial institution helps you contact the companies and financial institutions that handle your automatic deposits and payment (i.e., “switch kit” service), what would be the likelihood that you would switch from [FINANCIAL INSTITUTION] to this new financial institution with the “switch kit” service? [0-100 scale]

2. If you move to a new residence, what is the likelihood that you would stay with [FINANCIAL INSTITUTION] instead of switching to a new financial institution? [0-100 scale]

3. If your workplace is changed, what is the likelihood that you would stay with [FINANCIAL INSTITUTION] instead of switching to a new financial institution? [0-100 scale]

Switching Costs (Bansal, Taylor, and James 2005, JAMS)
Scale: 7-point scale (strongly disagree to strongly agree)

Q13. Please assess the degree to which you agree with each of the following statements.

a. On the whole, I would spend a lot of time to switch from [FINANCIAL INSTITUTION] to another financial institution.
b. It would be stressful to switch from [FINANCIAL INSTITUTION] to another financial institution.
c. Generally speaking, the money costs to switch from [FINANCIAL INSTITUTION] to another financial institution would be high.
d. Overall, I would spend a lot and lose a lot if I switched from [FINANCIAL INSTITUTION] to another financial institution.
e. Considering everything, the efforts to stop doing business with [FINANCIAL INSTITUTION] and start up with a new financial institution would be high.

Reason for Switching

Q14. If you had to switch financial institutions, what would be the most likely reason to do so?

a. More convenient branch locations of the new financial institution
b. Lower fees at the new financial institution

c. Better interest rates on savings at the new financial institution
d. Lower interest rates on loans at the new financial institution
e. Better on-line services provided by the new financial institution, e.g., online account access and on-line bill payment
f. Convenience of the location of the ATMs offered by the new financial institution
g. Better rates on credit cards offered by the new financial institution
h. Deposit safety
i. "Switch kit" service (i.e., financial institution helps you contact the companies and financial institutions that handle your automatic deposits and payment
j. Other, please specify ________________

Switch to Credit Union
If R's current financial institution is a credit union, [another] credit union.
If R's current financial institution is NOT a credit union, [a] credit union.
Q15. If you had to switch from [FINANCIAL INSTITUTION], would you consider switching to [a/another] credit union?

1. Yes **(Go to Q16a)**
2. No **(Go to Q16)**

Q16. We would like to know if any of the following factors are reasons why you would NOT consider a credit union as your financial institution. There are no right or wrong answers. We are interested in your perceptions about credit unions. Please check all that apply. → Go to Q17

a. Because I do not know what a credit union is
b. Because branch locations of credit unions are inconvenient
c. Because I have to be in a union to join a credit union.
d. Because I cannot join a credit union.
e. Because becoming a member in a credit union is more complicated.
f. Because credit unions are small.
g. Because credit unions' services are limited.
h. Because credit unions lack deposit security.
i. Because credit unions lack data security.
j. Because I had previously bad experience with credit unions.
k. Because banks offer more benefits than credit unions.
l. Because credit unions do not have ATMs in convenient locations.
m. Because credit unions do not offer free checking accounts
n. Because credit unions do not offer credit cards
o. Because credit unions do not offer adequate online services
p. Because credit unions' interest rates are not competitive with other banks
q. Because I do not know enough about the services offered by credit unions

Q16a. We would like to know if any of the following factors are reasons why you would like to consider a credit union as your main financial institution. Please check all that apply. → Go to Q17

a. Because branch locations of credit unions are convenient
b. Because I can join a credit union.
c. Because becoming a member in a credit union is not complicated.
d. Because credit unions are small.
e. Because credit unions provide full range of services.

f. Because credit unions provide deposit security.
g. Because credit unions provide data security.
h. Because I had previously very good experience with credit unions.
i. Because credit unions offer more benefits than banks.
j. Because credit unions have ATM networks in convenient locations.
k. Because credit unions offer free checking accounts
l. Because credit unions offer credit cards
m. Because credit unions offer adequate online services
n. Because credit unions' interest rates are competitive with other banks
o. Because I know credit union provides good services

SECTION 2

Q17. Please respond to the following statements. We are interested in your general perceptions about credit unions.
(1=strongly disagree to 7=strongly agree; 9=don't know)

a. Everyone can join a credit union.
b. Credit unions are cooperatives.
c. Credit unions provide a full range of products.
d. It is more difficult to become a member of a credit union than becoming a customer of a bank.
e. Credit unions are small.
f. Credit unions offer limited services
g. Credit unions lack data security.
h. I have to be in a labor union to join a credit union.
i. Deposits in credit unions are federally insured.

Q18. Overall, thinking about financial institutions, how do you feel about the following words? [5=positive; 1=negative]

a. Join
b. Membership
c. Ownership
d. Cooperative banking

<u>Demographic information</u>

Q19. Which category represents the total combined income during the past 12 months of all members of your household?
This includes money from jobs, net income from business, farm or rent, pensions, dividends, interest, social security payments and any other money income received (by members of your household who are 15 years of age or older).

1. LESS THAN $5,000
2. 5,000 TO 7,499
3. 7,500 TO 9,999
4. 10,000 TO 12,499
5. 12,500 TO 14,999
6. 15,000 TO 19,999

7. 20,000 TO 24,999
8. 25,000 TO 29,999
9. 30,000 TO 34,999
10. 35,000 TO 39,999
11. 40,000 TO 49,999
12. 50,000 TO 59,999
13. 60,000 TO 74,999
14. 75,000 TO 99,999
15. 100,000 TO 149,999
16. 150,000 OR MORE

Q20. What is your gender?

1. Female
2. Male

Q21. What is your birth date?

XX Month
XX Day
XXXX Year

Q22. What is the highest level of school you have completed or the highest degree you have received?

1 Less than 1st grade
2 1st,2nd,3rd,or 4th grade
3 5th or 6th grade
4 7th or 8th grade
5 9th grade
6 10th grade
7 11th grade
8 12th grade NO DIPLOMA
9 High school DIPLOMA or the equivalent (For example: GED)
10 Some college but no degree
11 Associate degree in college Occupational/vocational program
12 Associate degree in college Academic program
13 Bachelor's degree (For example: BA,AB,BS)
14 Master's degree (For example: MA,MS,MEng,MEd,MSW,MBA)
15 Professional School Degree (For example: MD,DDS,DVM,LLB,JD)
16 Doctorate degree (For example: PhD,EdD

Q23. What is your current employment situation? Please check all that apply.

1. Working now
2. Unemployed and looking for work
3. Temporarily laid off, on sick or other leave
4. Disabled
5. Retired
6. Homemaker

7. Other

Q24. What languages are spoken in your home? Please check all that apply.

1. English
2. Spanish
3. Other

THANK YOU!
Please Exit the Survey