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Consumer Use of Banks and Credit Unions

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

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Sponsored by the California and Nevada Credit Union Leagues
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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.