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# Impact of Consumer Awareness on Switching Behavior in Banking

Tomasz Szopiński

## ABSTRACT

In the era of open banking, the phenomenon of bank switching will intensify. The aim of the current study is to answer the following question: is switching, or not switching banks, a result of conscious and independent decision-making? The results from primary data demonstrate that the switching group clients are more conscious than non-switching group clients. They are more likely to compare offers from different banks, visit blogs about finances, demonstrate independence in making financial decisions, and use more service providers which improves their knowledge concerning the offers. The analysis of perceptual maps shows that the switching group is differentiated by various switching costs.

## KEY WORDS:

Switching behavior, banking, switching costs, bank switching, financial decisions.

**JEL Classification:** D14, G21.

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## 1. Introduction

Suppliers in various industries target their competition's clients using slogans, such as: "Switching is easy" (Pick, 2014). The intentions and behavior related to switching are analyzed in relation to various industries, such as hospitality (Han et al., 2011; Qiu et al., 2015), telecommunications (Amin et al., 2018; Calvo-Porral & Lévy-Mangin, 2015; Shin & Kim, 2008; Tesfom et al., 2016), or banking (Brunetti et al., 2020; Diepstraten van der Cruisen, 2019; Gerrard & Cunningham, 2004; Zhao et al., 2013). Customer retention is an increasingly important matter for all businesses. It is, however, of particular relevance to services such as banking (Ennew & Binks, 1996). Banking services are considered complex. The more complex the service, the greater the risk of error in its provision (Michel, 2004). According

to Jones et al., (2002) the intentions between staying with the current service provider and switching costs vary from one industry to another. The current article analyzes the characteristics of people who have concluded an agreement with a new bank in the last year, and those who have not. While most of the previous research has analyzed the hypothetical propensity to switch banks, the current analyses focused on the actual behavior of bank clients. The survey was conducted in September and October 2020 on 355 respondents. The aim of the study is to answer the following question: is switching, or not switching banks, a result of conscious and independent decision-making? Why do customers open accounts in new banks? As my research presented below shows, new accounts are opened more often by people who already have several accounts at other banks. They often belong to the group of overbanked consumers. Is it because of their awareness or their recklessness? The literature devotes a lot of space to the problem of financial exclusion. It is largely

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due to the lack of knowledge and awareness of consumers (Ampudia & Ehrmann, 2017; Bunyan et al., 2016; Fungáčová & Weill, 2015; Grohmann et al., 2018; Rao & Malapit, 2014; Rhine & Greene, 2013; Szopiński, 2019). Unfortunately, there is a lack of studies showing the opposite phenomenon - which determines consumer overbanking. Is it due to the lack of awareness about finances and the search for new offers in order to be able to get into debt more, for example, get a new credit card, or roll old debts with new ones? Does the search for new offers also result from the awareness of consumers who follow the offers of various banks, for example, looking for promotions for opening accounts, the possibility of reducing fees for maintaining an account? In particular, I analyze whether the persons switching banks hold accounts in multiple banks, demonstrate independence in making financial decisions, assess their own financial knowledge, and actively seek information about financial services. Another issue raised, not recognized in the literature, is the perception of switching costs by loyal and disloyal customers. It was then investigated how bank account switching affects the perception of switching costs. Six different types of switching costs proposed by Jones (2002) were used in the analysis. The Mann-Whitney test and the chi-square test were used to verify the relationship between the respondents' trait and the propensity to switch banks. In turn, logistic regression was used to show the extent to which having accounts in different banks affects the probability of switching. Multidimensional scaling was used to show the perception of switching costs in the switching and not-switching group.

## 2. Theoretical Framework

### 2.1. Factors Determining Bank Switching Propensity

Satisfaction is a significant factor influencing customer loyalty which also counteracts switching behavior. Customer satisfaction is an important indicator for customer loyalty (Pont & McQuilken, 2005; Szczepańska & Gawron, 2011). Customer satisfaction encompasses tangible and intangible components. Customer satisfaction is a function of service quality (staff service and corporate image), price, innova-

tiveness, and convenience (Athanassopoulos, 2000). Colgate and Hedge (2001) identified three general problems regarding switching behavior, such as pricing issues (fee, charges, interest rate), service failures (mistake, inflexible, inaccessible, unprofessional), and denied services (denied loan, no advice). Problems with pricing had the most important impact on switching behavior. In addition to the price of services, the willingness to switch banks is influenced by factors unrelated to costs, such as service quality, product and service features, reputation, trust (Deloitte, 2019). Manrai and Manrai (2007) distinguish five dimensions of satisfaction with regards to banking services, including: personnel related considerations, financial considerations (interest earnings and interest payments), environment related considerations (atmospherics), and convenience related considerations (ATM and hours). Chiu et al. (2005), when analyzing the factors determining switching behavior, categorized the values determining customer loyalty into: utilitarian value, which provides tangible benefits such as savings, convenience, and product quality; hedonic value which provides psychological gratification such as, for instance, taking pleasure in using the services of a particular bank, or a belief that choosing a particular bank was a wise choice. Satisfied clients are less likely to consider offers from other banks compared to dissatisfied clients (Chocholáková et al., 2015).

Bank switching decisions are also influenced by promotional activities undertaken by banks, which include advertising, sales promotion, public relations and personal selling (Zephaniah et al., 2020). Bank switching is also affected by the client's assessment of the bank's employees regarding their empathy and responsiveness to the client's needs, (Chakravarty et al., 2004), satisfaction and trust (Panther & Farquhar, 2004). The effect of trust is stronger for domestic banks than for international banks (Kingshott et al., 2018).

Level of education is a factor encouraging bank switching. Brunetti et al. (2016) demonstrated that more educated households were more likely to switch to another bank. Mavri and Ioannou (2008) show that a lower level of education has a positive impact on limiting bank switching. Clemens et al. (2007) found that respondents with lower educational accomplish-

ments are less inclined to switch banks. Another factor influencing bank switching is age. Bank switching is more probable among younger clients (Tesfom et al., 2016). Younger clients have a higher likelihood of leaving their bank as they often must adjust to substantial changes in their lives, such as leaving school, starting a new job, moving to different locations, renting or buying a house, getting married or starting a family (Clemens et al., 2007). Pass (2006) states price and convenience as the most important factors in selection and possible switching of banks by younger people. According to Mavri & Ioannou (2008), the likelihood of resigning is higher in the 35-45 years old custom group.

The likelihood of leaving may also be affected by the client's income. A higher level of income is also associated with higher financial awareness. Persons with higher incomes have a higher average mortgage balance and use more financial products. Thus, there are potential benefits to bank switching for this group. Abandoning a bank is influenced by factors such as the repayment of a mortgage (Brunetti et al., 2016) or retirement (Shirazi & Mohammadi, 2019). Retirees are beginning a new chapter in their lives. After their first year in retirement, they start to assess their finances, including bank accounts, to make sure all their retirement needs are met. This is conducive to bank switching (Shirazi & Mohammadi, 2019). Kiser (2002), however, demonstrates that switching costs seem to be more severe for households with high income or higher education and for households with very low income or ethnic minorities. Mortgage is also a factor which makes bank switching difficult (Brunetti et al., 2020).

Financial literacy and an educational background in economics or finance, increase the refinancing propensity of borrowers (Bajo & Barbi, 2018). Financial literacy (Grohmann et al., 2018) and level of education (Bunyan et al., 2016; Devlin, 2009; Rhine & Greene, 2013; Szopiński 2019) are factors conducive to being banked. Zorić (2016) demonstrates that clients who use more bank services (products) are more loyal, so bank should focus on those clients who use less than three products, and offer them products according to their needs. Brunetti et al. (2016) claim that people with accounts in different banks are more aware of market offers and are willing to look for bet-

ter bank offers. Therefore, the following hypotheses are proposed:

H<sub>1</sub>: There is a statistically significant relationship between the number of accounts held with different banks and the likelihood of opening an account with a new bank.

H<sub>2</sub>: There is a statistically significant relationship between the subjective assessment of own financial knowledge and the likelihood of opening an account with a new bank

H<sub>3</sub>: There is a statistically significant relationship between the willingness to compare offers of different banks and the likelihood of opening an account with a new bank

H<sub>4</sub>: There is a statistically significant relationship between the willingness to read financial blogs and the likelihood of opening an account with a new bank

Decisions of family members are also a factor in bank switching decisions. In times of crisis, family networks become even more important and second-degree relatives, besides first-degree relatives, also have a significant influence on individual decisions to abandon a bank (Atmaca et al., 2020). Negative experiences with banks affect the tendency to distribute savings to accounts in different banks (van der Cruysen et al., 2012). Family size is a factor that determines the level of autonomy in financial decision-making (Bertocchi et al., 2014; Brunetti et al., 2016; Glazer, 2008.) Therefore, the following hypothesis is proposed:

H<sub>5</sub>: There is a statistically significant relationship between independence in making financial decisions and the likelihood of opening an account with a new bank

## 2.2. Dimensions of switching costs in the banking service market

Vázquez-Carrasco and Foxall (2006) distinguish between positive and negative switching barriers. For example, satisfaction or relational benefits can be considered positive barriers. Switching costs can serve as a negative barrier example. Banking is a major sector in the economy in which switching costs seem to be prevalent due to information asymmetry (Kim et al., 2003). Switching costs are costs induced to economic agents when they change their suppliers. Jones et al. (2002) distinguish six dimensions

related to switching costs. The first dimension is lost performance costs, also referred to as continuity costs by Chebat et al. (2011). These opportunity costs are related to the risk of switching from a known to an unknown supplier. The second dimension concerns uncertainty costs. Chebat et al. (2011) refer to them as contractual costs. These involve fees for changing the supplier. The third dimension encompasses pre-switching search and evaluation costs (learning costs). These costs include learning the new service or the new banking application. The fourth dimension includes post-switching behavioral and cognitive costs. These involve the effort of searching for a new supplier. Chebat et al. (2011) refer to them as search costs. The fifth dimension includes setup costs. These include both monetary and non-monetary costs involved when purchasing a service for the first time, e.g., costs of contract analysis, filling out forms, etc. The last dimension includes sunk costs. These are both the economic and non-economic costs associated with the loss of interpersonal relationships built with the previous service provider. Sunk costs include past expenses that are significant only from a psychological perspective, not economic (Jones et al., 2002).

### 3. Methods

The survey was conducted in September and October 2020. Replies were collected from 355 respondents. I used paid advertising on Facebook to invite the respondents. When defining the target group, people living in Poland were indicated. The target group was not narrowed down in terms of age, gender, or other socioeconomic data. The first question concerned the number of bank accounts held. Persons who declared not using banking services were not qualified for further study. 350 responses were admitted for analysis. The next question was: "During the last 12 months, have you used the services of a new bank? - in this case the new bank is understood as a never before used bank." 21.7% of respondents concluded an agreement with a new bank within the last year. Persons who have concluded an agreement with a new bank in the last year are referred to as disloyal to current service providers for further analysis, while persons who have not concluded an agreement with a new bank are referred to as loyal. 51% of the respondents used the services of 1 bank, 28.5% used the services

of 2 banks simultaneously, 13.1% used the services of 3 banks, while 6.2% used the services of more than 3 banks simultaneously. 30.1% of the respondents were men. 40.3% of the respondents were in the 19-24 age bracket, 17.2% in the 25-29 age bracket, 13.8% in the 30-39 age bracket, 14.4% in the 40-49 age bracket, 6.9% in the 50-59 age bracket, and 8.5% in the 60+ age bracket. The Mann-Whitney test was used to verify the hypotheses 1 and 2, as the variables analyzed, such as the number of bank accounts and assessment of own financial knowledge, were measured on a rank scale. Simultaneously, these variables were analyzed in two groups.

The subjective assessment of own financial knowledge was measured on a 10-degree scale, where 1 – meant very low level of financial knowledge and 10 – very high level of financial knowledge. In order to verify the hypotheses 3 to 5, a chi-square test was used, as variables such as the propensity to compare offers in different banks and level of independence in financial decision making were measured on a nominal scale. Then, using the Z-test, the proportions of the columns were compared. Logistic regression was used to investigate the extent to which having a certain number of accounts held in different banks, affects the likelihood of concluding an agreement with a new bank. It was then investigated how bank account switching affects the perception of switching costs. To this end, respondents were asked to assess, on a 1-5 rank scale, the effort involved in meeting the six types of switching costs proposed by Jones (2002) in a bank switching situation. 1 meant that the respondent disagrees with the claim, and 5 that the respondent completely agrees with the claim. Both loyal and disloyal respondents were asked to answer this question. The assessment of the first group of switching costs - continuity costs was measured by rating the following statement: "for me, switching banks involves risk associated with changing a familiar supplier to an unfamiliar one." The assessment of the second group of switching costs - contractual costs was measured by rating the following statement: "for me, switching banks involves costs related to closure fees in the old bank." The assessment of the third group of switching costs - learning costs was measured by rating the following statement: "for me, switching banks involves an effort related to getting used to the new service provider (e.g., the need

**Table 1***Comparison of Verified  $H_1$ - $H_2$  Hypotheses*

Criterion	Mean		Mann-Whitney Test		r
	Loyal	Disloyal	Z	p	
<b>No. of bank accounts held</b>	155.75	245.51	-7.523	0.000	0.402
Assessment of own financial knowledge	170.47	193.34	-1.768	0.077	*

Note: \*not applicable due to lack of identified dependences the measure was not calculated

to get used to the appearance of the new website, the rules and regulations, address of the registered office, etc.)” The assessment of the fourth group of switching costs - search costs was measured by rating the following statement: “for me, switching banks involves an effort to find a new offer.” The assessment of the fifth group of switching costs - setup costs was measured by rating the following statement: “for me, switching banks involves meeting a lot of burdensome formal requirements at a new supplier (e.g., filling in forms, collecting documents).” The assessment of the sixth group of switching costs - sunk costs was measured by rating the following statement: “for me, switching banks involves a loss of interpersonal relations with the old bank’s employees.” In order to demonstrate the differences in the perception of transaction costs between loyal and disloyal groups, a multidimensional scaling technique using the ALSCAL algorithm was used, which is available as a component of the PS IMAGO PRO statistical package.

#### 4. Results

The first hypothesis concerned the relationship between the number of accounts held with different banks and the likelihood of opening an account with a new bank. The Mann-Whitney test was used to verify the relationship. The results confirmed the statistical relationship between the analyzed variables ( $z = -7.523$ ,  $p < 0.0001$ ,  $U = 5119.5$ ). Table 1 demonstrates that the mean rank for those who switched banks was higher than for those who did not. As the number of bank accounts held increased, the percentage of respondents who concluded an agreement with a new bank within the last year increased.  $H_1$  was supported.

Further, the extent to which having a certain number of accounts with different banks affected the likelihood of signing an agreement with a new bank was explored. Logistic regression was used for this purpose. Table 3 presents the result of logistic regression, demonstrating the relation between the number of accounts held and the probability of switching banks within the last 12 months. Switching banks in the last year is a binary variable. The variable number of bank accounts held was recoded into a binary variable. Having one bank account has been accepted as a reference category. The Cox and Snell’s pseudo  $R^2$  test value was 0.159, the Nagelkerke’s pseudo  $R^2$  test value was 0.243, and the Hosmer and Lemeshow test value was 1.000. Using this model, it was possible to correctly classify 78.9% of the total number of cases, as well as correctly classify 96.6% of all loyal and 17.3% of disloyal respondents. For persons with 2 bank accounts, the probability of concluding an agreement with a new bank in the last year is 4.8 times higher compared to those with 1 account. In the group of persons with 3 bank accounts, the probability of concluding an agreement with a new bank increases almost 11.8 times in relation to those who have 1 account. However, in the group of persons with 4 or more bank accounts, the probability increases almost 17.8 times in relation to the reference group.

The second hypothesis concerned the relationship between the assessment of own financial knowledge and the conclusion of an agreement with a new bank within the last 12 months. The Mann-Whitney test was used to verify the relationship. Table 1 shows that the results did not confirm the statistically significant relationship between concluding an agreement with a new bank and the assessment of own financial knowledge ( $z = -1.768$ ,  $p = 0.077$ ,  $U = 9136.5$ ).  $H_2$  was not supported.

**Table 2**  
*Comparison of Verified  $H_3$ - $H_5$  Hypotheses*

			Disloyal	Loyal	Total	Test value $\chi^2$	df	Critical level of significance p	V-Cramer
Willingness to analyze various offers	Persons not analyzing various offers before choosing a bank	Size	11a	77b	88	6.183	1	0.008	0.133
		In %	14.3	28.2	25.1				
	Persons selecting banks by previously comparing different offers	Size	66a	196b	262	7.795	1	0.005	0.149
		In %	85.7	71.8	74.9				
		Size	34a	75b	109				
		In %	44.2	27.5	78.7				
Visiting financial blogs	Persons not visiting financial blogs	Size	43a	198b	241	11.917	2	0.003	0.185
		In %	55.8	72.8	68.9				
	Persons visiting financial blogs	Size	2a	28a	30				
		In %	2.6	10.3	8.6				
		Size	54a	134b	188				
		In %	70.1	49.1	53.7				

Note: Each letter in subscript represents a subset of the number of employees in the company. which the proportion of the column do not differ significantly from each other at the level of 0.05.

The third hypothesis concerned the statistically significant relationship between the willingness to compare offers of different banks and the conclusion of an agreement with a new bank in the last 12 months. Table 2 demonstrates that the results confirm the statistical relationship between the analyzed variables ( $\chi^2 = 6.183$ ;  $df = 1$ ;  $p < 0.01$ ). Table 2 shows that a higher percentage declared willingness to compare different offers in the group that declared changing banks in the last year.  $H_3$  was supported.

The fourth hypothesis concerned relationship between the willingness to read financial blogs and the likelihood of concluding an agreement with a new bank within the last 12 months.

Table 3 shows that the results confirmed the statistical relationship between the analyzed variables ( $\chi^2 = 7.795$ ;  $df = 1$ ;  $p < 0.01$ ). Table 2 shows that people who declared to visiting financial blogs were more likely to conclude a contract with a new bank in the last 12 months than people who declared not visiting financial blogs.  $H_4$  was supported.



**Table 3**

*Logistic Regression Demonstrating the Relationship between the Number of Accounts Held and the Probability of Bank Switching within the Last 12 Months*

	Exp(B)	95% C.I. Para Exp (B)		Critical level of significance p
		Inferior	Superior	
<b>No. of bank accounts held</b>				
1 account (reference category)				
2 accounts	4.816	2.346	9.888	0.000
3 accounts	11.773	5.221	26.546	0.000
4 accounts or more	17.778	6.406	49.336	0.000
Constant	0.081			0.000
Number of cases	350			
Cox and Snell's pseudo R2	0.159			
Nagelkerke`s pseudo R2	0.243			
% of cases correctly classified	78.9			
Hosmer and Lemeshow test	1.000			

The fifth hypothesis concerned the relationship between independence in making financial decisions and the likelihood of concluding an agreement with a new bank within the last 12 months. The chi-squared test was used to verify the relationship. Table 2 shows that the results confirmed the statistical relationship between the analyzed variables ( $\chi^2=11.917$ ;  $df=2$ ;  $p<0.01$ ). Table 2 shows that people who make financial decisions in their households on their own were more likely to conclude an agreement with a new bank within the last 12 months than people who share their decisions with another member of the household or for whom someone else makes financial decisions. H5 was supported. Using the technique of multidimensional scaling, two perceptual maps were reconstructed to demonstrate the differences in the switching costs when switching banks in the assessment of the loyal and disloyal groups. Perceptual maps show differences or similarities between the rated items in a two-dimensional space. The factors Stress (S) and R<sup>2</sup> indicate the quality of the model. By performing a multi-dimensional scaling procedure, the program aims to minimize the Stress function. The more the function approaches 0, the higher the accuracy of the input data's rank order in a two-dimensional space.

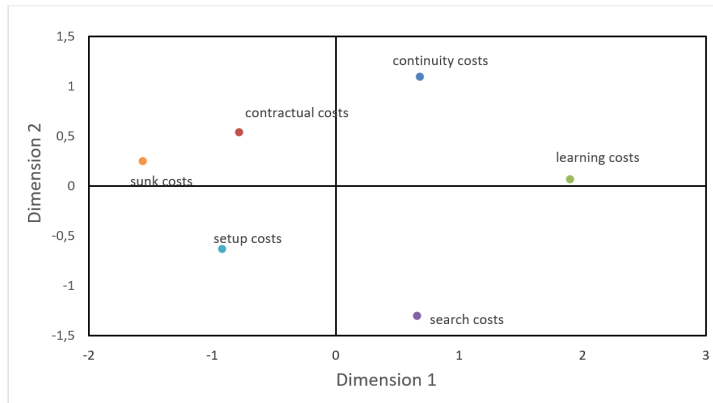
Figure 1 contains a perceptual map illustrating the switching costs evaluations made by the disloyal group (respondents of this group concluded an agreement with a new bank in the last year). The Stress and R<sup>2</sup> ratios are respectively:  $S = 0.037$ ,  $R^2 = 0.994$ , which indicates good fit of the model. The disloyal group assessed the burden of setup costs and sunk costs accompanying switching behavior. At the opposite end, learning costs were considered. The analysis of the second dimension shows that people who rated the burden of learning costs highly, rated the burden of setup costs and sunk costs low and vice versa. However, the analysis of the first dimension shows that the disloyal group assessed the burden of search costs and continuity costs in completely different ways. The location of points in the two-dimensional space shows that the latter dimension differentiated more than the former.

The second perceptual map demonstrates the potential switching costs assessment made by the loyal group (respondents of this group did not conclude an agreement with a new bank in the last year). The Stress and R<sup>2</sup> ratios are respectively:  $S = 0.0377$ ,  $R^2 = 0.994$ , which also proves the model's good fit. Respondents of the loyal group have a similar view of the burden of search costs, setup costs, learning costs and continuity



**Figure 1**

*Assessment of the Importance of Individual Switching Costs by Persons who have Concluded an Agreement with a New Bank in the Last Year - Two-Dimensional Space Representation*



costs associated with switching behavior. The analysis of the second dimension shows that people who rated the burden of search costs highly also rated the sunk costs ailment low and vice versa. Those who rated these four types of costs highly also rated sunk costs low and vice versa. In turn, the analysis of the first dimension shows that sunk costs are situated at one end and contractual costs at the other. As in the case of the first perceptual map, the location of points in the two-dimensional space shows that the second dimension differentiated more than the first. The analysis of perceptual maps shows that people in the disloyal group differentiate more between different dimensions of switching costs. Respondents of the loyal group perceive search costs, learning costs, continuity costs and setup costs similarly. In this group, three groups of costs are polarized: termination costs, the cost of lost interpersonal relations and the cost related to the effort of learning (getting accustomed with) the rules of using the services of a new bank.

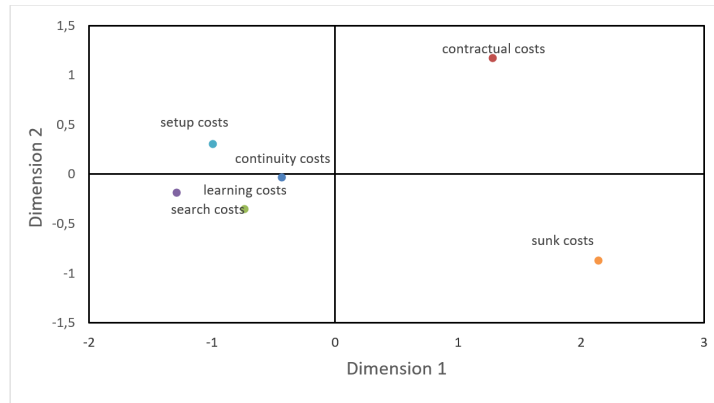
## 5. Discussion and Conclusion

The results demonstrate that the switching group clients are more conscious than non-switching group

clients. Switching group respondents are more likely to compare the offers of different banks, visit financial blogs, use more service providers, which gives them better knowledge about market offers. They are also more often independent in their financial decisions. In the era of open banking, the phenomenon of bank switching will intensify. Often, banks attract new clients by offering better deals than to their existing clients (Boot & Thakor, 1994; Ioannidou & Ongena, 2010). Therefore, the competition forces banks to lend money to new clients at interest rates that initially generate expected losses. They do this at the expense of existing clients, whose contracts are less favorable (Sharpe, 1990). Those who are financially literate know this and often prefer to conclude a contract with a new bank in order to, for instance, receive a bonus. Understanding the phenomenon of "multiple banking" is crucial, as clients' expectations regarding the second bank are often different. Banks must therefore provide other incentives for clients who set up a second bank account (Devlin & Gerard, 2005). In Poland, free bank accounts were commonplace for a long time. (Pauwels & Weiss 2008). With time, however, banks altered their policies and

**Figure 2**

*Assessment of the Importance of Individual Switching Costs by Persons who have not Concluded an Agreement with a New Bank in the Last Year - Two-Dimensional Space Representation*



began to charge their clients with monthly fees if a set number of card payments or account inflows was not met. Pauwels and Weiss (2008) define this as a “free to fee” model transition. An additional qualitative analysis carried out demonstrates that the most common reasons for opening accounts in new banks while keeping an account in the previous bank involve contractual costs: mortgage or revolving credit. If the mortgage or credit is transferred, it must be appraised again and a commission for early repayment of the capital needs to be paid. There are people who open accounts in new banks mainly to take advantage of the promotion for opening the account. One of the issues cited by respondents in account switching involved submitting the new account no. to employers or service providers (including energy, gas, phone service) which are considered setup costs. There are people who open accounts in new banks mainly to take advantage of the promotion for opening the account. Those who hold accounts in numerous banks can utilize the various benefits of different providers. For instance, one bank offers free-of-charge withdrawals at its local branches, and the other - favorable interest rates, or free ATMs. The disloyal group re-

spondents are more aware of the different dimensions of switching costs compared to the loyal group. Banks wishing to attract new clients should undertake promotional activities to show new clients that they are willing to participate in issues regarding contractual costs and setup costs. They can do this by transferring mortgage without taking commissions or by helping with formalities related to switching, such as informing the employer of the new account number. Banks should categorize their clients based on financial awareness and knowledge.

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