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Switching Costs in the New Zealand Banking Market

A thesis presented in partial fulfilment
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ABSTRACT

This thesis explores issues related to bank switching costs, in the context of the New Zealand banking market. Switching costs comprise the range of economic costs faced by customers changing bank, including monetary switching costs, the loss of the relationship with bank staff, and needing to learn new systems. An important effect of switching costs is customers become locked in to their bank, which has implications for market competition, and this raises questions about the need for a regulatory response.

The study comprised a mail survey to 2983 people drawn from New Zealand electoral rolls, with a response rate of 34%. The survey instrument was a questionnaire of 70 questions in four sections: banking relationships, switching behaviour, switching costs, and demographic information.

Nine categories of switching costs were used: Learning, Search, Monetary Loss, Benefit Loss, Personal Relationship, Brand Relationship, Service Disruption, Uncertainty, and Hassle. These categories are found to be appropriate. Furthermore, the three higher order categories of Procedural, Financial and Relational found by Burnham, Frels and Mahajan (2003) are confirmed.

Although prior studies have recognised different switching costs, there has been limited work to understand whether they differ in their impact on attitudes and behaviour around switching. Different switching costs are found to have different effects. The study also examined whether the experience of switching matches the perception, and found switching is easier than expected. Furthermore, customers who have switched banks have different perceptions of switching costs to those who have not.

Customers are different, and their attitudes and needs should therefore vary. Prior research has found differences in attitudes towards financial issues based on the family life cycle, but the relationship between switching costs and family life cycle has not been explored. This thesis finds perceptions of switching costs and switching behaviour vary significantly between life cycle groups, which appears in part to be related to associated changes in the complexity of the banking relationship.

Four recommendations for regulators are generated from the results of the study. These include recommending greater acknowledgement of the existence and effect of switching costs, and investigation of bank account number portability.

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CHAPTER 1: INTRODUCTION

1.1 Introduction

Banks¹: some customers love them, while others love to hate them. Yet while the numbers of customers claiming to dislike their bank is substantial, the level of churn² is relatively low. For example, Sheeran (2003) reported research from the University of Auckland that had shown over a number of years that while 15-20% of residential customers thought of changing banks, only 3-5% actually moved. So if customers are unhappy with their bank, why do they not change to another bank?

The usual explanation for this low churn rate centres around switching costs, a term used to encompass all the factors that can discourage customers from changing banks, including both financial costs and non-financial factors. The inclusion of non-financial issues, such as finding a new provider and the customer's relationship with the existing provider's staff, is critical. The importance of switching costs lies in their impact on market operation, and they are blamed for allocative inefficiency, monopolistic profits and barriers to entry, among other things. These problems arise because switching costs affect customer behaviour, with customers becoming locked-in to a particular provider and therefore unwilling to switch to a different provider. Banking is acknowledged as one market where such switching costs exist, with consequent arguments about the need for regulatory intervention to overcome the switching costs and improve competition.

This thesis seeks to enhance understanding of the influence of switching costs on customers' switching behaviour, in the context of the New Zealand retail banking market. The next section (1.2) provides an overview of the New Zealand banking market to provide perspective for the study. This is followed, in section 1.3, with some background on switching costs and switching behaviour, and an outline of the motivation for this study. Section 1.4 introduces the research questions addressed by this study, from which the study's objectives and outcomes are generated. In section

¹ In this thesis the term 'bank' will be used in its more generic sense to incorporate all financial institutions with which one may have a banking relationship. Where reference is intended to the narrower sense of registered banks, being the only entities in New Zealand legally permitted to refer to themselves as a bank, the term 'registered bank' will be used.

² Churn refers to the rate of turnover of customers moving from one financial institution to another.

1.5 the study's contribution is identified, while the final section (1.6) details the structure of the remainder of the thesis.

1.2 Overview of the New Zealand Banking Market

This study focuses on switching costs in the retail banking market in New Zealand³. An overview of the New Zealand banking market is an appropriate starting point to provide an understanding of the environment in which this study was completed.

New Zealand's financial system underwent a period of substantial change, including significant rationalisation, beginning in 1985 with deregulation of the financial system, and the economy⁴. The changes included introducing a system of bank registration, with one consequence being that the major non-bank financial institutions operating in the retail banking market became registered banks. A number of mergers and acquisitions have occurred since 1985, the most recent being the ANZ Banking Group's acquisition of The National Bank of New Zealand in 2003⁵.

As at 31st December 2008, there were 18 registered banks⁶ in the New Zealand market, with six dominating the retail banking market: ANZ National Bank Limited (ANZ National), ASB Bank Limited (ASB), Bank of New Zealand (BNZ), Kiwibank Limited (Kiwibank), TSB Bank Limited (TSB) and Westpac New Zealand Limited (Westpac NZ). Two of these banks operate dual brands under the same registration: ANZ National operates the two distinct and major brands of ANZ and The National Bank (National); while ASB Bank Limited operates a major brand under that name as well as the minor, internet-only brand of BankDirect. There are also three smaller, retail banking focussed registered banks: Kookmin Bank (Kookmin), which concentrates on meeting the needs of expatriate Koreans living in New Zealand; Rabobank New

³ Switching costs do exist in the wholesale market but in a different form and are not part of this study.

⁴ A useful paper in respect of this period is that of Evans, Grimes, Wilkinson, and Teece (1996) who note that the reforms "encompassed both macroeconomic stabilization and structural change" (p. 1856), and they summarise the key reforms in their essay. A useful source of information on the specific changes in the banking sector is Tripe (2005).

⁵ See Appendix 1 for a list of mergers and acquisitions in the New Zealand market since 1985.

⁶ The full list of banks appears in Appendix 2.

Zealand Limited (Rabobank NZ), which only offers deposit products at this stage; and SBS Bank⁷, a former building society that continues to have mutual ownership.

In addition, there are smaller non-bank financial institutions operating. The most significant is PSIS, a mutual, co-operative organisation that is substantially smaller than the banks. PSIS operates throughout New Zealand with a network of 36 branches. Other small financial institutions operating in the New Zealand retail banking market include other building societies and a number of credit unions in the general retail banking market⁸, offering products and services across the range of retail banking products. There are also a number of financial institutions focussed on the retail lending market, including finance companies primarily interested in the consumer or personal lending sector of the market, and mortgage lenders primarily providing housing finance.

A key feature of the New Zealand banking system is the high proportion of foreign participants. Fifteen of the 18 registered banks are foreign-owned, with six (including the four largest) being Australian banks. The other banks come from a mix of countries, including the United States, the United Kingdom, Holland, and Japan. The three New Zealand owned banks are relatively small; as well as SBS Bank, there is the regionally focussed TSB Bank headquartered in New Plymouth, while the third is the government-owned Kiwibank that commenced operations in 2002. As at 30th September 2008, the two New Zealand banks then registered made up just 3.19%⁹ of the registered banks' assets, while the Australian banks comprised 90.12%. This has implications in terms of the banks' operations, and can also affect regulation due to needing to work with the home regulator of the parent bank.

⁷ SBS Bank was registered with effect from 7th October 2008, and at the time the survey was undertaken was a building society.

⁸ Recently, both the building society and credit union sectors have been going through a period of rationalisation, with consequent reductions in the number of institutions in each sector from time to time. As at 31st December 2008 there were seven building societies, 25 credit unions under the umbrella of the New Zealand Association of Credit Unions representing about 85% of credit union members in New Zealand, and about 10 other credit unions.

⁹ SBS Bank was not a registered bank at this time, but it is around 1/5 the combined size of Kiwibank and TSB.

1.3 Background and Motivation

1.3.1 Customer inertia

Reasonably high proportions of customers express a desire to switch to a new bank; for example, a survey by the University of Auckland in 2005 (reported in Steeman, 2005) found 20% of customers were likely or very likely to switch banks, although one of the authors noted switching costs meant such intentions were not usually acted upon. More recent data from Roy Morgan reported in Rogers (2008b) showed that 6.1% of those aged 14 years and older indicated an intention to switch.

In a study of 26,000 customers, Fujitsu Australia found 80% of respondents indicated a willingness to change their financial services provider (Rogers, 2007), while a recent survey in the US market found that 10% of respondents “were very dissatisfied and said they would switch their financial institution if it were easier to do so” (“Customers prefer their local branch”, 2004, p. 7). The size of the switch-prone market is supported by two New Zealand-based studies. In an older study of the New Zealand banking market, Colgate (1999) found that 15% of his sample “would like to switch from their main bank” (p. 44), while 39% reported that they had seriously considered moving from the current main bank but decided against it. In another more recent study, 51% of the survey respondents were identified as being in one of the segments described as having limited loyalty to their existing bank, and therefore seen as likely to switch (Garland, 2005).

However, this does not translate into comparable rates of switching, with low rates being the norm in the New Zealand market. Carlisle and De Freitas (2004), based on Roy Morgan research, reported that about 180,000 New Zealanders change their financial institution each year, representing about 4.4% of the total population. More recent data from Roy Morgan for the six months to December 2007, reported in Rogers (2008b), showed that 7.8% of those aged 14 years and older had switched banks in the previous twelve months. This was down on the 8.6% for the twelve months to August 2005, based on similar research from Roy Morgan, reported by Clement (2006).

Matthews (2000) looked at the response to the closure of the last bank branch in two Northland communities and found only about 13% of that bank’s customers had changed banks. This was despite media reports that *many* customers intended to

transfer their banking to another financial institution in protest at the closures. In another (Australian) example, Searle (2007) reported that “Nick Greenhalgh has done his business banking with Commonwealth Bank for five years and is unhappy but “too lazy” to switch” (p. 49).

Similar results are found in other countries. For example, a UK government survey in 2000 found “only 6% of bank customers had switched accounts in the previous five years – an annualised rate of 1.2%” (Wood, 2002, p. 1). Cruickshank (2000) found a consumer typically holds a current account for a long time, with a median of 11.1 years for the sample used for the report. A Canadian study found 44% of respondents “still banked with the same institution where they had their first account” (Carrick, 2006, p. B12). Carrick argued that with a miserly rate of interest on children’s bank accounts, Canadian banks were effectively “buying customer loyalty at bargain prices” (p. B12) because when the time came to open an ‘adult’ account large numbers simply did so at the bank where they had their youth account.

Similar findings apply in the small business market, where Howorth, Peel, and Wilson (2003) noted that surveys consistently report the number of firms thinking about changing banks substantially exceeds the number of firms that do actually switch. They used the example of a Federation of Small Business study in the UK where 4% had switched compared to 34% that had thought about it (FSB, 1998, cited in Howorth et al.). According to Wood (2002) it “used to be said that consumers were more likely to move house than to move their bank account” (p. 1), while The Economist suggests that “customers are more likely to divorce than switch banks” (Staff, 2007, p. 14). Stock (2005) argues that bank customers in New Zealand are “notoriously passive creatures” (p. D5) and that the need to shop around discourages switching behaviour.

This reluctance to switch despite dissatisfaction with the current banking relationship is known as customer inertia, and it has some benefits for the banks. In the Australian market, James (2005) suggests the main banks have “relied on the reluctance of customers to move” (p. 69), and he reported an allegation by a senior bank executive that customers are easily retained. Reporting planned fee increases by St George Bank in Australia, Rogers (2006b) suggested the fee changes could be expected to generate customer complaints, but not cause customers to actually change their bank.

1.3.2 Competition

In the New Zealand market, banks have been achieving high levels of profitability for a number of years. For example, Tripe (2004) reported that the aggregate return on assets for the six main banks whose business is predominantly retail and with branch networks had been above the benchmark 1% level for 20 successive quarters, while Tripe (2007) comments that “New Zealand’s major banks continued to enjoy good performance in the June 2007 quarter” (p. 1). So to what extent does this reflect monopolistic profits, due to a lack of real competition despite the perception of substantial competition created by the high number of financial institutions in New Zealand’s banking market?

There are a number of measures available to estimate the level of competition in a market. Smith and Tripe (2001) note, however, that many approaches to the measurement of competition do not provide any indication of the ability of the market participants to exercise market power. As they note, the Rosse-Panzar statistic was developed to “assess the level of monopoly power being exercised in a particular market” (p. 5). They used the Rosse-Panzar statistic to assess competitive conditions in the New Zealand banking market, and found that for the period 1996-1999 total bank revenues appeared “to be earned under conditions of monopolistic competition” (p. 13). A subsequent study by Chan, Schumacher and Tripe (2007) examined the New Zealand banking market over the period 1996-2005 using a different specification of the Panzar-Rosse model and reached the same conclusion.

As discussed in the next chapter, researchers have found monopolistic profits can be generated in a market where switching costs exist (for example, see Shapiro & Varian, 1999; Ongena & Smith, 1997). This is supported by the Cruickshank Report’s¹⁰ finding that the evidence pointed strongly “to the conclusion that UK banking services to small business and personal customers” (Cruickshank, 2000, p. 24) were overpriced. This therefore raises the question of the extent to which the high level of profits reported by Tripe (2004, 2007) and the monopolistic competition found by Smith and Tripe (2001) and Chan et al (2007) are attributable to the existence of switching costs in the New Zealand banking market.

¹⁰ The Cruickshank Report was the result of an independent review instigated by the UK government in 1998. The review examined competition, innovation and efficiency in the UK banking markets.

From a different perspective, Cornell (2008) suggested switching costs are a “serious impediment to competition” (p. 16) because it is very difficult to switch banks, and he made reference to direct debits, automatic payments, and the form filling involved. While Cornell was talking about the Australian market, similar comments are true of the New Zealand market. In 2006, the BNZ claimed other banks were using poorly known fees to prevent customers switching. They referred especially to borrowing customers, and suggested some banks charged fees of \$200-\$400 to customers repaying their housing loans, which, in addition to the other costs incurred, meant a substantial interest saving was needed to offset the financial cost of switching (Stock, 2006a).

Another issue related to switching and bank competition is relationship lending. Berlin and Mester (1999) note that a long-term banking relationship where the bank collects information about the borrower has been shown to be valuable for all types of firms. They suggest the benefits can include lower lending rates, less stringent loan terms, and a reduced likelihood of credit rationing. Berlin (1996) explains that “a bank can profitably charge loan rates *below* (risk-adjusted) lending costs at the outset of the relationship ... knowing that it will be able to charge rates above lending costs as the relationship continues” (p. 4). He further explains that in a loan market that has higher levels of competition a bank feels a greater need to cover lending costs on a period by period basis because it will be more concerned that customers may switch to another bank at any time.

Berlin (1996) notes that the borrower becomes locked in to its relationship with the bank as a result. However, as noted above, the borrower benefits from the relationship, with an additional benefit being a greater likelihood of being able to access funding in bad times as well as good. Today most of the literature around relationship lending related to the small business market, but in the past relationships were similarly important for personal customers due to the restricted availability of credit.

1.3.3 The switching process

Irrespective of the reason for making the decision to switch, the process is essentially the same. Gerrard and Cunningham (2004) noted the difficulties in this process and suggested “severing the banker-customer relationship requires the web to be untangled and a new one built with another bank” (p. 216).

The first step is simply finding a new financial institution to switch to. Stock (2004) suggests just the thought of the effort required to determine the best account to have “is enough to make you decide to stay, as many do, with the bank they are so unhappy with” (p. D9). According to the Cruickshank Report, more than 60% of new current account holders, in the five years prior to the report, considered only the provider ultimately selected. Finding a new bank may be as easy as talking to friends and family about their experiences, or as involved as thoroughly researching each of the alternatives in terms of product range and customer satisfaction ratings and so forth.

Step two is to visit the new bank and open the new accounts. This incorporates setting up new automatic payments and direct debits to replace those operating at the old bank, obtaining debit cards, setting up internet and/or phone banking, and so forth. This means one needs all the information about each payment to be re-established. Clement (2006) noted that “switching can be a lengthy process if you’ve got automatic payments and direct debits set up” (p. 21). And then there is “the process of getting new EFTPOS and credit cards, cheque books, and PINS” (p. 21). Subsequently, any direct credits such as salary and wage payments need to be redirected to the new account. At least some of this must be done in person, and will require verification of one’s identity to comply with anti-money laundering legislation, if there is no existing relationship with the new bank¹¹.

The final step is to actually cancel the accounts at the old bank, usually after confirming that all the new automatic payments and direct debits and so forth are operating correctly. However, there is also a need to get to know the new bank and understand how their systems and processes work. Underlying the process will be concerns about potential problems, such as automatic payments not being processed or the salary direct credit not being redirected correctly. There will also be uncertainty as to whether the new bank really will provide the better service expected.

¹¹ Anecdotal evidence would suggest that identification requirements in New Zealand are less severe than in some other countries. It is interesting to note recent suggestions in Australia that identification requirements are becoming an increasingly important barrier to switching following changes introduced in December 2007 (Rogers, 2008a).

1.3.4 The life cycle connection

It seems reasonable to suggest the ease (or difficulty) of steps two and three of the switching process discussed above depends upon the nature of the banking relationship being moved. Take Banking Relationship I comprising a transaction account, savings account, debit card and internet banking. Banking Relationship II, by contrast, comprises three transaction accounts (his, hers and joint), four savings accounts (long-term, short-term and one each for the children), two debit cards, a credit card, a home loan, two separate internet banking relationships, four direct debits (power, telephone, rates and insurance) and an automatic payment (for hire purchase payments). It seems likely that Banking Relationship I will be easier to move to another bank than Banking Relationship II.

It also seems reasonable to suggest that as one progresses through the 'typical' family life cycle the nature of one's banking relationship changes. As a young person at home all that is needed is something like Banking Relationship I above. Moving from home into a flat may necessitate the addition of automatic payments to pay rent and power. The next typical stage is becoming part of a couple, which may entail additional accounts, and lead to buying a home (and getting a home loan) and having children, giving rise to something like Banking Relationship II above. Over time one may require more direct debits and automatic payments to pay the regular bills and use phone and internet banking to pay irregular bills. Then the children leave home, the home loan gets repaid, life gets simpler, the bills reduce and the banking arrangements start to get simpler again.

If this matches reality, it means that as one moves through the family life cycle, the switching process moves from being relatively simple, to being more difficult, and then back to something simpler again. However, at the same time the banking relationship becomes longer, which may create bonds that are more difficult to break. And as one gets older it could be harder to find a new bank, or it may be simpler as one has more experience and more friends and family to call on for recommendations.

Research has shown differences between consumers based on demographic characteristics, including life cycle stage, and specifically in relation to their attitudes and behaviour towards financial services. From the discussion above, it seems reasonable to suggest that perceptions of switching costs and switching behaviour may

be among the attitudes and behaviours affected by life cycle stage. This is discussed more rigorously in section 2.5.

1.3.5 The banks' response

The banks argue that switching banks is easier today than it used to be. For example, Sherry (2002) suggested that in the 1970s changing banks was effectively impossible due to the penalties that existed, while she claimed that today it simply takes a phone call to switch. Similarly, Goode, Moutinho, and Chien (1996) suggested it was becoming easier to switch banks, and that consumers are more willing to do so. Interestingly, Trout (2006) reported a UK study that found 70% of respondents expected changing banks would be a hassle, but nearly 90% of switchers found it easier than expected.

Nevertheless, the banks have recognised that the general perception is that switching banks is not easy and have been trying to reassure customers, or more importantly potential customers, that switching bank does not have to be difficult. In April 2004 BankDirect launched an “innovative refinancing service” (BankDirect, 2004) and claimed that as a result the “barriers to moving your home loan to BankDirect have just disappeared” (BankDirect). This was accompanied by advertising, including an offer to move a customer’s home loan for them using BankDirect’s new SWITCH refinancing service as part of a general home loan refinancing offer on the bank’s website (BankDirect). It is interesting to note that while BankDirect’s SWITCH service is claimed to eliminate the hassles of switching, it incurs a fee, which is itself a switching cost. In another example, Kerin (2006) cites NAB’s offer, several years ago, of a financial benefit for switching customers of up to \$1050 by waiving the application fee and contributing to the cost of switching in what it called “a switching cost offer”.

The importance of switching costs for banks is reflected in their attempts to make switching as easy as possible for customers. For example, The National Bank’s website has a page titled “Switching to The National Bank”, which included the claim in 2005 that the bank had “made the process as simple and as easy as possible” (National Bank of New Zealand [NBNZ], 2005), although in 2008 this had become “making it really easy to switch to us” (NBNZ, 2008). In 2006, the BNZ launched, with some fanfare, a new process it claimed would make switching to it easier. The process required

participants to sign a limited power of attorney allowing a specialist team to do everything necessary to move the participant's banking relationship to the BNZ (Stock, 2006b). It should be noted that in fact taking care of all aspects of the switch, including closing the old bank accounts and transferring automatic payments and so forth, is something banks have 'always' been willing to do. The difference is that in the last five years or so, they have started to actively promote it as an 'extra' part of their service.

PSIS recently piloted a scheme to assist customers to switch their banking to PSIS based on taking care of the process for the customer, having recognised this as an issue. However, as reported in Matthews and Murray (2007) the pilot scheme was not successful and was not continued, being unable to fully deal with the customers' issues.

There is an incentive to switch banks if a better deal can be obtained and, as Clement (2006) notes, banks often offer a better deal to new customers than they do to existing customers. This is seen most clearly in the credit card market with offers of 'honeymoon' interest rates for transferred balances, usually around 10% compared to about 20% for other balances.

However, it is important to remember that banks are somewhat ambivalent in their attitude towards the 'problem' of switching costs. They want lower switching costs so customers can easily switch *to* them, but they also benefit from switching costs discouraging customers from switching away *from* them.

1.3.6 The regulatory view

The ambivalence of banks towards switching costs and the possible implications of switching costs on competition mean that switching costs are also an important issue for regulators. This was illustrated in mid-2003 when the ANZ Banking Group New Zealand Limited (ANZ) sought to acquire The National Bank of New Zealand. At that stage The National Bank was the largest registered bank in New Zealand while ANZ was the fourth largest, and both had been operating in New Zealand since the middle of the 19th century. As part of the acquisition process, ANZ had to seek clearance from the Commerce Commission under the Commerce Act 1986.

In their application for clearance, ANZ described the New Zealand banking and finance industry as "highly competitive and dynamic" citing "the large number of existing

competitors” as part of the evidence for that claim (ANZ, 2003, p. 8). ANZ went on to claim that “existing competitors alone will ensure prices and quality of service remain competitive” and that “switching costs (such as application fees and charges) in each of the relevant markets are low” (p. 9). The various market sectors were discussed in ANZ’s application, with repeated claims of low switching costs for each sector, and emphasis placed on financial costs associated with switching providers, illustrated in paragraph 147 with a list of possible switching costs in the mortgage market that included legal costs, application fees and break fees for early termination. There was limited reference to non-financial switching costs accompanied by claims that these were not sufficient to allow ANZ any advantage. For example in paragraph 167 the application refers to the inconvenience cost of switching and says “in ANZ’s view, these costs are not so large as to allow ANZ (post acquisition) to impose a small but significant non-transitory increase in price without invoking a reaction from both its customers and other providers” (ANZ, 2003, p. 57).

The Commerce Commission largely accepted ANZ’s claims with respect to switching costs. While their decision acknowledged that “there are switching costs in changing banks” (Commerce Commission, 2003, p. 5), the Commission believed there was unlikely to be a substantial reduction in competition. The transaction accounts market was the only market identified as likely to suffer a reduction in competition with a reduction in choice and quality of service, but it was “not considered to be substantial because of competition provided from the three other main competitors” (p.7).

However, as explained earlier switching costs are much more than simply financial costs and research shows that switching costs have a significant impact on competition levels. This raises questions about the adequacy of the analysis of this issue in this merger, and in previous mergers in the banking industry in recent years¹², and the true impact of mergers on competition levels in the industry.

In Australia, the issue of switching costs received substantial political attention following the 2007 federal election. In early 2008, the Australian treasurer indicated banks would be required to provide information on regular payments, such as direct debits and automatic payments, to ease the switching process (Kavanagh, 2008).

¹² Since 1992 there have been twelve mergers in the New Zealand banking industry.

1.4 The Research Questions

From this background information about switching costs in banking the research questions, and the associated objectives and expected outcomes, of this study are developed. The overarching purpose of this study is to increase understanding of switching costs, particularly in the New Zealand banking market.

The term switching costs covers a broad range of issues, including finding a new bank, breaking the relationship bonds, and the actual process of switching, as well as the direct financial costs. Most prior academic work has explored the issue of all those switching costs as one, albeit acknowledging the existence of categories of switching costs, rather than taking account of the fact that different switching costs may have different effects. This leads directly to the first research question:

Do different categories of switching costs differ in their effect?

As noted above, and discussed more fully in Chapter 2, prior research has found differences in attitudes and behaviour related to financial issues based on family life cycle. In addition, customers' financial needs change over their lifetime leading to possible differences in attitudes towards switching costs. However, the relationship between the family life cycle and switching costs has not previously been examined. This study seeks to explore whether any relationship exists. The related research question is:

Does the importance of switching costs as a whole, as well as of specific categories, change as a customer moves through the family life cycle?

This study also provides an opportunity to examine the classification of switching costs, as the academic world has not yet reached a consensus view. As discussed in more detail in the next chapter, prior research on switching costs has used a variety of approaches to their categorisation. Having a set of agreed switching cost categories would enable future research to focus on the effect of the switching costs, rather than their composition, as well as allowing greater comparability across studies. This generates the third research question:

What is the appropriate classification of switching costs?

There is widespread agreement that switching costs restrict the rate at which customers change banks, and thereby impacts on the true level of competition in the banking market. This causes concern for regulators, although to date there has been limited action by them in New Zealand or in other countries. Furthermore, where issues related to switching costs have arisen, such as ANZ's acquisition of The National Bank, regulators have shown limited appreciation of the full implications of switching costs, and their importance to bank customers. This gives rise to the final research question:

*With a better understanding of the effect and importance of switching costs, is there a need for a regulatory response to the issue of switching costs in the New Zealand banking market, and what form should any response take?*¹³

The need for a better understanding of the effect and importance of switching costs leads to the following objectives and expected outcomes for this study:

Objective 1: To examine the differences in effect of different types of switching costs.

Objective 2: To examine how the relative importance of different switching cost types, and switching costs as a whole, changes over a customer's life cycle.

Expected outcome 1: An assessment of the appropriate classification of switching costs.

Expected outcome 2: Recommendations for regulators with respect to the issue of switching costs in the banking market.

These objectives are developed into more specific hypotheses in Chapter 3.

1.5 Contribution of this Study

Farrell and Klemperer (2006) suggest that the "empirical literature on switching costs is smaller and more recent than the theoretical literature" (p. 15). This means that an

¹³ It should be noted that this study does not examine the responses available to regulators, but, with a better understanding of customers' perceptions of switching costs, possible responses may be identified and recommended.

important contribution of this thesis is simply the addition of empirical analysis on the issue of switching costs.

Despite the extent of research undertaken with respect to switching costs, both generally and in banking, none was found that looks at differences in perceptions of switching costs based on consumer characteristics. Therefore, a key contribution of this research is towards understanding differences in perceptions between consumer groups, particularly family life cycle groups. This will include consideration of the effect of differences in the nature of customers' banking relationships on their perceptions of switching costs, and switching behaviour. Improved understanding of what switching costs are and the categorisation of switching costs will also result.

With the growth of interest in switching costs and their impact for bank customers, this study will contribute to discussions regarding the need for, and appropriate form of, any regulatory intervention. In particular, recommendations for possible regulatory responses to switching costs in banking markets will be generated.

This research is also of value for its contribution to better understanding the existence and effect of switching costs in the New Zealand banking market, as well as understanding this market more generally. The issue of regulatory intervention to deal with switching costs and their associated impact on competition in the New Zealand banking market is considered for the first time.

1.6 Structure of the Thesis

A review of prior research in relation to the issues of switching costs and life cycle follows in Chapter 2. It includes discussion of what switching costs are, and how they have been categorised in the past. This is followed by a review of the implications of switching costs in the market generally, as well as in banking more specifically, and how this influences customer behaviour. The chapter includes some general discussion of how customer demographics can influence attitudes and behaviours, and the possible relationship with switching costs. The chapter concludes with a look at what it may mean for regulators of banking markets.

Chapter 3 follows and develops the study objectives into specific hypotheses for testing, as well as providing an overview of the methodology applied in this study. The chapter

includes a summary of the qualitative work undertaken prior to the main study, and outlines the key findings from it. The development of the survey instrument is discussed, including the choice of switching cost categories and the definition of the life cycle groups used. The actual survey process is detailed, and key features of the responses are summarised. The chapter concludes with identification of some of the associated issues.

The fourth chapter provides the empirical results from the study. It begins with some basic findings related to switching behaviour and perceptions of switching costs, and then moves through the results for each hypothesis in turn. The final chapter discusses the findings in relation to the original objectives, and summarises the results. It also identifies questions for possible future research.

CHAPTER 2: PRIOR RESEARCH

The issue of switching costs has become more recognised and been the subject of substantial work in the last 20 years or so; however, Klemperer (2005) noted that Selten's (1965) model of "demand inertia" could be seen as the beginning of the theoretical literature. The study of switching costs has taken place in a number of different disciplines, with Hess and Ricart (2002/3) noting that researchers in strategy, economics and marketing have recognized the importance of switching costs; other disciplines in which switching costs have been studied include economics and management. The variety of approaches to switching costs was noted by Gultinan (1989), who drew on work from the disciplines of marketing, economics and psychology in developing his typology of switching costs. Each discipline takes a different perspective on the issue, including having different definitions of switching costs and using different approaches to their study and exploration.

2.1 What are Switching Costs?

In searching for a definition of the term "switching costs" a useful word picture is provided by Patterson and Smith (2003) who conceptualised switching costs as "the perception of the magnitude of the additional costs required to terminate a relationship and secure an alternative one" (p. 108). A more formal definition of switching costs as "the fixed costs that buyers face in order to change between substitute products" is offered by Avgeropoulos (1997, p. 262), although he noted that switching costs are not constant and can change over time. A similar definition was used by Burnham, Frels, and Mahajan (2003), but with one change being the substitution of "onetime" for fixed in describing the nature of the costs incurred. This change may not appear significant but it more accurately describes the nature of the costs incurred, which in fact can vary but are only incurred once, at the time of switching supplier. Two important points noted by Burnham et al. was that switching costs "need not be incurred immediately upon switching" (p. 110), and that they are not limited to objective or economic costs. This latter point is particularly important, because the use of the word 'costs' immediately creates a perception of a financial amount. However, as we will find when we examine the categories of switching costs that exist, financial costs are simply one of the categories, and this means that the costs should be thought of in an economic sense

rather than in accounting terms. Another way of looking at switching costs is as “disutilities that consumers would rather not incur” (Burnham et al., p. 115).

An alternative view is offered by Jones, Mothersbaugh, and Beatty (2002) who suggested “switching costs can be thought of as barriers that hold customers in service relationships” (p. 441). In a similar vein switching costs are “a hurdle separating incumbent suppliers ... from would-be suppliers” according to Shapiro and Varian (1999, p. 159), who noted the conflicting quality of switching costs in that firms benefit from their own customers’ switching costs while seeking ways to overcome the switching costs of competitors’ customers. These latter definitions of switching costs are starting to incorporate the effect of switching costs, for customers and for markets.

So, in simple terms, switching costs is a catch-all phrase to describe the variety of costs, both financial and non-financial, incurred in changing suppliers. In the context of this study, which is focussed specifically on the banking market, switching costs represent the range of costs bank customers face if they wish to transfer their banking relationship, in part or in full, from one financial institution to another.

2.1.1 Categorisation of switching costs

As the various definitions above reflect, switching costs is a plural term that encompasses a range of individual costs. Furthermore, as noted above, no consensus has yet been reached on the best way to categorise the types of switching costs that exist. In any discussion of switching costs it is important to note that consumers are unlikely to have identical switching costs, as noted by Schlesinger and von der Schulenburg (1991). The fact that different customers have different switching costs is supported by Shapiro and Varian (1999) who noted the importance of “an accurate estimate of *each* [italics added] customer’s future switching costs” (p. 149).

Determining an appropriate categorisation of switching costs is aided by understanding what causes switching costs to arise. Factors from which switching costs can arise include “the general nature of the product, the characteristics of the customers that firms attract, or deliberate strategies and investments by product and service providers” (Chen & Hitt, 2002, p. 256). Kim, Kliger, and Vale (2001) suggested switching costs originate for a variety of economic and psychological reasons. They provided examples of psychological origins of switching costs, including various addictions and cognitive

dissonance problems, and suggested economic origins of switching costs include network externalities and informational investment in business relationships. Gabrielsen and Vagstad (2003) note that “incomplete information is a prerequisite for the existence of switching costs” (p. 387), a view supported by Evans and Wurster (1997) who claimed that switching costs “depend on various kinds of information” (p. 72). The customer’s investment in relationship specific assets was found by Sengupta, Krapfel, and Pusateri (1997) to be the biggest factor in creating switching costs for the customer, in their study of switching costs in key account relationships.

To identify the specific types of switching costs that may be encountered a useful, and recognised, starting point is Klemperer (1995). He described four different types of switching costs as: Physical investment, in equipment or a relationship; Information investment, in the use of a product or its characteristics; Artificial investment, created by loyalty schemes; and Psychological investment, a preference created by use and experience. He noted that each type of switching cost “is sufficient for ex-ante homogeneous products to become ... ex-post heterogeneous” (p. 518), i.e. after purchase, apparently similar products are perceived by the purchaser to be substantially different. With respect to the ‘artificial investment’ category, Klemperer (1987b) had noted in an earlier paper that firms are able to create artificial switching costs, with repeat purchase coupons and frequent flyer programs given as examples. Similarly, To (1996) referred to “artificial switching costs, created by producers to lock-in consumers” (p. 81), as well as other switching costs of learning, transaction and information costs.

In earlier work, Guiltinan’s (1989) typology used four classes of switching costs: contractual costs, set-up costs, psychological commitment costs, and continuity costs. Although Fornell (1992) used the term switching barriers, it is clear he was referring to the same type of issues labelled switching costs by other writers. His list of switching barriers included “search costs, transaction costs, learning costs, loyal customer discounts, customer habit, emotional cost, and cognitive effort, coupled with financial, social and psychological risks on the part of the buyer” (p.10). Like Fornell, Colgate and Lang (2001) used the term switching barriers to describe concepts similar to the concept of switching costs discussed by other authors. The categories they used were: relationship investment, switching costs, availability and attractiveness of alternatives,

and service recovery. In the specific category of switching costs they included termination costs for leaving the current supplier and joining costs at the new supplier, as well as perceived risk.

A different approach was taken by Lee and Cunningham (2001) who described switching costs as “costs it is anticipated will be incurred in the future” (p. 117), and they specifically excluded economic and transaction costs that are incurred in the present transaction, which is an unusual approach for which the motivation is unclear. Nevertheless, it is worth examining the switching cost categories they used, which included: Information search costs, finding alternative suppliers and learning about them; Perceived risk, the possible risks associated with a new supplier; Substitutability, the ability of the new supplier to match the service of the existing supplier; and Proximity, the level of convenience associated with the new supplier.

While Pae and Hyun (2002) explored switching costs in terms of technology use, their three categories of switching costs of “psychological, physical and economic costs” (p. 376) can be applied to the broader discussion of switching costs in a variety of industries. Patterson and Smith (2003) also had three categories of switching costs – continuity costs, set up costs and sunk costs – in their study and comparison of switching costs in Australia and Thailand, which they had based on Guiltinan’s (1989) typology of switching costs.

A more extensive, and arguably more complete, list of eight switching costs was used by Burnham et al. (2003) in their study, comprising: Economic risk costs, the potential for a negative outcome; Evaluation costs, associated with the search for and analysis of alternatives; Learning costs, gaining the knowledge to be able to use the new product/service; Set-up costs, initiating the relationship; Benefit loss costs, including discounts and other rewards for ‘loyalty’; Monetary loss costs, initial financial outlays; Personal relationship loss costs, breaking the bonds of interaction; and Brand relationship loss costs, breaking bonds of identification with the brand or company. They consolidated this list of eight costs into three higher order types of: ‘Procedural switching costs’ representing the expenditure of time and effort; ‘Financial switching costs’ representing the loss of financially quantifiable resources; and ‘Relational switching costs’ representing psychological and emotional discomfort.

Keaveney's (1995) model of customer service switching behaviour also had eight general categories, but Lees (2004) grouped them into three broader categories of stochastic reasons, expectation disconfirmation and utility maximisation. He explained that the stochastic choice models are based on an underlying assumption that brand switching is almost random, and expectation disconfirmation refers to customer dissatisfaction with the brand, while utility maximisation is about getting the best deal. A slightly different approach to the description of switching costs was taken by Ahmad (2005). He used Berry and Parasuraman's (1991) customer-seller bond hierarchy, which consists of a financial bond based on price, a social bond based on the customer staff relationship, and a structural bond based on investment.

In some cases, the specific market in which they have explored the issue of switching costs has influenced the choice of categories by authors. For example, Ausubel (1991) studied the US credit card market, in which he identified five specific switching costs: Information cost of finding the lowest interest rate; Cost in time, effort and emotional energy of applying for a new card; Annual payment of the card fee; the Perception that a better credit rating or higher credit limit can be acquired by holding the same card for a longer period of time; and a Time lag between applying for a new card and receiving it. In a study of the mutual fund market, Hortaçsu and Syverson (2003) referred to formal switching costs, such as a deferred or rear load, and informal switching costs, such as the hassle of calling the company. They also explored search costs, but as quite separate to switching costs, although many authors consider search costs to simply be one category of switching cost. In the case of the loan market, switching between suppliers may entail "costs associated with the foregone capitalized value of (previously established) long term customer-bank relationship" according to Kim et al. (2001, p. 5), costs they described as the most significant.

Telecommunications is another market where switching costs can be an important issue. One of the issues that can arise with switching local telephone service provider is that the customer may lose the telephone service for a period of time. This type of disruption in service can be a major consideration in changing suppliers according to Shapiro and Varian (1999), and may create a substantial barrier to switching. Of course, similar disruptions can occur in the banking market with a change of bank, for example with direct credits continuing to the old account and automatic payments not

being paid. In a study of switching costs in the mobile telecommunications market, Haucap (2003) noted that switching costs consist of indirect costs, such as the costs of giving up the actual phone number, as well as the direct monetary costs incurred in switching.

One of the recognised switching costs for a consumer is search costs, and Stigler (1961) noted that the chief cost associated with that is time, with the number of sellers approached being an approximation of the cost of search. Another of the commonly discussed switching costs relates to loyalty programmes and the potential loss of rewards in the event of changing supplier. Hartmann and Viard (2006) noted that “one of the most commonly cited effects of reward programmes” is switching costs (p. 2). Their definition of this category of switching costs was related to the opportunity cost associated with not purchasing and therefore not progressing in the reward scheme. Interestingly, they concluded that “switching costs are not an important feature of reward programmes” (p. 25), although customers who make infrequent purchases may experience some degree of lock-in when close to a reward.

The Cruickshank Report (Cruickshank, 2000) is one of the few places where the hassle of switching is specifically identified in its own right. The report, on the UK banking market, refers to the hassle factor, which is explained by noting that “switching accounts can be tiresome and time consuming, not helped by the larger banks’ reluctance to develop technical solutions to the problem” (p. 18). Other authors have recognised this hassle factor, but have incorporated the actual process of changing supplier within their other categories, rather than keeping it as a separate category. The approach of the Cruickshank Report appears a better one as the hassle of changing is an issue that is frequently mentioned by customers when discussing the possibility of changing banks. As an example, in discussing the expected approval by the Commerce Commission of ANZ’s application to purchase The National Bank of New Zealand, Hall (2003) suggested that it appeared the Commerce Commission did not understand that “it takes a lot to persuade a disgruntled customer to shift banks” (p. C1), which he attributed to the endless hassles involved in doing so. Another report, from Australia, also made reference to the perceived hassle of changing bank accounts, which it attributed to “the number of steps that are necessary to be taken to switch custom from

one financial institution to another” (Australian Bankers Association (2006) cited in Australian Payments Clearing Association [APCA], 2007, p. 4).

Colgate and Lang (2001) found, using factor analysis, that a factor they labelled ‘apathy’ was the most significant switching barrier, with ‘too much bother’ being the main reason within this factor and the second most important reason overall. They also found that the second most important factor was one they labelled ‘negativity’, which related to the potential loss for the consumer in switching. This provides further support for the importance of the ‘hassle factor’ as a separate category, although it has been argued that “consumer perceptions about the difficulty of switching may be inflated” (Petschler, 2007, p. 2)

As is clear, switching costs have been widely studied, resulting in a wide range of definitions and categories. Nevertheless the key underlying concept of switching costs being a range of costs that are incurred as a result of changing supplier is understood. A tabular summary of the key categories of switching costs identified in the literature appears in section 3.4.3.1.

2.2 Implications of Switching Costs in the Market

Switching costs are important because they can have an impact on the way markets operate. Klemperer (1987a) found that “switching costs cause an allocative inefficiency” (p. 390), while Gabrielsen and Vagstad (2003) describe the existence of switching costs as “the most compelling solution to the [Bertrand] paradox”¹⁴ (p. 385). The underlying factor for the importance of switching costs is the fact that it shifts the basis of competition by firms, in that the existence of switching costs means that competition shifts from considering the needs of one consumer in one period to considering those needs over time, or multiple periods (Farrell & Klemperer, 2006).

From a business perspective, Shapiro and Varian (1999) noted that “switching costs can dramatically alter firms’ strategies and options” (p. 12), and the importance they place on switching costs is seen in the fact that two chapters of their book are devoted to lock-in and switching costs. Furthermore, they suggested that “even when switching costs

¹⁴ The Bertrand paradox in economics is the result that “when two identical price setting firms produce homogeneous products at constant marginal cost, marginal cost pricing is the unique Nash equilibrium” (Baye & Morgan, 1999, p. 59).

appear low, they can be critical for strategy” (p. 108), and, using the example of number portability in the telecommunications market, they found the lesson to be “that small consumer switching costs can constitute large barriers to entry” (p. 109). More recently Dikolli, Kinney, and Sedatole (2007) argued that management decisions should give some thought to switching costs due to their impact on customers’ willingness to shift and therefore the value of existing relationships.

Chen and Hitt (2002) noted that switching costs have been associated with “prices, entry decisions, new product diffusion patterns, & price wars” (p. 257), which supports Klemperer’s (1995) finding that “price wars” when new markets open or a new group of customers enters the market can be explained by the presence of switching costs. On the other hand, Fornell (1992) perceived switching barriers as a form of defensive strategy to reduce customer exit and switching. However, Farrell and Klemperer (2006) caution that “one must not jump from the fact that buyers become locked-in to the conclusion that there is an overall competitive problem” (p. 41).

Farrell and Shapiro (1988) showed “that switching costs tend to promote entry” (p. 124), which persists in the presence of moderate economies of scale. This was supported by Beggs and Klemperer (1992, who showed that “the higher profits in a market with switching costs mean that entry into the market may be more attractive than in their absence” (p. 653). The explanation provided is that the incumbent’s focus is on serving its existing customers, who will not move due to switching costs, which leaves unattached customers for new entrants. It is argued that the switching costs generate brand loyalty, which gives monopoly power (and profits) to the seller, allowing it to ignore the unattached customers. However, the impact on competition levels will depend on the number of unattached customers available. Where it is small, as in the New Zealand banking market, it will limit the opportunities available to new entrants and therefore be more likely to adversely impact on competition.

Evidence has been found that switching costs can generate monopolistic profits for participating firms. Shapiro and Varian (1999) suggested that as a general principle, if competitors have similar costs and quality the profits that can be earned are equal to the total switching costs¹⁵. In discussing the provision of lending facilities, Ongena and Smith (1997) suggested there is potential for a bank to extract monopoly rents from

¹⁵ Total switching costs = customer switching costs + supplier switching costs

their customer as a result of the proprietary information the bank is able to observe. However, Anderson and Kaplan (1995) noted that the extent of monopoly power firms have will depend upon the way in which consumers react to the switching costs that apply.

In the insurance market Schlesinger and von der Schulenburg (1991) found that, in modelling it as a game, the addition of a cost on consumers for switching insurers gave incumbents “a degree of monopoly power in setting insurance premiums” (p. 109). Similarly, von Weizsäcker (1984) referred to a supplier having quasimonopoly power over a user “due to those costs of switching or costs of substitution” (p. 1087). One reason for the monopolistic profits, according to Padilla (1992) is that an effect of switching costs is to make “the demand faced by each firm more inelastic thus increasing each firm’s monopolistic power” (p. 402). This view is also supported in an early reference to switching costs, although that term was not used, when Hotelling (1929) noted that a seller might have a group of buyers who will deal with him rather than his competitors despite a difference in price. He suggested that the existence of these groups “may be said to make every entrepreneur a monopolist within a limited class and region” (p. 44). He went on to find that where it was possible to discriminate between customers on the basis of price, a monopoly profit could be collected from some consumers while fierce competition favoured others.

Barriers to switching are a recurrent theme in the Cruickshank Report, which noted that this issue is important because new entrants in a market will not spur more effective competition unless customers are willing and able to switch to a better deal (Cruickshank, 2000). While the model of perfect competition used by economists assumes away switching costs for consumers, Kerin (2006) noted that in the real world switching costs are pervasive. He suggested companies can gain if they manage them carefully and innovatively, and Hortaçsu and Syverson (2003) found that the market share of mutual funds tends to increase with pricing practices that increase investors’ switching costs. However, a new supplier seeking new customers has to overcome customer inertia and the lock-in of existing customers (Shapiro & Varian, 1999).

Bendapudi and Berry (1997) suggested that “relationships are profitable only when they last long enough for the firm to recoup its costs and reap the benefits” (p. 17), and switching costs offer a means by which firms can retain customers long enough for their

relationship to become profitable. Shapiro and Varian (1999) took this further, arguing that the greater the firm believes a customer's switching costs to be, the greater the customer worth due to lock-in and the more the firm should therefore invest to get the business. One way of creating switching costs to retain customers is tying complementary products to the primary product. Carlton and Waldman (2002) found that "tying can be used to preserve a monopoly position in the tying (primary) market" (p. 195) and that it "can allow a monopolist to acquire a monopoly position in a newly emerging market" (p. 196).

In order to take advantage of the potential retention benefits offered by switching costs, Burnham et al. (2003) noted that "firms must understand the various types of costs that consumers perceive" (p. 110). However, they reported two potential problems in managing perceived switching costs: that customer acquisition may be impeded by an awareness of switching costs; and, that external forces may neutralize or eliminate switching costs. Shapiro and Varian (1999) identified a number of ways to create and use switching costs, including: Invest to build an installed customer base; Offer discounts, especially to influential buyers; Offer value-added services to customers; Use loyalty programmes and cumulative discounts; Sell complementary products; Use differential pricing; and, Be easy to find. In a business context, they suggested that the "magnitude of switching costs is itself a strategic choice made by the producer of the system" (p. 12). Similarly Gerrard and Cunningham (2004) suggested that "banks could possibly set out to develop wide-ranging relationships with their customers in an attempt to make the switching process more onerous" (p. 220); although they did go on to suggest this is not a good way for banks to seek to preserve their customer base. Technology advances can assist firms that seek to create switching costs to encourage customer retention. However, Hess and Ricart (2002/3) warned that "the same changes in technology that provide firms with opportunities to create new switching costs are enabling customers and competitors to reduce traditional ones" (p. 96).

Different types of switching costs can have different effects. Nilssen (1992) distinguished between transaction costs and learning costs, and considered their different impacts. Transaction costs are incurred every time a consumer switches supplier, while learning costs are only incurred if the switch is to a supplier not previously used by the consumer. He found that "an increase in transaction costs,

relative to learning costs, increases the price offered to loyal consumers” and leads to a decrease in welfare (p. 579). Search costs, one category of switching costs, were found to be an important part of the explanation for the existence of large differences in price for relatively standardized products observed by Pratt, Wise, and Zeckhauser (1979).

It was argued by Julander and Söderlund (2003) that it is important to distinguish between positive and negative switching barriers, which relate to wanting to be versus having to be in a relationship respectively. They suggested retention of customers due to a negative barrier would mean a weaker relationship, with lower satisfaction and attitudinal loyalty than with unconstrained customers. They classified switching costs as a negative switching barrier, i.e. switching costs lead to customers maintaining a relationship with a supplier that they would prefer not to have.

The introduction of switching costs into a model involving a choice between two suppliers means that the problem becomes one of inter-temporal choice according to von Weizsacker (1984). He noted that as switching costs increase, the repayment period for any investment in substitution increases, and the discount rate becomes more important. He argued that it is reasonable to conclude from his model that price inertia observed in a market is likely to indicate strong price competition, rather than be a counter-indication as may otherwise be assumed.

One of the ways a firm can endeavour to overcome switching costs is the practice of offering discounts to non-customers in the market. Discussing the attractiveness of student discounts, Shapiro and Varian (1999) suggested that for products with high switching costs, there is a benefit in offering discounts to get consumers “addicted” to the business’ product. They suggested getting someone to use the product while a student means there is “a good chance of building a loyal customer down the road” (p. 47), although it should be noted that other studies have found this to be a misperception regarding the student market (for example, see Yao & Matthews, 2005). However, Chen (1997) found that firms are actually worse off if they engage in such discriminatory pricing and that consumers may not actually be any better off.

Klemperer (1987a) found that monopoly rents result from switching costs in a mature market, but he also found that these rents mean that there is greater competition in the early development stages of the market. Similarly, von Weizsacker (1984) reported

being surprised to find that “switching costs by and large seem to raise rather than lower the degree of competition between two suppliers” (p. 1088). This finding was supported by Padilla (1992) in that “while switching costs lead to less intense competition in the second period, they encourage first-period competition” (p. 403). A later study from Padilla (1995) developed a simple model of duopolistic competition with switching costs and found that “switching costs have a clear relaxation effect on the strength of competition when firms use stationary Markovian strategies” (p. 527).

In the US credit card market, Calem and Mester (1995) found that switching costs can actually be disadvantageous for card issuers because they can create an adverse-selection problem¹⁶. Dubé, Hitsch, and Rossi (2006) challenged the conventional view that markets are made less competitive by switching costs. They found “equilibrium prices fall as switching costs increase” (p. 29) and argued switching costs would need to be very high to get the theoretical anti-competitive markets and monopolistic profits commonly found in the literature. However, their model was calibrated using data from a packaged good market and it may be that their results cannot be applied in other markets, especially service-based markets such as banking.

Much of the discussion of switching costs assumes they are homogeneous for all customers, although there is some acknowledgement that this may not be the case. Hauser, Simeste, and Wernerfelt (1994) suggested that if switching costs do vary between customers there may be an opportunity to segment customers on the basis of their switching costs. They further suggested that this would then allow employees to focus more on customers with lower switching costs who may “be induced to switch more easily” (p. 341).

Shapiro and Varian (1999) suggested that success in a market with switching costs comes neither from avoiding lock-in nor embracing it. They explained that understanding switching costs is important for new entrants, who need to recognise the costs faced by consumers who wish to switch to them, as well as for established firms because it helps identify the extent of the threat posed by new entrants. Colgate and Lang (2001) agreed service firms need to understand why customers do not switch “as it will enable them to develop strategies to overcome these switching barriers” (p. 332).

¹⁶ Adverse selection is recognised as a risk in banking markets, and specifically relates to the possibility of “selecting too many high-risk borrowers” (Sinkey, 2002, p. 660).

Overall, the research that has been done indicates that switching costs tend to lock-in customers, allowing monopolistic profits to be earned. The impact on the level of competition in a market in which switching costs exist is less clear, but the weight of evidence comes down on the side of the argument that competition is reduced. In the next section we consider how this has an impact on customer behaviour.

2.3 Effects on Customer Behaviour

2.3.1 Lock-in and inertia

As discussed in the previous section, the primary effect of switching costs is to lock customers in to a particular supplier. Beggs and Klemperer (1992) noted that switching costs “give each consumer a strong incentive to continue buying from the firm from which he has previously purchased, even if other firms are selling functionally identical products” (p. 651). Pae and Hyun (2002) agreed but put it differently, and more negatively, suggesting that “switching costs create dependence and inertia” (p. 376). Similarly, a key finding of Sengupta et al. (1997) was that “the net result of switching costs is that they produce inertia for the customer to remain in the relationship with the current supplier” (p. 10).

Although a slightly different approach was taken by Wilson and Waddams Price (2005), their findings were similar. They considered three types of switching errors, one of which is “under-switching”, described as not switching although there are apparent benefits from doing so, which is the key focus of most switching cost-related research¹⁷. They suggested that under-switching may be the result of the existence of switching costs. Stewart (1998) found that “it is the experience of *a number of* [italics added] problems that leads customers to exit their bank relationships” (p. 8). This may be a sign of tolerance, or it may reflect the effect of switching costs that ‘force’ bank customers to accept a certain level of difficulties before eventually making the decision to leave.

The effect of membership fees, referred to as a sunk cost, was studied by Dick and Lord (1998), who found that there was an impact on consumer attitude and choice. They

¹⁷ The other two types of switching errors discussed by Wilson and Waddams Price (2005) were “over-switching”, which refers to switching although losses are incurred as a result, and “inaccuracy” where a switch is made that improves the consumer’s position, but the supplier switched to is not the one that offers the most improvement for the consumer.

found an effect immediately after paying the fee that continued until the membership fee had been psychologically amortized in the consumers' minds. Arkes and Blumer (1985) also explored the psychological effect of sunk costs, and found "a greater tendency to continue an endeavour once an investment in money, effort, or time has been made" (p. 124). These findings suggest that once consumers have made a commitment to a bank there would be a reluctance to switch until the financial and non-financial costs of making that commitment had been psychologically amortized.

In a similar vein, Gultinan (1989) noted that losses loom larger than gains so "the expected gain must be substantially larger than the expected loss before switching occurs" (p. 29). Lock-in is driven by consumers having a preference for minimizing immediate costs and underweighing the impact of future switching costs, which Zauberman (2003) attributed to consumers having a short-term focus, as well as their failure to anticipate the impact of future switching costs. He claimed that "the cost of switching seems smaller the farther away it is in time, potentially leading consumers to choose options that are attractive in the short-run because they do not fully anticipate how painful it will feel to shift later" (p. 406). This is due to what Zauberman described as "one of the most established research findings on intertemporal choice" (p. 406), which is that individuals assume they have high discount rates and behave accordingly.

Relationship length can be seen as a barrier to switching, reflecting a cost in terms of loss of information associated with the bank-customer relationship. However, in a study of Norwegian listed firms, Ongena and Smith (1997) found that "the likelihood of ending a bank relationship is not strongly related to its duration" (p. 25). They also found that having more than one banking relationship increased the likelihood of ending a bank relationship, as did the proportion of debt to a lesser extent. In New Zealand, in a study of small and medium-sized enterprises [SMEs], Deo (2004) found that few firms had split banking, preferring to deal with a single bank. Reasons given for this preference included avoiding the hassles of getting reorganised as well as the financial costs of shifting. Furthermore, the survey respondents indicated a wariness of losing their track record and established relationship with their existing bank.

Schlesinger and von der Schulenburg (1993) found, in an insurance market study, that an individual who had been able to find a lower-priced insurer may decide not to switch, despite the savings being in excess of the switching cost. This behaviour could

result if there was an expectation of finding an even better contract in the short term, because each switch would incur switching costs. In the mobile telecommunications market, Buehler, Dewenter, and Haucap (2005) suggested that switching costs can mean consumers have a choice between remaining with a non-preferred provider, or incurring a utility loss by switching and losing their number.

Bansal and Taylor (1999) found that a customer's attitude towards switching was an important determination of their intention to switch, and that switching costs also affected switching intentions. However, neither the attitude nor switching costs were found to have a significant direct effect on actual switching behaviour. While the relationship between switching costs and customer satisfaction and intention to switch has been widely investigated, little has been done comparing the effect of different types of switching costs. Jones et al. (2002) explored the relationship between different switching cost dimensions and repurchase intentions and found a significant and positive association of all switching cost dimensions with repurchase intentions, with the strongest association being in respect of lost performance costs.

There is widespread agreement that switching costs generate inertia in customers, making them less willing to change supplier than they would be in the absence of switching costs. However, further understanding of the differences between the types of switching costs is needed, and there is also a lack of research into how switching cost perceptions change over a customer's life cycle.

2.3.2 Retention and customer satisfaction

The previous section showed that switching costs are widely believed to cause customer inertia, and this suggests that switching costs can be an important aid for firms seeking to retain their existing customers. Banks are one market group that has been placing increasing emphasis on customer retention as a means of improving profitability, so switching costs may be an important tool for them. Bansal and Taylor (1999) noted that the term 'customer retention' is related to 'service provider switching' and 'customer loyalty', arguing that the differentiation is that 'switching' is a negative outcome while the other two terms refer to positive outcomes.

As noted earlier, individuals may continue relationships "because they genuinely want to or because they believe they have no other option" (Bendapudi & Berry, 1997, p. 17).

Stanley and Markman (1992) described these as dedication-based relationship maintenance and constraint-based relationship maintenance respectively (cited in Bendapudi & Berry, 1997). Switching costs can be expected to have a role in constraint-based relationship maintenance, being one of the constraints that keeps the customer in the relationship. In that respect, switching costs were identified by Bitner (1990) as one of the variables affecting service loyalty. Allen and Meyer (1990) took a similar approach in defining customer commitment, using 'affective commitment' to describe commitment based on liking and identification and 'continuance commitment' when it is based on dependence on switching costs (cited in Fullerton, 2003). Fullerton found that "there was an interactive effect of affective and continuance commitment on customer switching intentions" (p. 341) with the impact of affective commitment dependent on the level of continuance commitment also present. Taking a similar approach, Ennew and Binks (1996) suggested customer loyalty can be seen as an attitudinal construct, while customer retention is a behavioural construct. They then suggested "partial loyalty" is where the loyalty is due to situational factors, such as switching costs, rather than reflecting the consumer's relative attitude.

One way that customer retention can be achieved is to "erect switching barriers such that the costs (financial, time and psychological) of changing to an alternative provider act as disincentives or obstacles to defection" (Maute & Forrester (1993) in Patterson & Smith, 2003, p. 107). In support of this argument, Patterson and Smith found that "switching barriers alone are a powerful predictor of customer retention" (p. 114). According to Kerin (2006), a firm achieves nirvana if it "can help its customers create their own switching costs" (p. 24). However, where customers remain in a relationship due to a barrier created by switching costs, Sharma and Patterson (2000) suggested "these clients might be viewed as "hostages" rather than committed loyals" (p. 484).

In their study of the US telecommunications and insurance industries, Burnham et al. (2003) found that switching costs have a strong effect on customer retention, but found no evidence for any interaction between switching costs and satisfaction. Anderson (1994) explored variation in satisfaction and retention across industries and found that measures of quality, expectations, satisfaction, and sensitivity of repurchase likelihood to customer satisfaction were lower when switching costs were higher. Similarly,

Julander and Söderlund (2003) found that customer retention was higher with negative switching barriers such as switching costs.

According to Lee, Lee, and Feick (2001) switching costs play an important role and provide useful insight in explaining the link between customer satisfaction and loyalty. In a study of the SME sector in Australia, Stanger (2004) found a statistically significant negative relationship between businesses that have thought about changing their main financial institutional relationship and their level of satisfaction. In another study, prospective switchers were found to “exhibit extreme levels of dissatisfaction compared to those who have not seriously considered moving” (Colgate & Lang, 2001, p. 337). Satisfaction was found to have a stronger impact on relationship commitment if the switching cost is low, in a study using financial planning services clients, while trust had a stronger impact where switching costs are high (Sharma & Patterson, 2000). The same study found that switching costs act both as an antecedent and a moderator of relationship commitment.

In an earlier study, switching costs were found to be a “quasi moderator for the relationship between perceived service quality and price indifference loyalty” by de Ruyter and Wetzels (1998, p. 446). They also found that in a service sector with high switching costs only a few customers who have a dissatisfactory experience will switch to another supplier, providing evidence of the customer inertia generated, and the customer retention achieved. Fornell (1992) indicated that the effect of switching costs should mean that customer satisfaction is lower in industries where switching costs are high for repeat buyers, and he suggested that “loyalty is caused by a combination of satisfaction and switching barriers” (p. 12). In a study involving retail banking in Thailand, psychological switching costs acting as a moderator variable were found to have a “major impact on the nature of the relationship between key antecedents (technical and functional quality¹⁸) and the dependent variable, customer satisfaction” (Patterson, Mandahachitara "A", & Smith, 2001, p. 14).

It was suggested by Sharma and Patterson (2000) that high switching costs distort the “natural” impact of satisfaction on relationship commitment by creating a barrier to exiting relationships. Zauberma’s (2003) study came to the opposite conclusion, and

¹⁸ Technical quality relates to the delivery of the core service the customer is buying, while functional quality relates to the customer’s perception of the delivery process, according to Patterson et al (2001).

found that while lock-in reduced the quality of the option selected by the participant, they also expressed greater satisfaction with the provider they chose and the entire shopping experience. Hellier, Geursen, Carr, and Rickard (2003) explored the influences on customers' intentions to repurchase a service, finding very strong support for expected switching costs to have a direct positive effect on brand preference and strong support for customer satisfaction having a direct positive effect on customer expected switching cost. They explained that the effect of customer satisfaction on switching cost can be explained by the customer incurring a larger opportunity cost in foregone satisfaction with a higher level of satisfaction. In related research, Lees (2004) found that the reason for switching affected the likelihood of the customer switching back in the future.

So while it is not unanimous, the general finding is that the existence of switching costs can be used to retain customers, but leads to a reduction in customer satisfaction. This can be attributed to the fact that customers remain in a relationship with their supplier because they feel trapped in it, rather than because they want to be there.

2.4 Switching Costs in the Banking Market

Banking is one sector in which switching costs are believed to play a particularly substantial role; others include insurance and telecommunications. As a result, there is a body of literature that explores switching costs specifically in banking markets.

It has been argued that switching costs are greater for services than goods (Gremler & Brown, 1996, in de Ruyter & Wetzels, 1998), and this suggests they have more importance in a service-based market such as banking. In a recent paper Klemperer (2005) used as an example of switching costs the "high transaction costs in closing an account with a bank and opening another with a competitor" (p. 9). Technology is now an integral part of banking, particularly in the retail banking sector. Evans and Wurster (1997) suggested this means that it will become easier for customers to switch suppliers, reducing the competitive value of one-stop shopping and established relationships. They claim that the reduction in switching costs mean banks "will have to develop new ways of generating customer loyalty" (p.82).

The Cruickshank Report provided support for the existence and influence of switching costs in banking, specifically in the UK, and commented that “barriers to switching accounts are perceived to be high” (Cruickshank, 2000, p. ix). The report found it was unusual for consumers to switch between lenders unless they were moving property. In the SME market, the report found that switching tended to result from the departure of the customer’s existing lending manager or having a credit application refused. The existence of switching costs was supported by a subsequent study into the UK market for personal current accounts for the period 1996-2001 that concluded that the dynamics of that market were “consistent with the presence of switching costs” (Gondat-Larralde & Nier, 2004, p. 158).

Supporting the existence and influence of switching costs in banking, in a study using data from the Norwegian banking market, Kim et al. (2001) found that “switching costs in the market for bank loans are quite substantial and constitute a significant portion of the value of a marginal customer to the average firm” (p. 30). They found that 16% of the value of an additional customer can be “attributed to the lock-in phenomenon generated by switching costs”, while on average “locked in customers contribute 23% to banks’ value” (p. 29).

Hubbard, Kuttner, and Palia (1999) examined borrowers’ costs of funds in the US, using data for business firms, and they found evidence of “the existence of switching costs in financing for certain groups of borrowers” (p. 13). These groups were the firms that they described as information-intensive, for example unrated and small firms, for whom the relationship with the bank is important for their ability to borrow funds. Cruickshank (2000) found that “rates for new borrowers tracked LIBOR [London Inter-Bank Offered Rate] more closely than those to existing borrowers, indicating some price discrimination between ‘front book’ and ‘back book’, and the presence of switching costs” (p. 118). Phillips (1993) suggested that where a line of credit is provided “the cost of switching to a new bank can involve substantial transaction costs associated with developing new agreements and lender relationships” (p. 309).

In a study of bank retail deposit rates in the US, Sharpe (1997) found that the proxy he used for customers facing low switching costs had a significant negative effect on 6 month CD rates in states where branching was restricted. He concluded that customer loyalty associated with switching costs behaves as a substitute source of market power.

Zephirin (1994) found that depositors can develop switching costs in banking markets where savings behaviour is conditioned by uncertainty and poor information, which encourages collusive pricing by banks.

In another study, Vesala (2007) explored the way in which switching costs affect the profits that a bank earns from its loans, specifically in the case of relationship lending. He found a V-shaped relationship with higher profits where switching costs are high or low, and lowest profits where switching costs are at some median point. The explanation for higher profits with lower switching costs relates to adverse selection, while for higher switching costs the higher profits are attributed to an ability to charge higher prices to customers “locked-in” by the higher switching costs.

One part of the banking market that has attracted particular attention in the discussion of switching costs is the credit card market, which Stango (2000) suggested is due to it appearing to be non-competitive despite having a market structure that would seem to be a good fit of the competitive paradigm. He reported that as credit card solicitations in the US grew “firms began to offer increasingly varied and substantial inducements for consumers to switch cards” (p. 500), including beginning “to offer “switching checks” to make transferring balance from another card easier” (p. 501). One such inducement that has been popular has seen many credit card issuers encouraging cardholders to switch provider by promoting a special low rate, or honeymoon rate, on balances transferred from a card issued by a different issuer, usually for a specified period of time such as six months.

Stango (2002) argued that in the credit card market the fees on both the current card and potential replacement cards affect switching costs and he found that in the credit card market, “switching cost variables can explain economically significant within-firm variations in pricing” (p. 485). He also found a relationship between switching costs and default rates, and suggested that a consequence is that “extending credit to risky consumers ... may be profitable because these customers have high switching costs” (p. 489). As an example of how switching costs can be used to improve profitability, Stango (2000) noted that credit cards that offer inducements for repeat purchases, i.e. loyalty schemes, “can use the opportunity cost of switching cards incurred by the repeat purchase plan to extract higher annual fees” (p. 501).

Calem and Mester (1995) argued that one of the reasons that switching costs arise in the credit card market is due to adverse selection issues, and that this explained the high interest rates in this market. Calem, Gordy, and Mester (2006) revisited this issue, and found that “switching costs and adverse selection may continue to afford market power to lenders with well-established relationships” (p.1685). They noted this was despite technological advances having lowered search costs and improved credit assessment.

Banking is an information-based market, with some describing banks as information processors. As Strahan and Weston (1998) noted, “relationships enable banks to collect private information on the creditworthiness of small firms”, which is important as there is likely to be little public information available on such firms (p. 824). Kim, Kliger, and Vale (2003) noted that banking is one “sector in the economy in which switching costs seem to be prevalent due to information asymmetry” (p. 27). This view was supported by Cruickshank (2000) who argued that the information imbalance between market participants is a characteristic of the banking sector. Sharpe (1990) also supported this view and suggested that high quality firms can become informationally captured and therefore reluctant to switch.

Further support comes from von Thadden (2001), who claimed there is a rational anticipation by both borrowers and lenders that the borrower will be ‘informationally captured’ for the future once a loan has been made. This leads to a discount being offered by the lender on the initial finance, in the expectation of a mark-up on future provision of finance. Howorth et al. (2003) found evidence that firms “which were considering switching appeared to face higher switching costs due to difficulties in conveying accurate information about their activities” (p. 315). They also suggested these firms can therefore be described as “informationally captured”. In the same way, Ongena and Smith (1997) suggested that an established relationship with a bank “increases the possibility that the bank can use the private information it obtains to “lock in” the customer to the bank” (p. 2).

In Section 2.2 it was noted that research has found evidence that switching costs have an impact on the operation of markets. Berger and Hannan (1998) suggested that whether increased concentration and market power reduce cost effectiveness is of particular relevance in banking. In support of the earlier discussion that switching costs can lead to monopolistic profits, Moutinho and Smith (2000) suggested that a reduction

in customer switching costs is one factor that has led to an intensified level of competition and increased pressure on profit margins for UK financial service providers. Similarly, Ahmad (2005) argued that being able to attract and retain profitable customers “is likely to be the linchpin of the success of retail banking in the UK in the new millennium” (p. 320). In line with arguments advanced by others, as discussed previously, he suggested that strong bonds, which can also be seen as switching costs, can act as barriers to customer switching. Stewart (1998) suggested that the maturing of the retail banking market means “the prospects for growth will rest on attracting customers away from competitors” (p.12). The existence of switching costs therefore has the potential to be significant, because they will make it more difficult to persuade customers to actually move their business from competitors.

Overall, these studies support the view that switching costs play a substantial role in banking. One of the elements of banking that has a substantial influence in creating switching costs is the informational aspect of the relationship.

2.5 Life Cycle Influences

A number of studies have found that consumers’ demographic characteristics influence their attitudes and behaviours. For example, Lambert-Pandraud, Laurent, and Lapersonne (2005) noted that, in terms of repeat purchase behaviour at least, older consumers behave differently to younger consumers. In an earlier study, Deshpandé and Krishnan (1982) found that older consumers appear to have difficulty getting information that would allow them to make the best purchase decisions. The conclusion they reached from their study of new car purchases was that the choice set shrank among older buyers. They also observed “a higher rate of repeat buying among older consumers” (p. 105).

Mittal and Kamakura (2001) investigated the moderating effect of customer characteristics on satisfaction, repurchase intention and repurchase behaviour, and they found that “customers with different characteristics have systematically different thresholds and response biases” (p. 132), with those characteristics including age, gender and education. In another study, Uncles and Lee (2006) found a substantial variation across age groups in the bank credit card category. Goode and Moutinho (1996) explored the effect of age on satisfaction in the financial services market,

looking specifically at ATM use, and they found there were differences in some variables that were able to be attributed to age. Another study explored the moderating influence of a range of demographic factors, as well as situation characteristics, on the relationship between changes in customer satisfaction and changes in share of wallet in the Canadian banking market. It found that income and length of relationship were important predictors, but age and education were not (Cooil, Keiningham, Aksoy, & Hsu, 2007).

Studies in the New Zealand banking market have also found differences based on customers' demographic characteristics. A large study of one New Zealand bank's customers was reported in Garland (2004, 2005). In the earlier article, he reported that age group and household income had a significant relationship with the customer contribution to the bank. The later article used an eight-cell loyalty-profitability matrix and found differences based on age, education and income. Specifically, the switch-prone segments were younger, and the more loyal segments had lower education qualifications. However, the influence of household income was less clear-cut. In a more recent study, Lees, Garland and Wright (2007) explored bank switching specifically and found "the profile of New Zealand bank switchers is one of an inverse relationship with age and a direct relationship with household income" (p. 151).

Lee, Lee, and Mason (2006) suggested "the shape of the economic life cycle is of fundamental interest in its own right" (p. 2). They argued that consumption varies with the age of the head of the household. As consumption varies it is likely that associated financial needs for the household would vary, particularly as banks have a role in smoothing the consumption path for their customers. McColl-Kennedy, Kiel, Lusch, and Lusch (1994) noted that the family life cycle is one of the demographic variables that describe a population's general character. The family life cycle concept has been popular with researchers for a long time "because it captures life style, income and expenditure pattern differences brought about by family role transitions" (Schaninger & Danko, 1993, p. 580). One of the earliest studies using the family life cycle was that of Lansing and Morgan (1955), who sought to explain changes in consumers' finances. They described the life cycle as "an idealized construct representing the important stages in the life of an ordinary family" (p. 36), therefore recognising that it is an imperfect model.

There is some argument that the life cycle concept is outdated and, for example, Baxter (2002) argued that consumers are defined by more than their age or birth cohort. However, Dumont (2001) pointed out that “life cycle marketing cannot be imagined as a ladder with rungs marked ‘starting out’, ‘buying first home’, and ‘planning for retirement’” (p. 13). This suggests that the life cycle concept still has value, but that its categories need to be broader than previously. It also needs to allow for multiple pathways through the categories.

Some studies have specifically explored the relationship between the family life cycle and financial attitudes and behaviours. Lansing and Morgan (1955) found support for their proposition that there is a relationship between a person’s financial position and their stage in the family life cycle. The Life Cycle Hypothesis of saving is a recognised model of savings behaviour related to the individual’s life cycle. In his review of this hypothesis, Modigliani (1986) noted that “it could focus on those systematic variations in income and in “needs” which occur over the life cycle, as a result of maturing and retiring, and of changes in family size” (p. 300). More recently, Pezzulla (1992) showed how customers’ bank purchases were influenced by their place in the life cycle (in Dumont, 2001), while Bielski (2001) suggested banking relationships are working if the organisation is aligned around life cycle marketing. Bodie, Treussard, and Willen (2007) showed how the life cycle theory can be used to guide financial decision-making.

Cobb-Clark and Hildebrand (2006) studied the portfolio choices made by Hispanic couples in the US. Using data from the US Bureau of the census, they found that as a group Hispanics “are younger, less likely to be married, and have larger numbers of children” (p. 3) and they suggested the portfolio choices made are influenced by these factors. They also suggested these differences in demographic characteristics are “directly related to the stage of the life-cycle” (p. 3-4). The differences they found between Hispanics and whites were lessened when they controlled for demographic characteristics.

Javalgi and Dion (1999) went so far as to suggest the changing structure of the family is one of the factors that has changed the structure of the financial services market. They argued that “changes in family life cycle stages give rise to differences in financial services needs” (p. 75). From their research, Javalgi and Dion believed “it is reasonable

to assert that the relative importance of choice criteria underlying the financial institution choice decision is significantly related to the stage of the family life cycle under consideration” (p. 83). They also found differences in relation to financial services, financial asset holdings and financial attitudes. Data from the Australian Bureau of Statistics (ABS) supports the possible existence of a link between life cycle stage and changing financial needs. The ABS found couples with children are more likely to own a home, and that home ownership increases with age (Rogers, 2006a). Not all home owners will have a housing loan/mortgage, but some will and it is reasonable to suggest that there may be a similar relationship for this type of lending as that for home ownership.

Gabrielsen and Vagstad (2003) found that “consumer heterogeneity may increase the critical switching cost” (p. 386), so the level of switching costs that would allow monopoly pricing is higher where customers are heterogeneous. Furthermore, in a study relating to switching costs, Chen and Hitt (2002) noted that “switching costs arise from a variety of factors, including ... the characteristics of customers” (p. 256). Their study found substantial differences in switching costs across the brokers in their study and they noted the “variation is not *solely* [italics added] due to variations in customer characteristics” (p. 269), which therefore suggests that some variation *is* due to customer characteristics, although the impact may be relatively limited.

Matthews and MacRae (2006) reported on an exploratory study of the relationship that might exist between basic demographic characteristics and attitudes towards switching costs, as well as actual switching behaviour. They found there were significant differences in both behaviour and attitudes that could be attributed to demographic characteristics. However, no studies exploring the relationship between the family life cycle and switching costs have been found.

On balance, it is reasonable to suggest that the family life cycle may have an influence on switching costs and consumers’ attitudes towards them. However, this is an area where empirical studies are lacking, providing some of the motivation for this study.

2.6 Regulatory Issues and Switching Costs

While there is a perception that difficulties are likely to be encountered in switching banks, customers can take some reassurance from the fact that the Banking Ombudsman “has never received any complaints from customers who have switched banks” according to Clement (2006, p. 21). She also noted that the Consumers’ Institute had heard of few problems arising in the switching process. Nevertheless, Carlton and Waldman (2002) suggested “interesting and difficult public policy issues” (p. 195) can arise as a result of tying, a form of switching cost where one product can only be purchased with another product. Regulation is often seen as an appropriate means of dealing with switching costs, as the mixed attitude of firms to switching costs means there is limited incentive for the market to find a solution. For example, Krafft and Salies (2008) found evidence of switching costs in the French broadband market and concluded that these had implications for regulation policy.

Berger and Hannan (1998) suggested that if concentration substantially reduces efficiency, the effects might be considered as part of the merger approval process. Kiser (2002) noted that “merger policy in retail banking often relies on arguments stating the degree of potential competition in the market” (p. 349), which she explained as being the likely entry of a firm if prices rose or quality reduced. She noted that the ability to attract new customers is vital for the success of a new entrant firm, and that it follows that “customer switching is extremely important for the viability of new entrants” (p. 349). In a discussion of government policy issues, Shapiro and Varian (1999) noted that the lock-in that “results from ... switching confers a huge competitive advantage on firms that know how to take advantage of it”, which they suggested leads to concerns about the nature of competition (p. 299). Krafft and Salies (2008) noted that recent work on switching costs has presented regulatory and competition policy as being complementary rather than substitutes.

It has been argued by Carlsson and Löfgren (2006) that switching costs may be lowered with appropriate regulations, if firm behaviour has a substantial effect on switching costs. However, they also noted that there is a need to better understand the factors that do affect switching costs. Haucap (2003) noted that switching costs exist in a wide range of markets, and that “there is generally lively competition in these markets” (p. 7) and he therefore suggested it is unclear why the existence of switching costs should

necessarily justify regulatory intervention. He suggested that looking at market regulation from an economic perspective means that it should only be used in pursuit of an efficiency objective, and goes on to argue that to “achieve long-run market efficiency the regulatory framework should on the one hand be designed to protect consumers from firms’ potential market power (or its abuse by the operators) but on the other hand it should also protect firms from expropriation through the Government” (p. 9). Nevertheless, it has been acknowledged that there is generally no incentive for the incumbent supplier to assist a customer to leave (for example, Corfield, 2007). In that case a regulatory response may be needed.

Search costs represent one of the switching costs that consumers can face in seeking to change supplier, and from a regulatory perspective there would appear to be some value in legislative disclosure requirements to make information easier to find, and reduce search costs. However, Shapiro and Varian (1999) believed that the cost of finding, evaluating and learning to use a new brand will change markedly, with the world wide web and other IT advances lowering these search costs. A study of the US credit card market by Berlin and Mester (2004) also counselled against regulatory intervention as it found that “available economic models of consumer search provide little evidence that legislative remedies like standardized disclosure rules will increase competitive forces” (p. 195).

Wilson and Waddams Price (2005) suggested that consumers can actually be harmed by an increase in choice. While the internet can help reduce switching costs in terms of search, it can create switching costs by enabling the business associated with the site to collect information about the user to be used in future transactions. For example, on Amazon.com users’ purchasing behaviour is remembered in order to make other purchase suggestions, while Google offers personalised searches, where a user’s search history and their profile information influences their search results. An opposing view is taken by the Cruickshank Report which suggests search costs remain significant (Cruickshank, 2000). Furthermore, the report agrees that “the internet potentially makes price discrimination easier, so making it easier to exploit inert customers” (p. 6). While this may appear counter-intuitive, it can be explained by the fact that the internet allows unprecedented loss of privacy leading to an ability by a firm to better assess a

customer's willingness to pay, and therefore opportunities for price discrimination (Odlyzko, 2004).

Wilde and Schwartz (1979) explored the effect of reducing search costs on competitive equilibria, in order to contribute to the then current debate regarding state intervention in consumer markets. They found that "the state should reduce the costs of consumers of *comparing* purchase alternatives" because "the likelihood of competitive equilibria obtaining varies directly with the number of consumers who visit more than one firm and with the number of firms such "comparison shoppers" visit" (p. 551). Many general propositions about competitive models are invalidated by search costs according to Pratt et al. (1979). In particular, they observed large differences in price for which one possible explanation is positive search costs, which they suggested has an implication for attitudes towards issues such as government regulation. Among the recommendations in the Cruickshank Report was that the Financial Services Authority [FSA] should publish comparative tables to enable customers to more easily compare the products and services offered by different banks. It also included a recommendation that service standards be introduced for switching current account supplier for both personal and SME customers.

According to Bakos (1997) customers who have access to electronic marketplaces, and who therefore face lower search costs, become more demanding and are less willing to make compromises with respect to their ideal product. He suggested such buyers are better off by enjoying lower prices and allocational efficiencies, and by having lower total search costs. However, he also found that sellers have no incentive as a group to introduce an electronic marketplace, while buyers face possible free-rider problems that would inhibit their investment in electronic marketplaces. It is possible to argue that an independent third party, such as a regulator, is the most appropriate choice to establish such a marketplace.

The telecommunications market is another market where switching costs are perceived to be an important issue, and it can be used as an example of possible regulatory changes. In the mobile telecommunications market, it is expected that Mobile Number Portability [MNP] will reduce switching costs for the consumer, making entry easier for new entrants and strengthening competition between existing operators (Haucap, 2003; Shi, Chiang, & Rhee, 2006). However, MNP offers few if any benefits for the

operators and incurs substantial costs both in terms of infrastructure and porting of numbers. As a result operators have sought to delay the implementation of MNP and have chosen the least expensive technologies that are also less efficient and used long-term contracts to lock-in customers, thereby reducing the effectiveness of MNP (Garcia-Murillo, 2007). MNP was implemented in the EU in 2003 and “means that customers are given the right to keep their mobile telephone number when switching between several providers” (Buehler et al., 2005, p. 1). Xavier and Ypsilanti (2008) reported that the take-up of MNP in the UK was below expectations, but noted that a recent report had identified barriers to use of MNP that regulators and operators need to fix. Nevertheless, Xavier and Ypsilanti suggested consumers were benefiting from the existence of MNP due to incentives offered by operators to retain customers and discourage switching.

The issue of efficiency with MNP, however, was less clear. After reviewing competition in mobile telecommunications markets and the justification for regulatory intervention in these markets, Haucap (2003) warned that “regulatory intervention can often cause more damage than solve problems” (p. 18). Shi et al. (2006) used empirical evidence from Hong Kong to explore the effect of introducing MNP. Contrary to regulators’ expectations, they found that the larger providers gained market share and the smaller providers lost market share, which they explained with reference to network effects. Where MNP is introduced and only has the effect of eliminating switching costs, Buehler and Haucap (2004) suggested that “the conventional wisdom holds that introducing MNP unambiguously benefits mobile customers” (p. 225). However, where MNP does more than just eliminate switching costs they describe its effect as ambiguous. Buehler et al. (2005) identified five different types of benefits from introducing MNP, which affect different subgroups of the market, including those who would switch without MNP. Their study found that there were differences in the extent and nature of the use of MNP across the EU, which was attributed in part to differences in speed of porting and in the associated charges. The Cruickshank Report did give consideration to the appropriateness of introducing some form of account portability in the UK banking market but noted that “such an approach would be very interventionist” (Cruickshank, 2000, p. 135), and felt that it should be used only if other options were not successful.

Carlsson and Löfgren (2004) suggested that if switching costs are affected by firm behaviour to a large extent they could be reduced by appropriate regulations. Their study of the Swedish domestic air travel market provides some support for the regulation in that market that reduced switching costs. While regulation may help resolve a problem in a market it can also contribute to the difficulties. For example, it has been suggested that competitive forces in the UK SME banking market actually reduced as a result of the government's requirement that the big banks provide free services or current account interest to their SME customers (Staff, 2005).

One solution to overcome the perceived difficulties for consumers in the New Zealand banking market, proposed by Clement (2006), is for the banks to offer money back guarantees as UK banks do. The example used was that of the HSBC in the UK who provide an undertaking that customers will receive their debit card and cheque books within a guaranteed five working days and the associated PIN within seven working days, otherwise the customer will receive £10 per failure. However, this is unlikely to deal with the real concerns of customers that relate to their direct credits and automatic payments and so forth, and money cannot necessarily compensate for the inconvenience of such failures.

In response to the Cruickshank Report, steps were taken in the UK in order to make switching easier for customers. This included improvements made by banks "to the logistics of the switching process" and increasing "consumer awareness of the potential benefits of changing bank" (Gondat-Larralde & Nier, 2006, p. 5). Their study did support the initiatives, although they acknowledged it was too early yet "to assess the impact of these initiatives empirically" (Gondat-Larralde & Nier, p. 48).

As discussed earlier, switching costs impact on the way markets operate, including banking markets, promoting monopolistic profits and reduced competition. This means that there are potential implications for regulators, particularly in respect of competition. The issue of providing information to reduce search costs is one of the key areas where regulatory intervention is perceived to have some role. This research also considers the implications of switching costs for the banking regulators in New Zealand.

2.7 Summary

Switching costs have been widely studied, with a wide range of definitions and categories used; however, the underlying concept is that switching costs comprise a variety of financial and non-financial costs incurred as a result of changing supplier. At a market level, research on switching costs has found that they allow monopolistic profits to be earned due to the customers being locked-in to their incumbent supplier. The evidence favours the view that switching costs reduce competition in the market, but there are also arguments to the contrary that cannot be fully discounted. Concerns about the market effects mean there are implications for regulators in terms of possible intervention, particularly to deal with the level of competition if that is found to be inadequate.

There is widespread agreement that, at the customer level, the impact of switching costs is the generation of inertia in customers so that they are less willing to change supplier than they otherwise would be. Related to this is the general finding that customer satisfaction is reduced in the presence of switching costs, which is attributed to customers being trapped in the relationship rather than wanting to be in that relationship.

Within banking markets, the existence and impact of switching costs is acknowledged, with low levels of switching believed to provide the supporting evidence. The informational aspect of a banking relationship influences the existence and extent of switching costs. Another possible influence on consumers' attitudes towards switching costs in banking, and switching behaviour as a result, is their stage in the family life cycle, but empirical studies on this are lacking. Further research is needed to enhance understanding of the effect of different switching cost categories in banking and how customers' perceptions of switching costs change over the family life cycle, which is the subject of this study.

CHAPTER 3: RESEARCH METHODOLOGY

AND DATA

3.1 Research Questions

This study explored the issue of switching costs in the NZ banking market. Two key objectives were established, based on the existing literature, and two additional outcomes were identified, as discussed in Chapter 1. In this section these objectives are developed into more specific hypotheses for testing¹⁹. Where the direction of the relationship is able to be assessed, an hypothesis of correlation is used; if the direction of the relationship is not relevant, an hypothesis of variance is used.

3.1.1 Objective 1: To examine the differences in effect of different types of switching costs.

Previous studies have identified several different switching cost categories, but limited work has been done to understand how the different types of switching costs affect switching expectations and switching behaviour – the choice of the specific switching cost categories used in this study is discussed in section 3.4.3.1. Three propositions were developed for this first objective, along with consequent hypotheses for each.

3.1.1.1 Proposition 1: Attitudes towards switching costs affect the relationship between the desire to change banks and the likelihood of actually switching.

It could be argued that the most obvious issue is simply the effect of different switching costs on people's desire to change banks and the likelihood of them actually making that change. Previous studies have found switching costs have the effect of locking in customers, so switching costs should have no effect on customer desire to switch while reducing the likelihood of the switch being made. More specifically, switching costs are expected to impact on the relationship between the desire to switch and the likelihood of doing so, such that customers are less likely to switch despite wanting to do so when switching costs are higher. This should apply for switching costs overall, but may also apply for one or more individual categories of switching cost. This leads to the first of the hypotheses to be tested.

¹⁹ The associated analysis is discussed in section 3.6.2.

H1A: That the likelihood of switching is less positively correlated with the desire to switch when switching costs are perceived to be high.

H1B: That the likelihood of switching is less positively correlated with the desire to switch when each category of switching cost is perceived to be high.²⁰

3.1.1.2 Proposition 2: Customers' desire to have the bank handle the switch is affected by their perception of switching costs.

Anecdotally one of the most important switching costs acknowledged by customers is the hassle of actually making the switch, while concern is expressed about the possibility of some problem arising during the switch. As reported in Section 3.3.2, each of the three focus groups referred to the hassle involved in switching, with the time and effort required being the most important issue. One solution that has found favour with banks, seeking to overcome customers' apparent reluctance to change banks, has been to offer to handle the actual switch for the customer. However, as reported by Matthews and Murray (2007) this may not be the panacea it seems, as customers may not actually want the banks to undertake the change for them. Two of the switching cost categories can be expected to have a direct impact on customers' desire to have the bank look after the switch on their behalf. These are the customer's concerns about the switch, primarily about things going wrong, and the customer's belief that switching is a hassle. The related hypotheses are:

H2A: That a preference for having the bank handle the switching process is positively correlated with concerns about possible disruptions to service.

H2B: That a preference for having the bank handle the switching process is positively correlated with a perception that switching is a hassle.

3.1.1.3 Proposition 3: Customers who have switched, particularly those who have switched more recently, have a different perception of switching costs than those who have not switched.

Switching costs represent perceptions and may not reflect (recent) experience, given the relatively low churn rate in the banking market. This gives rise to the possibility that customers who have switched may have different views on switching costs because their views will reflect their actual experience, not just a perception. It is unclear *ex ante* whether the experience would be better or worse than the perception. However,

²⁰ Hypothesis H1B is, strictly speaking, a set of hypotheses, as are some of the subsequent hypotheses developed. Rather than having a separate hypothesis for each category of switching cost this approach, of treating the set of hypotheses as one, has been taken for simplicity.

Trout (2006) reported nearly 90% of switchers found it easier than expected, and the hypotheses for this study are therefore based on the assumption that the experience is better than the expectation.

H3A: That perceived switching costs are lower for people who have switched.

H3B: That perceived switching costs are negatively correlated with how recently people have switched.

H3C: That perceived switching costs are positively correlated with the length of a customer's relationship with the bank.

H3D: That the ease of switching, as reported by those who have switched, is greater than it is expected to be by those who have not switched in the last five years.

H3E: That the desire to switch is positively correlated with the expected ease of switching.

H3F: That the likelihood of switching is positively correlated with the expected ease of switching.

3.1.2 Objective 2: To examine how the relative importance of different switching cost types, and switching costs as a whole, changes over a customer's life cycle.

Customers are all different, which means their perceptions of switching costs differ. This part of the study seeks to understand how differences between customers relate to differences in their perception of switching costs, with the family life cycle being the primary basis for explaining the differences. Four propositions were developed, along with associated hypotheses for testing, for this objective.

3.1.2.1 Proposition 4: Life cycle stage affects perceived switching costs and the differences are not due to confounding effects of the nature of the banking relationships.

As seen in the previous chapter, differences have been found in attitudes towards financial issues based on the family life cycle. Related to this are changes to customers' financial needs over their lifetime, from young people with a need for a basic transaction account and/or savings account, through more complicated needs for automatic payments to pay rent and insurance as they leave home, to home loans and then interest bearing deposits for retirement income. This suggests attitudes towards switching banks could change, as transferring a single account is much simpler than transferring multiple accounts with associated automatic payments, cards and internet

banking, for example, while at the same time the relationship with the financial institution becomes more established and simply longer, possibly creating ties that bind the customer to the financial institution, as discussed previously. This leads to the first two hypotheses for this proposition.

H4A: That perceptions of overall switching costs vary between family life cycle groups.

H4B: That perceptions of each category of switching cost vary between family life cycle groups.

However, any differences found between the family life cycle groups may relate to changes in the nature of the banking relationship, particularly its size, spread and complexity. This means it is important to explore whether any differences in switching cost perceptions found between the life cycle groups are actually due to aspects of the banking relationship rather than the life cycle group. This leads to the following hypotheses:

H4C: That the size, spread and/or complexity of banking arrangements do not vary between family life cycle groups.

H4D: That perceptions of overall switching costs do not vary according to the size, spread and/or complexity of banking arrangements.

H4E: That perceptions of each switching cost category do not vary according to the size, spread and/or complexity of banking arrangements.

3.1.2.2 Proposition 5: There is a relationship between life cycle stage and switching behaviour.

Continuing with an assumption that perceptions of switching costs vary between customers based on life cycle groups it is a natural progression that this could flow into differences in switching behaviour. This could be reflected in either past or future switching behaviour, which provides the next two hypotheses.

H5A: That past switching behaviour varies between family life cycle groups.

H5B: That the likelihood of future switching varies between family life cycle groups.

3.1.2.3 *Proposition 6: Demographic characteristics, other than family life cycle stage, influence and explain people's attitudes to switching costs and/or their switching behaviour.*

People have a range of demographic characteristics other than those captured in the family life cycle. It is important to explore whether they offer a similar, better or worse explanation of people's attitudes to switching and/or their switching behaviour than that of the life cycle groups. This generated several hypotheses related to different demographic characteristics.

The first demographic characteristic of interest is household income. Higher household income may be associated with a more substantial and/or more complex banking relationship, as well as a stronger relationship due to the customer receiving better service for being higher value to the bank. This suggests higher household income would be associated with higher perceived switching costs, leading to the following hypotheses:

H6A: That perceived switching costs are positively correlated with household income.

H6B: That the likelihood of future switching is negatively correlated with household income.

Another characteristic is the customer's ethnic identity, although it is not evident that this should affect the customer's perception of switching costs nor their switching behaviour. Nevertheless, it is appropriate to confirm this is correct, and this gives the following three hypotheses:

H6C: That perceived switching costs do not vary between ethnic groups.

H6D: That past switching behaviour does not vary between ethnic groups.

H6E: That the likelihood of future switching does not vary between ethnic groups.

The third demographic characteristic of interest is the customer's level of education. A higher level of education should be associated with lower perceived switching costs due to better understanding of the process and the consequences of change. In conjunction with that, a higher level of education should be associated with a greater likelihood of switching. Two switching cost categories in particular, search costs and learning costs, would be expected to be lower for higher levels of education as someone with a higher

level of education should find it easier to locate a new bank and to learn about its processes. From this, four hypotheses are generated.

H6F: That perceived switching costs are negatively correlated with level of education.

H6G: That the likelihood of future switching is positively correlated with level of education.

H6H: That perceived search costs are negatively correlated with level of education.

H6I: That perceived learning costs are negatively correlated with level of education.

The inconvenience of switching may vary according to where one lives, in particular because switching generally involves at least one visit to a branch, but also because it may impact on the bank-customer relationship. It would be expected to be more convenient for a city-dweller to switch compared to someone living in a more remote rural area. However, the nature of the relationship for location is uncertain leading to the following hypothesis:

H6J: That perceived switching inconvenience does not vary between rural and urban locations.

It is now relatively easy to get information about a bank's product range and other attributes through the internet, which would be expected to reduce search costs. However, the nature of the internet access, which may be at home, at work or in a library for example, may have some impact on the extent to which perceived search costs are lowered. This gives the following hypothesis:

H6K: That perceived search costs do not vary with the type of internet access.

The final characteristic of interest, which was identified during the bank interviews (discussed in section 3.3.1), is the form of interaction the customer has with their bank. Someone who deals with the branch may have a stronger relationship with the bank than someone who does everything via the phone or the internet. On the other hand finding out how to do things at a branch of a different bank may be simpler than learning a new phone and/or internet banking system. The type of interaction may also be associated with the customer's past or future switching behaviour. From this three hypotheses arise:

H6L: That perceived switching costs do not vary with the main form of interaction people have with their main bank.

H6M: That the likelihood of future switching does not vary with the main form of interaction people have with their main bank.

H6N: That past switching behaviour does not vary with the main form of interaction people have with their main bank.

3.1.2.4 Proposition 7: There is a relationship between switching and major life changes

Given the low churn rate in banking and the perception that customers are reluctant to change banks it is of interest to understand what actually triggers the decision to change when it happens. If switching cost perceptions and switching behaviour vary between life cycle groups (as has been assumed) it seems reasonable that major life changes, particularly those that cause a move from one life cycle group to another, may also trigger a switch in banks. So major life changes such as marriage, divorce, retirement, or moving house could be the trigger for a decision to switch banks. This gives the final hypothesis:

H7A: That the main reason reported for switching banks is major life changes.

3.1.3 Other outcomes: Classification of switching costs, and regulatory response

3.1.3.1 Expected outcome 1: An assessment of the appropriate classification of switching costs

This study also provided an opportunity to explore the classification of switching costs into categories, based on people's attitudes towards them. This could support existing classifications such as that used in this study or by previous researchers such as Burnham et al. (2003). Alternatively it may be that a different classification system is found to explain the types of switching costs that exist. The alternative categories found in any new classification system will be used to re-examine the relevant hypotheses to investigate whether the findings still hold.

3.1.3.2 Expected outcome 2: Recommendations for regulators with respect to the issue of switching costs in the banking market.

As discussed in Chapter 2, bank customers may become locked-in to their existing bank as a result of switching costs. This is demonstrated by the low rate of churn of bank customers, reported in Chapter 1. While the banks have some desire to assist customers

to switch to them, their enthusiasm for doing so is limited by their greater desire to prevent customers switching away from them.

Until recently regulators largely ignored the issue of switching costs in banking. However, a growing focus on competition has meant that the issue is now being given some consideration. For example, the Cruickshank Report examined the level of competition and identified switching costs as one of the issues in the personal banking market (Cruickshank, 2000). It went on to recommend a regulatory response.

In New Zealand, the level of competition was assessed by the Commerce Commission in its decision regarding the ANZ acquisition of The National Bank in 2003. The application by ANZ acknowledged the issue of switching costs but downplayed their importance. And in 2008 switching costs became an important issue for the Australian Federal government. Based on the study's findings, it is expected recommendations could be made as to how regulators in New Zealand, as well as in other countries, could respond to the issue of switching costs in the banking market.

3.2 Method and Ethical Considerations

3.2.1 Research method

Quantitative research is a “methodology that seeks to quantify the data and typically, applies some form of statistical analysis”, while qualitative research is “an unstructured, exploratory research methodology based on small samples that provides insights and understanding of the problem setting” (Malhotra, 2004, p. 137). Historically there has been a divide between qualitative and quantitative researchers on the relative merits of the two approaches. However, Tashakkori and Teddlie (2003) believe there has been growing recognition that the actual research process does not comply with what they describe as the qualitative-quantitative dichotomy, and they argue this should be reflected in the provision of greater opportunities for research students to utilise methods from both approaches in order to answer their research questions. Similarly, Watts (2000) argued that “good researchers mix their methods” (p. 16).

Mixed method research is an approach incorporating both qualitative and quantitative research, although it is unlikely to be in equal proportions. Morse (2005) suggested that mixed-method research is primarily quantitative or qualitative in design, but

incorporates some elements or strategies of the other approach within the same project. Tashakkori and Teddlie are leading proponents of the recently acknowledged mixed method research strategy. For example, Miller and Fredericks (2006) described mixed methods as “a new research paradigm” and noted “much of the recent work ... has been a development of Tashakkori and Teddlie’s original (1998) work” (p. 567). At the same time, Lockyer (2006) noted that literature arguing for mixing research approaches dates back to 1988.

According to Hurmerinta-Peltomäki and Nummela (2006) there are three reasons a mixed method research strategy may be used. The first is that it may be instrumental, in that the qualitative portion facilitates the quantitative portion, or vice versa. Secondly, mixed methods may be used to improve the research validity. Finally, there may be an expectation that a deeper understanding of the research subject can be achieved.

Table 3.1 provides a comparison between the qualitative and quantitative approaches to research based on Hair, Bush, & Ortinau (2006) and Malhotra (2004). The key factors influencing the choice of methodology are the purpose and the expected outcome.

Table 3.1: Comparison of quantitative and qualitative approaches to research

	Qualitative	Quantitative
Purpose	To obtain preliminary insights	To validate facts or relationships, and to generalize the results from the sample to the population
Questions	Semi-structured and/or open-ended	Mostly structured
Analysis	Interpretive and subjective	Statistical
Sample	Small, and likely to not be representative	Large, and designed to be representative
Outcome	Develop an initial understanding	Results can be generalized to estimate relationships and make inferences

This study has a mixed-method research approach, incorporating both qualitative and quantitative research. The primary research was quantitative in nature, but use was made of qualitative work to inform and enhance the quantitative portion of the project. The qualitative portion of this project involved interviews with individuals and focus groups, while the quantitative portion comprised a large survey of the general public, as discussed in sections 3.3 and 3.5 respectively.

3.2.2 Ethical issues

The research design for this study required the participation of people, through interviews, focus groups and a mail survey. This raised several ethical issues that needed to be considered during the research design phase, and while the research was being undertaken. Underpinning the decisions made in respect of the ethical issues was Massey University's Code of Ethical Conduct for Research, Teaching and Evaluation Involving Human Participants. The preamble to the code notes the intention "is to provide protection for all participants" in the research undertaken and the code "is an expression of the basic human rights of respect for persons, autonomy, privacy and justice" (Massey University Human Ethics Committee [MUHEC], 2005, p. 3).

The code has eight principles, which were observed in the design and implementation of the research. Important elements of the research process that contributed to meeting the ethical code included:

- providing information sheets to participants in the focus groups and the mail survey that described the study and the participants' rights (see Appendix 8);
- participation was voluntary;
- the data is stored appropriately, with restricted access;
- all information reported is anonymous and confidentiality has been maintained to the greatest extent possible; and
- the research did not target any specific group or involve any participants that could be described as being in a dependent relationship with the researcher.

In addition, all participants in the focus group and the mail survey were offered the opportunity to receive a summarised report of the results from the relevant part of the study.

3.3 Qualitative Work

The qualitative portion of this research was exploratory in nature, designed to better understand the issues associated with switching costs and to guide the design of the primary, quantitative stage of the research. Two forms of qualitative research were undertaken, as described in this section: interviews with industry representatives; and, focus group interviews with bank customers.

3.3.1 Industry interviews

Lack of growth of total customer numbers in the banking market in New Zealand, due to the low proportion of the population without a bank account (known as the unbanked), means growth for an individual financial institution depends on persuading customers to move from their existing bank. Switching costs are, therefore, a significant issue for the industry, making it more difficult to persuade customers to make the change; however, it must be noted that this also means it is easier to retain the bank's existing customers.

To understand the industry's perspectives on the issue, a series of interviews was undertaken with representatives of the eight principal bank brands operating in the New Zealand retail banking market at the time. The interviews were completed between 24th March 2005 and 16th September 2005, and took place at the banks' premises in Wellington, Auckland and New Plymouth as appropriate. The bank brands involved were ANZ, ASB Bank, BNZ, Kiwibank, The National Bank, Superbank, TSB Bank and Westpac. The role of the staff interviewed differed between organisations, and included the CEO (or equivalent), staff in strategic planning roles, and staff in product management roles. It was clear from the nature of the discussion that the interviewees at higher management levels had a broader understanding of the issue of switching costs.

Some interviewees requested anonymity, so for consistency it was agreed that all responses would be kept in confidence and reported without attribution. The interviews were all conducted by the researcher and were semi-structured in design. Five prepared questions were used to cover the key issues of interest, but the interviews were able to flow according to the responses received. The prepared questions were:

Are switching costs of concern and/or interest to the bank?

Do switching costs affect customer behaviour?

Are banks, generally, in New Zealand using switching costs to retain customers?

Which types of switching costs are the most important?

What effect do different types of switching costs have on different customers?

There was broad agreement amongst the interviewees that switching costs are an issue for banks in New Zealand, and particularly the difficulties in persuading customers to

change banks. There was also agreement that different customers are affected differently by switching costs, with life cycle stage and other demographic issues suggested to be important. A more detailed report of the key findings from the interviews can be found in Appendix 3.

3.3.2 Focus groups

A focus group involves a small group of respondents in “an interactive, spontaneous discussion” (Hair et al., 2006, p. 180), using a moderator to guide the group’s discussion. Frey and Fontana (1991) reported the use of group interviews can be traced back as far as 1926. The purpose of using a focus group is to “gain insights by listening to a group of people ... talk about issues of interest to their researcher” and their value comes from “the unexpected findings often obtained from a free-flowing group discussion” (Malhotra, 2004, p. 139). Frey and Fontana suggest a possible use of group interviews is during the exploratory phase of the research, and as noted earlier this is how the focus groups were used in this project. Malhotra (2004) suggests a focus group should use a trained moderator, while Hair et al. (2006) similarly recommend the use of a professional moderator. However, the researcher chose to personally moderate the focus groups, having a preference to be directly involved in the process, and reflecting the exploratory nature of their use.

Three separate focus groups were held, each comprising 4 or 5 individuals. Group 1 was targeted as a Young group, and comprised 3 people who knew each other and a 4th person who responded to a separate request for participants. Group 2 was targeted to include individuals with families and comprised parents associated with a Palmerston North primary school. This School group had a wider age range than the Young group. Group 3 comprised staff of Massey University who responded to a campus-wide request for participants. This was targeted as an older and better educated group.

Table 3.2 shows the key characteristics of each of the three groups involved. The groups were predominantly female, with just three males involved in total. The financial institutions at which participants banked comprised the main banks in New Zealand, as well as a mix of other financial institutions: ANZ, ASB, BNZ, a credit union, Kiwibank, National Bank, PSIS, TSB and Westpac, as well as NAB (Australia).

The main banks of the participants were identified as ANZ (3), ASB (1), BNZ (2), National Bank (4), Westpac (2), and the credit union.

Table 3.2: Key characteristics of the focus groups

	Group 1 (Young)	Group 2 (School)	Group 3 (Massey)
Number in group	4	4	5
Age range	23-28	21-37	33-55
Number of financial institutions per person	1 or 2	1-3	2-3
Total number of different financial institutions represented	5	6	6
Qualification level	Secondary – Undergraduate	All secondary	Trade – Post-Graduate

The moderator used five key questions²¹ to lead the discussion to cover the specific issues of interest and importance:

Would you like to switch banks? Desire rather than intention

What types of issues are likely to affect the decision to switch banks?

Which of these issues (switching costs) is the most important?

How could banks make it easier to switch?

What is the extent of split banking and the reason(s) for it?

Initially no guidance was given as to what types of issues could affect the decision to switch banks, but suggestions were made as necessary to stimulate discussion. Use of the specific term “switching cost/s” was avoided as it is essentially jargon that tends to be poorly understood by the public, and can restrict discussion to financial costs only. The focus group discussions were recorded to enable reference back to the actual discussion at a later date, and to limit the reliance on notes being taken during the discussion, but the recordings were not transcribed.

The possibility of switching was one most participants in all three groups had thought about. While most participants had actually switched, the Young group were generally more relaxed about it, and had done so more frequently. The Young group did note the

²¹ These questions were presented verbally to the participants, rather than in writing, and the exact wording used changed to fit the discussion.

hassles of switching, but seemed to simply accept them as a necessary part of the process. There was agreement among the three groups that the most important switching cost was the time and effort involved. The key drivers for switching were getting the best deal and major life events, e.g. getting a job or buying a new house. Split banking was more prevalent and more deliberate among the Massey group, and represented part of the switching process for this group. A more complete report on the findings from the focus groups can be found in Appendix 4.

There is widespread agreement that the preferred size for a focus group is 8-12 participants (see for example, Hair et al., 2006; Malhotra, 2004), in order to have sufficient participants to generate discussion without the group becoming unmanageable. Unfortunately all three groups in this study ended up smaller than anticipated, and than desired. This limits the conclusions that can be drawn, but as an exploratory part of the research project this is not a significant concern. The results do support the expectation that time and hassle is seen as the most significant cost, and that many of the other costs identified in the literature have minimal effect. The differences between the groups were not great, but there were some, providing support for the further, more thorough, investigation undertaken.

3.4 Questionnaire Development

The questionnaire was structured and formatted in line with the principles advocated by Dillman (2000) to enhance the response rate. For example, simple words were used and specificity in required responses was avoided. The final questionnaire appears in Appendix 7.

As explained in the following sections, a number of questions were asked where respondents were asked to signify the extent of their agreement, or disagreement, with a given statement, using a Likert scale. The Likert scale is a “summated rating scale” (Hair et al., 2006, p. 393), which means that a Likert scale question is of limited value on its own as it is designed to be used in summation with other similar questions. Hair et al. suggest assembling 50-100 belief statements about the issue in the first stage of developing a Likert scale questionnaire, reduced to 20-25 statements in the final questionnaire. The process was simplified in this case due to the existence of prior related research from which the statements to be used were able to be drawn. As the

Likert scale is a summated rating scale, each switching cost category needed to have multiple statements included in the survey instrument to enable summation. Four statements for each category is an appropriate number to use, being sufficient to capture the respondents' views but without becoming overly repetitive. The actual statements used are discussed in the next section.

The original Likert scale used a five-point scale, with the descriptors being “strongly agree”, “agree”, “neither agree nor disagree”, “disagree” and “strongly disagree”. Hair et al. (2006) note that this original scale has been modified, with some researchers using a six-point scale, which forces a choice to be made as no neutral point exists, while others have further extended the scale to seven-points by reintroducing a neutral “neither agree nor disagree” option. For this study, the decision was made to use a seven-point scale because it was considered important to have a neutral option available as that could enhance the response rate, while three items on each side of the scale allows finer differentiation between attitudes. The descriptors chosen were “strongly agree/disagree”, “mostly agree/disagree” and “slightly agree/disagree”. The use of seven response categories is supported by the findings of Preston and Colman (2000) that overall a 7-point scale was the third most preferred, with the first and second most preferred being 10 and 9 point scales. They also found the most reliable scales had 7-10 categories. Similarly, Cox (1980) found that seven plus or minus two offered “a reasonable range for the optimal number of response alternatives” (p. 420).

For other questions where the extent of agreement or disagreement was not an appropriate response, in most cases the decision was made to continue with a seven-point scale for consistency. In one case (Q8) the descriptors were “very likely/unlikely”, “quite likely/unlikely”, “slightly likely/unlikely” and “neither likely nor unlikely”, while in two other questions (Q15 and Q20) the descriptors used were “very easy/difficult”, “quite easy/difficult”, “slightly easy/difficult” and “neither easy nor difficult”.

3.4.1 Banking relationships (Section A)²²

The questionnaire was divided into four sections, each with a different focus. The first section asked questions about the respondent's banking relationships. This included enquiring about all financial institutions with which the respondent had a relationship followed by a question as to which financial institution they would describe as their main bank. Respondents could define their main bank in any way they chose and did not have to provide an explanation of the definition used. To assist in making this selection, the instructions at the start of the questionnaire provided three examples of how the respondent's main bank could be identified – “your main bank may be the bank where you have your everyday, transactional account, or it may be the bank where you have your home loan, or it may be the bank where you have the greatest sum of deposits and loans” – but noted that the choice was the respondent's. The two questions about the financial institutions with which the respondent had a banking relationship were:

Q1. Which of the following financial institutions do you currently have some form of banking relationship with, in New Zealand?

Q2. Which of the following financial institutions would you describe as your main bank in New Zealand?

The response option for both questions was a list of eleven financial institutions, including the main registered bank brands operating in the retail banking market, as well as the main non-bank financial institutions in this market at the time of the survey. The list comprised ANZ, ASB, BNZ, Credit Union, HSBC, Kiwibank, The National Bank, PSIS, Southland Building Society, TSB, and Westpac. In the case of credit unions, respondents were asked to write in the name of the specific credit union they banked with. A final option was provided of Other, with a space provided to write in the name of the organisation(s). Before the questionnaire was finalised it was necessary to amend the list of institutions to remove Superbank, a registered bank that exited the market in September 2006.

The remaining questions in this section sought to provide a better understanding of the respondent's banking relationships. This included understanding the nature and extent of split banking arrangements, the total level of business held at the main bank which

²² The questions are shown in this and the following three sections in the order and form in which they appeared in the final survey document. As discussed in later sections, it was necessary to make some changes to the wording and order of the questions as used in the pilot survey.

could influence the value of the relationship from the bank's perspective and therefore the way in which the customer was treated, the length of the relationship, and the main form of interaction with the bank. The main form of interaction was of interest as a more 'remote' relationship via telephone and/or internet could be expected to result in a weaker relationship and therefore the customer may feel less locked-in. The complexity of the relationship was of interest in two ways. First, it was considered possible that a more complex relationship could create greater lock-in of the customer, while there was also expected to be some relationship between the complexity of the respondent's banking arrangements and their life cycle stage. These considerations generated the following questions:

- Q3. Please show the approximate percentage of your business that you have with each bank that you deal with, in New Zealand. The numbers in each column should add up to 100%. If you don't have any business with a particular bank, please leave it blank or put zero(0). I would like you to do this for both your current balances, and also for the number of transactions in the last 12 months.*
- Q4. What is the total amount of all loans and deposits that you have with your main bank. Please include mortgages, credit cards, overdrafts and personal loans, as well as any form of deposit. For example if you have \$10,000 in a savings account and a \$50,000 overdraft limit, the total value would be \$60,000.*
- Q5. How long have you been a customer of the bank you identified as your main bank?*
- Q6. Which of the following do you use most often to interact with your main bank?*
- Q7. How many of each of the following financial products do you have with your main bank?*

3.4.2 Switching expectations and behaviour (Section B)

The second section sought responses in regards to the likelihood of future switching and the respondent's switching behaviour. The section began with a question on the likelihood of staying at the respondent's main bank for the next twelve months followed by a question asking in a different way about the same issue, the chances of staying.

- Q8. How likely are you to switch to a competing financial institution as your main bank during the next twelve months?*
- Q9. What are the chances that you will stay with your bank for the next year?*

This was followed by questions related to whether the respondent would like to change banks, even if s/he had indicated no likelihood of doing so. A contrast in responses for these two sets of questions could indicate a feeling on the respondent's part of being "locked-in" to the current main bank, so that s/he is unlikely to switch although having a desire to do so.

Q10: In an ideal world, i.e. ignoring any possible difficulties, I would like to move from my existing main bank to another bank.

Q11: I am happy with my main bank and don't want to change.

One of the key approaches taken by banks in respect of dealing with switching costs has been to make the actual switching process as simple as possible. However, the pilot run by PSIS, reported by Matthews and Murray (2007), found that fewer than half of eligible customers wanted to hand over the process to the new financial institution. Two questions were included to ascertain both the desirability of the new bank doing the transfer and the respondent's confidence in their own ability to do it.

Q12: If I was changing my main bank, I would like my new bank to take care of the whole process for me.

Q13: If I was changing my main bank I would be able to take care of it all myself.

The next two questions asked respondents, in slightly different ways, to provide an assessment of the overall ease, or difficulty, of changing banks. This was an attempt to understand whether the actual action of changing banks is perceived to be a difficulty given its frequent identification as an issue anecdotally.

Q14: Banks make it easy for customers to switch to another bank.

Q15: Overall, how easy or difficult do you think it would be to change your main bank?

The remaining questions in Section B focussed on past switching behaviour, beginning with a question that sought information on how often respondents had ever switched their main bank as a measure of their willingness to switch, with response options of Never, Once, 2-3 times and 4 or more times. This was followed by a question on how recently respondents had last switched banks, with options of within the last 12 months, 12-24 months, 2-5 years and 5 or more years.

Q16: How many times have you ever changed your main bank?

Q17: How long ago did you last change your main bank?

The reasons for any change within the last 5 years were sought in order to understand the total motivation for switching, as well as the main reason. In part this reflected an expectation that a decision to switch is not for one reason alone, although one reason may be the driving force behind the decision to switch. These questions were restricted to the last five years due to issues related to ability to recall and relevance. A range of eight possible options were provided, including service problems, changing marital or employment situation and relocation, as well as an option of Other, where the respondent was able to provide details.

Q18: If you have changed your main bank in the last 5 years, what reasons did you have for doing so?

Q19: If you have changed your main bank in the last 5 years, what was the main reason for doing so?

The final question in this section asked about the ease of the actual transfer process, to enable a comparison of perception with reality through a comparison with the responses to questions 14 and 15.

Q20: If you have changed your main bank in the last 5 years, how would you describe the process of doing so?

3.4.3 Switching costs (Section C)

The third section of the questionnaire explored the respondent's attitudes towards switching costs. This required the identification of the appropriate categories of switching costs to be used in the study, and then the development of appropriate questions.

3.4.3.1 Switching cost categories

As discussed in Chapter 2, switching costs have been categorised in a variety of ways by different authors. Table 3.3 provides a comparison of the different categories used, showing how the names used may be different but the underlying concept is the same.

It should be noted that Ausubel (1991) looked at switching costs specifically in the US credit card market, and this will have influenced his choice of categories, while Hortaçsu and Syverson (2003) looked at the mutual fund industry. Although not shown in the table, Jones et al. (2002) also grouped their switching costs into three higher-

order categories: Continuity being the lost performance and uncertainty costs; Learning included the pre-switching search & evaluation, post-switching behavioural and cognitive, and setup costs; and Sunk costs being on their own.

The choice of switching cost categories for this study is also shown in Table 3.3 and is based largely on Burnham et al. (2003) as they have a comprehensive set of eight that encompass most of those used by other authors. Some of the names have been changed to better reflect the concepts associated with the categories. In explaining the categories, reference will be made to banking, as the focus of this study.

Learning Costs include the time and effort needed to become familiar with the new bank, its products and its systems. For most customers this would include learning how to navigate the bank's website and, more importantly, how to use its on-line banking service. While all banks are similar in these respects, there are small differences that contribute to creating a need to learn new ways of banking. **Search Costs** incorporate the time and effort required to find out about other financial institutions if looking to switch, and then to evaluate them in order to decide which is the most suitable for the switcher's needs. **Uncertainty** refers to the risk that the new bank may be no better, and may even be worse, than the switcher's current bank.

Benefit Loss is the loss of accumulated benefits, in the form of reward schemes, discounts and other privileges, for being a long-standing customer of the existing bank²³. Many organisations, including banks, provide special rates and other rewards to recognise customer loyalty and to encourage the continuance of the relationship. In some cases the rewards relate to business levels and this is likely to be replicated at the new bank, but any accumulated 'points' at the old bank would be lost on terminating the relationship. **Monetary Loss** refers to the more tangible financial costs associated with switching that many people associate with the term switching costs, because of the usual meaning attached to the word 'costs'. These are the fees charged for terminating the old relationship, such as mortgage discharge fees, and those incurred in establishing the new relationship, such as automatic payment establishment fees.

The **Hassle/Inconvenience** factor is the most cited switching cost anecdotally, which was borne out in the focus group discussions, being the most important issue identified

²³ In banking 'long-standing' can refer to periods of as little as two years.

by all three groups. However, this issue has received limited acknowledgement in the literature, with most incorporating it within one of the other categories used. The Cruickshank Report was one place where the hassle associated with switching banks was explicitly recognised (Cruickshank, 2000). Burnham et al. (2003) specifically incorporated the hassle factor within their category of set-up costs, as did Jones et al. (2002). In this study it was felt that this factor should be explicitly included, due to the high importance attached to it during the focus group portion of the study.

The loss of the **Brand Relationship** is one that several authors have recognised as being important. Burnham et al. (2003) noted that there can be “affective losses associated with breaking the bonds of identification that have been formed with the brand or company” (p. 112). So the switcher is no longer a customer of Bank X, which may have affected their self-image because of the bank’s reputation and/or market standing. It is expected that a new brand relationship will be created at the new bank, but it will be different because the new bank’s reputation will be different. For example, moving from Kiwibank could be seen as unpatriotic because they are one of the very few New Zealand-owned banks in New Zealand. The loss of the **Personal Relationship** is different in that it refers primarily to the switcher’s loss of a relationship with the actual bank staff, such as tellers, relationship manager and so forth, with whom they dealt on a regular basis. It would take time to establish similar relationships with staff at the new bank.

The final category is that of **Service Disruption** used by Shapiro and Varian (1999), which was included in other categories by some other authors. This issue refers to the possibility that an automatic payment may be missed or a direct credit not received on time, for example, during the actual switch over phase. While this is recoverable, there is an associated inconvenience and possible reputation effects for the customer, and this reflects the reason some focus group participants reported running two sets of bank accounts during the switching process.

Table 3.3: Switching cost categories

	Guitinan (1989)	Ausubel (1991)	Fornell (1992)	Klemperer (1995)	Ahmad (2000)	Colgate & Lang (2001)	Lee & Cunningham (2001)	Jones et al (2002)	Pae & Hyun (2002)	Burnham et al (2003)	Other	THIS STUDY
			Learning	Information			Search	Post-switching behavioural & cognitive		Learning		Learning
		Information cost	Search				Pre-switching search & evaluation	Uncertainty		Evaluation		Search
						Perceived risk Alternatives	Perceived risk Substitutability Proximity/ convenience			Economic risk		Uncertainty
Continuity	Improved credit	Loyalty discounts	Artificial	Financial bond			Lost performance			Benefit loss	Financial	Benefit loss
Contractual	Card fee	Transaction Financial risk			Termination Joining		Sunk costs	Economic		Monetary loss	Formal ^d Monetary ^a Investment ^b	Monetary loss
Set up	Time, effort & energy		Physical	Structural bond		Relationship investment	Set up	Physical		Set up	Brand relationship loss	Hassle/ Inconvenience
Psychological commitment		Emotional Psychological risk	Psychological	Social bond				Psychological	Brand relationship loss	Personal relationship loss	Relational	Brand relationship
		Habit										Long-term relationship ^c
		Social risk										Personal relationship
						Service recovery						Informal ^d
	Delay in getting card											Service disruption ^e

a. Haucap (2003)

b. Sengupta, Krampf and Pusateri (1997)

c. Kim, Kliger and Vale (2001)

d. Hortagsu and Syverson (2003)

e. Shapiro and Varian (1999)

3.4.3.2 Switching cost statements for the questionnaire

Having identified the switching cost categories to be used for the study, the next step was to select the appropriate statements to be used in seeking respondents' views on the relative importance of the switching costs. Most of the statements used were drawn from the existing literature; however, there was a need to revise the wording of some to ensure consistency of style.

Table 3.4 shows, by switching cost category, each of the statements used, as well as the original wording of the statement and its source. The final form of the statement is shown in the final column, with changes to the wording, or additional words, shown in red; wording removed from the original statement is highlighted in blue in the first column. The main change was to alter the terminology used to reflect that this study was specifically about banking. Jones et al. (2002) had used "hairstylist/barber" as the service provider in their study, while Burnham et al. (2003) had used the generic term "service provider" in the statements as published in their paper. For this study these terms were changed to "bank" to reflect the study's focus, and in most cases the term used was "main bank" to ensure respondents answered in respect of their main banking relationship as identified earlier in the questionnaire. Some changes were also made in response to feedback from the user panel, as discussed in section 3.4.6.1.

Table 3.4: Switching cost statements

ORIGINAL STATEMENT	SOURCE ²⁴	QUESTIONNAIRE STATEMENT
Personal Relationship		
I would miss working with the people at my service provider if I switched providers.	B, F & M	I would miss working with the people at my main bank if I switched providers.
The people where I currently get my service matter to me.	B, F & M	The people at my main bank matter to me.
I like talking to the people where I get my service.	B, F & M	I like talking to the people at my main bank.
My bank knows my needs.	C & L	My main bank knows my needs.

²⁴ C & L is Colgate & Lang (2001); J, M & B is Jones, Mothersbaugh & Beatty (2002); B, F & M is Burnham, Frels & Mahajan (2003)

Brand Relationship		
I like the public image my service provider has.	B, F & M	I like the public image of my main bank .
I feel a sense of loyalty to my main bank.	C & L	I feel a sense of loyalty to my main bank.
I do not care about the brand/company name of the service provider I use.	B, F & M	I do not care about the brand/company name of the bank I use.
All banks the same.	C & L	In my view all banks are the same.
<p>The second statement in this category was originally “I support my service provider as a firm” from Burnham et al. (2003). However, the user test panel had a lot of difficulty with this statement, struggling to understand the concept. As a result it was replaced by the statement about loyalty from Colgate and Lang (2001).</p>		
Search Costs		
It would take a lot of time and effort to locate a new hairstylist/barber.	J, M & B	It would take a lot of time and effort to locate a new bank .
I cannot afford the time to get the information to be able to fully evaluate other service providers.	B, F & M	I cannot afford the time to get the information to be able to fully evaluate other banks .
Comparing the benefits of my service provider with the benefits of other service providers takes too much time/effort, even when I have the information.	B, F & M	Comparing the benefits of my bank with the benefits of other banks takes too much time/effort, even when I already have the information.
<p>In the third statement the word “already” was added in response to feedback provided by the user test panel.</p>		
Learning Costs		
There is not much involved in understanding a new service provider well.	B, F & M	There is not much involved in understanding a new bank well.
Getting used to how another service provider works would be easy.	B, F & M	Getting used to how another bank works would be easy
Learning to use the features offered by a new service provider as well as I use my service would take time.	B, F & M	Learning to use the features offered by a new bank as ably as I use those of my main bank would take time.
If I were to switch hairstylists/barbers, I would have to learn how things work at a new one.	J, M & B	If I were to switch banks , I would have to learn how things work at the new one.
<p>In the third statement, the user test panel reported some confusion as to the statement’s meaning due to the double meaning of “as well as”, which can also be read as meaning “at the same time”. After discussion they felt “as ably as” was a better choice of wording.</p>		

Uncertainty		
I worry that the service offered by other service providers won't work as well as expected.	B, F & M	I worry that the service offered by other banks won't work as well as expected.
I am likely to end up with a bad deal financially if I switch to a new service provider.	B, F & M	I am likely to end up with a bad deal financially if I switch to a new bank .
The service from another hairstylist/barber could be worse than the service I now receive.	J, M & B	The service from another bank could be worse than the service I now receive.
I was uncertain of the outcome if I changed.	C & L	I would be uncertain of what the outcome would be if I changed banks .
Colgate and Lang (2001) had used a different phrasing structure for the statements in their study, and therefore more change was needed to ensure the statement structure matched the other statements in this study.		
Service Disruption		
If I try to switch service providers, I might end up with bad service for a while.	B, F & M	If I try to switch banks , I might end up with bad service for a while.
	New	If I change my bank it is likely that some of my regular payments will not be paid while the change is taking place.
I have put effort into adapting my service to meet my needs	B, F & M	I have put effort into adapting my bank services to meet my needs.
	New	It would take time to get my new banking relationship set up to best suit my needs.
The issue of service disruption was not well covered by the three sources. It was, therefore, necessary to generate additional statements for this category of switching costs that reflected the concerns related to possible problems that could arise.		
Benefit Loss		
Switching to a new service provider would mean losing or replacing points, credits, services , and so on that I have accumulated with my service provider.	B, F & M	Switching to a new bank would mean losing or replacing points, credits, and so on that I have accumulated with my main bank .
I will lose benefits of being a long-term customer if I leave my service provider.	B, F & M	I will lose benefits of being a long-term customer if I leave my bank .
I receive preferential treatment from my main bank.	C & L	I receive preferential treatment from my main bank.
This hairstylist/barber provides me with particular privileges I would not receive elsewhere.	J, M & B	My main bank provides me with particular privileges I would not receive elsewhere.

Economic/Monetary Loss		
Switching to a new service provider would involve some up-front costs (set-up fees, membership fees, deposits etc).	B, F & M	Switching to a new bank would involve some up-front costs (set-up fees, membership fees, etc) at the new bank.
How much money would it take to pay for all of the costs associated with switching service providers? (<i>no money ... a lot of money</i>)	B, F & M	It would take a lot of money to pay for all of the costs associated with switching banks.
I was concerned about negative financial outcomes.	C & L	I would be concerned about negative financial outcomes if I changed my main bank.
I feel locked in because of the products I have with the bank.	C & L	I feel locked in because of the products I have with my main bank.
<p>In the first statement from Burnham et al. (2003) the word “deposits” was removed from the examples of up-front costs because this term has a specific and unrelated meaning in a banking context. The second statement from the same source had originally been structured with a different response scale to the agree/disagree scale used for the other statements. For easier completion in this study it was considered better to be consistent and maintain the agree/disagree scale for all statements, so the question was reworded to enable this.</p>		
Hassle		
The process of starting up with a new service provider is quick/easy.	B, F & M	The process of starting up with a new bank is quick/easy.
Switching to a new service provider will probably result in some unexpected hassle.	B, F & M	Switching to a new bank will probably result in some unexpected hassle.
It takes time to go through the steps of switching to a new service provider.	B, F & M	It takes time to go through the steps of switching to a new bank.
There are a lot of formalities involved in switching to a new service provider.	B, F & M	There are a lot of formalities involved in switching to a new bank.
Too much bother in terms of time and effort.	C & L	Switching banks would be too much bother in terms of time and effort.
<p>As in the earlier case, the statement originally used by Colgate and Lang (2001) in this category needed to be reworded to match the structure of the other statements.</p>		

3.4.4 Life cycle and other demographics (Section D)

The final section of the questionnaire sought information about the respondent’s demographic characteristics. These questions provided information to enable the

respondent's life cycle category to be determined, as well as other potentially useful demographic characteristics.

3.4.4.1 Life cycle model selection

As discussed in Chapter 2, the literature indicates the family life cycle may have an influence on switching costs and customers' attitudes towards them, and this is the focus of this study. In order to explore the influence of family life cycle an appropriate model is required to specify the appropriate family life cycle stages and allow the categorisation of all respondents into the appropriate life cycle group.

The foundation of family life cycle models is widely seen as that of Wells and Gubar (1966). In promoting the life cycle model concept they argued that "life cycle would seem to present a more sensitive classification system than chronological age" (p. 357). Several authors have endeavoured to modernise the original Wells and Gubar model, with one of the key attempts being that of Murphy and Staples (1979). Murphy and Staples sought to revise the Wells and Gubar model to reflect societal changes, such as the reduction in the average family size, delayed first marriage and increasing divorce rates. Wells and Gubar had nine stages, which Murphy and Staples reduced to five, but with 13 sub-categories. Although Murphy and Staples' contribution to this discussion is considered seminal, it should be noted that it is not universally supported. For example, McConacha, Tully, and Walther (1993) disagree with Murphy and Staples' implication that remarrieds simply rejoin the norm and argue that in fact there are significant differences from those who have never divorced.

Gilly and Ennis (1982) further developed the life cycle model. The key changes they made were to treat cohabiting couples as married and to introduce middle-aged and older categories which started at 35 and 65 respectively. Schaninger and Danko (1993) compared a number of family life cycle models, covering a range from traditional to 'modernized'. They found the "Gilly-Ennis model produced the strongest results overall" (p. 592). They also identified some generalizations about household life cycle models, including that full-nest households should be separated by children's ages; retirement status, rather than age, is better at delineating between middle-aged and older households; the Gilly-Ennis model could be improved with relatively minor changes; and none of the models were good with non-traditional households.

In a more recent attempt to modernize the life cycle, Schaninger and Lee (2002) sought to better differentiate between the full-nest groups within the model. They based the differentiation between Traditional and Delayed Full Nest I households on the ages of the parents at the birth of their youngest child. They found a difference between the two Full Nest I households, and determined that both types should be used. Schaninger and Lee also looked at the separation of Full Nest I and Full Nest II households, and found that the separation was more effective, and better able to be justified theoretically, if based on the transition of the youngest child. In the course of their study they identified the key life cycle related measures as household classification, years married, previous marital status of both partners, age and retirement status of adult household members, and number of children and ages in four categories.

Table 3.5 compares the key life cycle models from Wells and Gubar (1966) through five evolutions to the Schaninger and Lee (2002) version. The final column shows the life cycle model categories used for this study, which is essentially the same as the Schaninger and Lee model. Some changes have been made, which include having the transition from Bachelor II to Bachelor III and from Childless Couple to Older Couple based on retirement (of the household head for the couple). The transition between categories involving children is based on the youngest child as recommended by Schaninger and Lee, but on the child's age rather than school stage as age information is simpler to obtain, and the two are related. The definition of Delayed Full Nest I has also been amended in order to make it possible to obtain the required information, based on the parents' ages at the birth of their eldest child, ignoring any previous marriage.

3.4.4.2 Demographic questions

Seven of the first eight questions in Section D were to collect the information needed to determine the appropriate family life cycle category. The required information included marital status, number of children, children living at home, ages of children at home, the employment status of the head of the household, and the age of the respondent and their partner. Changes were made to the response options for these questions in response to feedback from the test panel, as discussed in section 3.4.6.1.

Q57: Which of the following best describes your marital status?

Q58: How many children do you have (including adult children)?

Q59: How many of your children are living at home with you?

Q60: What are the ages of the oldest and youngest children living at home with you?

Q61: Which of the following best describes the employment status of the person you would describe as the head of your household?

Q63: What year were you born?

Q64: If you have a partner, what year was he/she born?

Table 3.6 shows how the responses to these questions linked to the life cycle categories being used, as discussed in the previous section.

Table 3.6: Conversion of demographic information into life cycle stages

	Marital status ^a	No of children	Child at home	Youngest child age	Head employment	Year ^b	Partner year
Bachelor I	S	0	No	N/A	Employed	1971+	N/A
Bachelor II	S	0	No	N/A	Employed	<1971	N/A
Young Couple	M or DF/CU	0	No	N/A	Employed	1971+	N/A
Childless Couple	M or DF/CU	Any	No	N/A	Employed	<1971	N/A
Older Couple	M or DF/CU	Any	No	N/A	Retired	<1971	N/A
Bachelor III	S or W	Any	No	N/A	Retired	<1971	N/A
Full Nest I	M or DF/CU	>0	Yes	<5	Employed	c	c
Delayed Full Nest I	M or DF/CU	>0	Yes	<5	Employed	c	c
Single Parent I	S or W	>0	Yes	<5	Employed	1971+	1971+
Full Nest II	M or DF/CU	>0	Yes	5-12	Employed	<1971	<1971
Single Parent II	S or W	>0	Yes	5-12	Employed	<1971	<1971
Full Nest III	M or DF/CU	>0	Yes	13+	Employed	<1971	<1971
Single Parent III	S or W	>0	Yes	13+	Employed	<1971	<1971

a. Marital status: S=single, W=widow(er), M=married, DF/CU=de facto/civil union

b. Year: 1971+ means <35 years

c. Full Nest I will have parents aged <30(M)/28(F) at birth of oldest child and Delayed Full Nest I will have parents aged >30(M)/28(F) at birth of oldest child. This is calculated from the questions about the age of the children at home and year of birth of the parents.

Information about other general demographic characteristics was sought in order to ascertain any effect they may have. This was also to more clearly understand the influence of the life cycle category, by seeking to identify any confounding effects of these other demographic characteristics. For example, there may be a relationship between income and life cycle stage, and it may be that the income is more important in terms of explaining the complexity of the banking relationship and any associated lock-in²⁵.

Q62: What is the annual income for your household?

Q65: What is your gender?

²⁵ It should be noted that Q62 was placed 'out of order' for formatting reasons as discussed in the next section.

Q66: Which of the following best describes your ethnicity?

Q67: What is your highest education level?

The final 2 questions in this section queried the type of area in which the respondents lived and their access to the internet. Location was thought to have a possible impact in respect of convenience and also the type of relationship the respondents might have with their main bank. In the city there would be greater choice amongst similarly convenient banks, which may not be true in other locations, particularly for rural residents. On the other hand, customers of small suburban and town branches could potentially have a more personal relationship with their bank.

Q68: Which of the following best describes where you live?

Q69: Which of the following best describes your access to the internet?

The final question (Q70) was an opportunity for respondents to make any other comments on the research subject of changing banks.

3.4.5 Questionnaire format

Dillman (2000) argues that turning a series of questions into a questionnaire includes making critical decisions about layout and design in order to achieve the two objectives of questionnaire design. These objectives are to reduce non-response and to reduce or avoid measurement error. A graphical designer (chosen on the basis of a colleague's recommendation) was engaged to design the document, to make use of his expertise and skill. In designing the actual format of the questionnaire the aim was to create a document that encouraged recipients to complete the survey and return it. The guidelines provided in Dillman (2000) were noted and followed as far as possible.

An A5 size was chosen for the questionnaire to be less intimidating and to ease handling, and is also the size recommended as best by Dillman (2000). The design created was in line with the university's standard branding guidelines, which ensured the questionnaire was seen as having the authority of the university behind it, giving the project greater credibility. Gendall (1996) argued that a clear, simple, well-balanced cover design is as effective as a more elaborate one. In this case, a simple cover was used that conveyed the key details, while being in line with the university's corporate branding. Heavier paper than standard 80gsm was used for the questionnaire, with an even heavier paper (but not cardboard) used for the cover to provide a better quality

document that enhanced the perceived professionalism and therefore the credibility of the research.

The booklet format selected required the number of pages to be a multiple of four, and some re-ordering of the questions was done to reduce the 'spare' or unused pages to only the back cover. It also meant that the questions in section B were ordered in a more logical way in respect of the response options provided; specifically, the questions with an agree/disagree Likert response scale were grouped together. In addition, the question about income (Q62) was placed among the life cycle grouping questions, rather than after them.

The sections were labelled according to the nature of the questions, and an informal, explanatory comment provided so respondents had some understanding of why the questions were being asked. This was considered to be particularly important in Section D, where personal demographic questions were asked, as some respondents could consider the questions to be an unwarranted intrusion into their private lives; however, these questions were important to get the information needed to correctly identify the appropriate life cycle category for the respondent.

Instructions to skip a question that is not relevant to a particular respondent are often overlooked, so a response option was provided that allowed all respondents to respond even if the question was not relevant. For example, Q16 asked how many times the respondent had changed their main bank, and if the respondent had never changed their main bank Q17-Q20 were not applicable. However, rather than instruct respondents to skip to Q21 from Q16, Q17-Q20 had a suitable response included; in the case of Q17, which asked about how often the respondent had changed their main bank, the first response option was "I've never changed my main bank". Some questions, such as Q3, needed to include instructions for completion, and as recommended by Dillman (2000), these instructions were included as part of the question, rather than in the instructions at the start of the booklet, or elsewhere.

3.4.6 Pre-testing

Pre-testing is testing a set of questions or the questionnaire on members of the target population, and "is good insurance against making mistakes in the main study" (Czaja, 1998, p. 10). Pre-testing can be used to ascertain whether respondents understand the

wording and the concepts and whether the questionnaire flows well, as well as exploring possible coding and data analysis issues. Pre-testing is therefore an important part of the process of developing the questionnaire. This took two forms: the use of a user panel; and, a pilot survey. Both are discussed in the following sections. Prior to the formal pre-testing processes, the draft questionnaire was submitted to the research supervisors for comment, as well as being sent to colleagues for their input. Useful feedback was received and some changes made as a result.

3.4.6.1 User panel

From among family and friends, ten people were identified that represented a reasonable cross-section of the population based on age, gender and education. They were sent an initial email seeking their assistance with testing the draft questionnaire. An important point made was that there was no interest in their actual responses, as that may have inhibited their willingness to assist. All agreed to participate, and a second email was then sent with the draft questionnaire attached. This email outlined the information that was sought. A copy of the text from both emails is in Appendix 5.

The responses received were very useful, and changes were made to the questions and the questionnaire as a result. In particular, in Section D the comments received resulted in additional response options being included, such as “self-employed” in Q61 about employment status of the household head and “separated” in Q57 about marital status, with such changes reflecting an individual’s circumstances. From the research perspective, these options were unnecessary as they are combined with other options for analysis purposes, but based on the panel’s responses it was considered important to include them so that respondents in a similar position had an appropriate response option available, as they might otherwise choose not to answer the question or possibly not participate in the survey. Other useful comments included a suggestion that ‘lending’ be defined in question 4, the need for an instruction for question 18 indicating multiple answers were acceptable, and the need for rewording of some statements in Section C to be more understandable (as discussed in Table 3.4).

3.4.6.2 Pilot survey

The primary data collection for this study was by way of a survey, and as part of the process of developing the survey document a pilot was undertaken to test the

questionnaire and the procedures. The survey document for the pilot survey was a standard A4-sized photocopied document, which included the proposed questions as selected in section 3.4.

The pilot survey sample comprised the first 100 people, excluding those over the age of 85 years, from the full survey sample, which meant that they came from all over New Zealand. The first mailing was dispatched on August 10th 2006, and included the questionnaire, an information sheet, a form to request a summary of the results, and a return envelope (see Appendix 6 for copies of the information sheet and questionnaire). The mailing was number coded to enable the third mailing (the second follow-up mailing) to be sent only to non-respondents.

On August 21st a second mailing, comprising only a letter (see Appendix 6.3), was sent thanking those who had responded and requesting non-respondents to respond. This mailing was sent to the entire sample except three respondents who had refused participation and the one returned, undelivered set of documentation (a GNA²⁶ response). A third and final mailing was posted on August 31st to all non-respondents as at that date, comprising a full set of survey documentation as for the first mailing. One minor change was made to Q7 of the questionnaire for the third mailing, as discussed below.

A total of 40 responses were received, with 22 having been received prior to the second mailing and a further 10 received prior to the third mailing. Only four responses were received from the third mailing, which were identified by a different number, although eight were received in total following the third mailing being sent out. The responses were evenly split between males and females.

The pilot was designed in particular to test the questions used. Only one problem was found and this was with respect to Q7. This question was “Please indicate how many of each of the following financial products you have with your main bank. *Please put ‘0’ (zero), or leave it blank, if you don’t have that product with your main bank.*” The question was followed by a list of 14 banking products/services preceded by a marked space for the answer. Reviewing the responses to the first mailing identified a problem in that most respondents simply ticked in the space, rather than writing a number as

²⁶ GNA = Gone, No forwarding Address

intended. As a result the questionnaire was amended for the third mailing, with “How many” being changed from regular lower-case to bold upper-case to emphasise the nature of the question. Overall, one respondent did not answer the question and 11 answered with a number as required, which left 70% who responded incorrectly with a tick. Of the eight responses received after the third mailing only three had provided a number as required, and only one of the four who responded on the amended questionnaire did so, indicating that the change made did not offer any real degree of resolution to the problem.

Further consideration was given to the wording of Q7, with the problem discussed with a number of colleagues. It was determined that the question could be reworded so that the answer could be given by ticking an appropriate box. The question became “HOW MANY of each of the following financial products do you have with your **main bank**? Please tick the appropriate number” and the answer options provided were 0, 1, 2, 3, and 4 or more. The point of the question was to get an estimate of the complexity of the respondent’s banking relationship, and while the revised question wording left the potential for understating the relationship, it was expected to be more effective than the original question wording due to the inappropriate responses received. The change was successful, with just eight respondents not answering the question in the full survey, and a further 21 ticking ‘0’ for only some of the product categories.

3.4.7 Sample selection

The sample population for the survey was drawn from the New Zealand electoral rolls, supplied on CD-Rom by New Zealand Post. A colleague, with particular skill in the area, drew the actual sample from the electoral rolls. He used a simple random selection process, drawing from the entire New Zealand roll. In a simple random sample every individual within the population “has an equal and independent chance” of being selected (Collins, Onwuegbuzie, & Jiao, 2006, p. 84).

The process involved allocating a random number to every record, sorting the records by that number, and then selecting the top 3200 records. The sample was larger than planned to allow for manual exclusions, including those with overseas addresses. Following advice from this colleague, all those over 85 years old were also excluded from the sample on the basis that many live in rest homes or are not well, and it is

therefore better to omit them. A total of 57 people were eliminated from the sample on the basis of age and 60 for having an overseas address. This left 3083 people in the sample, with the first 100 usable records used as the sample for the pilot survey, leaving 2983 in the sample for the final survey.

3.5 The Survey Process

3.5.1 Mailings

The survey process involved three mailings, which was designed to enhance the response rate achieved. The first mailing comprised an information sheet/introductory letter, the survey questionnaire, a return envelope and a summary request slip.

The information sheet provided information about the study and sought to encourage participation by the recipient (see Appendix 8.1). Gendall (1994) found that “the content and appearance of covering letters can influence the response rate for mail surveys” (p. 4), although the effect depends on the type of appeal and the way in which it is conveyed. He argued that the letter needs to be tailored to the target population. In this case the target population was the general population of New Zealand, so the letter needed to have general appeal. The information sheet was written in a reasonably formal style to appear professional and enhance its credibility. It contained the information that needed to be provided to meet the requirements of the Massey University Code of Ethical Conduct for Research, Teaching and Evaluation involving Human Participants. It ended with an appeal for participation that explained the value of the respondent’s views as “helping to understand how to make the banking sector better for customers”.

The return envelope was the size designed for A5 documents, being the final size of the questionnaire, which allowed the completed questionnaire to fit neatly with no need to fold it. The envelope was pre-printed with the return address, including a freepost number so that the respondent did not have to pay postage. The summary request slip allowed respondents to request a summary of the survey results once they are available at the conclusion of the study, and to provide a name and address to which the summary would be sent. This was designed as a separate document so that it could be kept apart from the completed survey to preserve the anonymity of the responses.

The questionnaire itself was numbered in order to identify those who had responded so that they did not receive the subsequent mailings, both to reduce postage costs and to limit the intrusion on the sample population. The number was a six-digit number, with the first digit representing the mailing (“1” or “3”) and the second digit being “2” to separate these responses from those of the pilot survey. The last four digits (0001 – 2983) were unique to each person in the sample population.

The second mailing was a one-page letter sent to non-respondents, to encourage participation in the study (see Appendix 8.2). Dillman (2000) suggests that many non-respondents are not actually refusing to participate, rather they put the survey documentation aside with the intention of coming back to it later, but as time passes the priority attached to looking at the survey lessens until “it is completely forgotten, lost or thrown away” (p. 179). While Dillman advocates the use of a postcard for the second mailing, the purpose is the same, being “to jog memories and rearrange priorities” (p. 179). Brennan (2004) supports the use of a letter for the second mailing, having found that the highest and most cost effective response rate could be achieved using two reminders if the first was a letter only. The third mailing was a full set of documentation, like that of the first mailing, but with a revised information sheet (see Appendix 8.3) noting that it was not the first contact that had been made and reinforcing the request for the recipient’s participation in the study.

The first mailing was sent on October 24th 2006, to the sample population of 2983 people throughout New Zealand. The second mailing was posted on November 7th 2006 to the 2510 non-respondents at that time. The third, and final, mailing was sent to the remaining 2187 non-respondents on November 21st 2006. After the second mailing, some recipients made contact to apologise for non-completion and to advise the completed questionnaire was now on its way, or to request a replacement. These people were not sent the third mailing as it was considered to be neither necessary nor appropriate, and in almost all cases the completed questionnaire was subsequently received.

Most respondents will complete and return a questionnaire upon receipt, so the time between mailings was kept relatively short, in line with good practice, at two weeks. All mailings were sent on a Tuesday in an attempt, subject to the reliability of the postal

service, to time the arrival before the weekend in the hope that the recipients would then have time available to complete and return it.

Dillman (2000) notes that one of the issues that arises with a mail survey is that of undelivered questionnaires, i.e. those returned due to the address being incorrect or the person having moved and not left a forwarding address, and he encourages following these up. An attempt was made to deal with some of these undelivered questionnaires. Of those returned by November 3rd 2006, a new address was found for eight and the first mailing was resent to the new address on November 6th. One was subsequently returned as undelivered, and a second mailing was sent to the remaining seven on November 20th 2006. No response was received from any of these people.

3.5.2 Responses

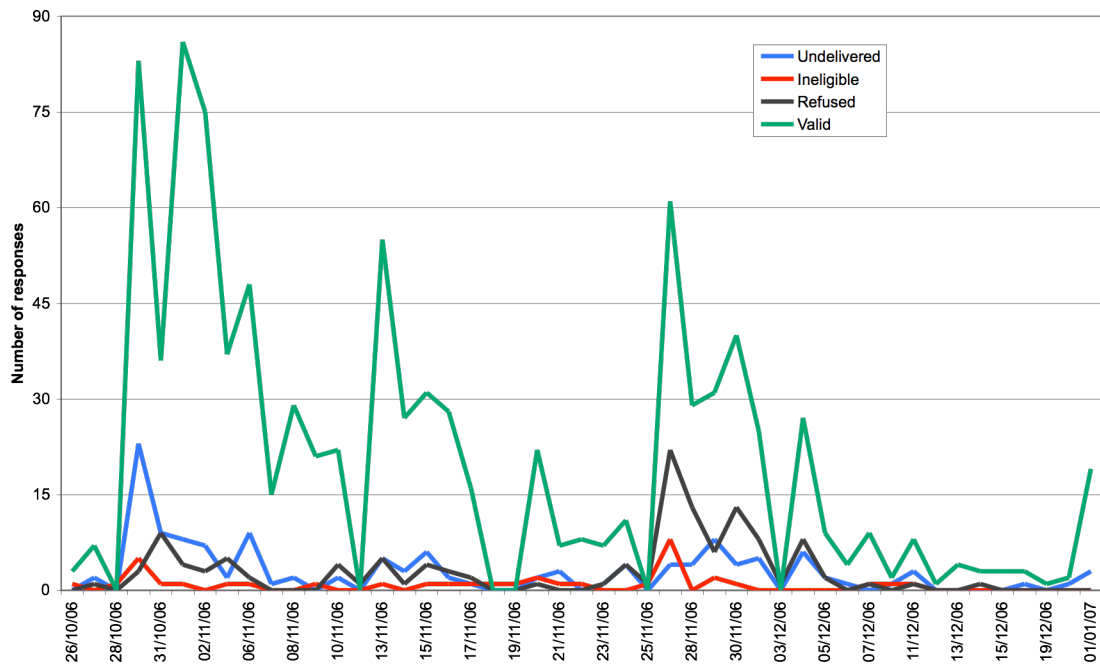
Figure 3.1 shows the responses received by date of receipt. It should be noted that the responses shown for the final date (01/01/2007) includes all responses received after that date, with the last being received on March 5th 2007.

A total of 955 valid responses were received, while 135 were returned undelivered, as well as 37 cases where the recipient was reported to be ineligible to participate and 130 refusals. Most of those identified as being ineligible actually lived overseas, but others were elderly and/or unwell. Most of the refusals (63.1%) were received after the third mailing was dispatched. Surprisingly, more than half (53.3%) of the undelivered questionnaires were returned after the second mailing was sent.

It is interesting to note that of the responses received after the third mailing was sent, 20.5% were on the original questionnaire document. This provides support for Dillman's view that these recipients had simply put the survey aside until the receipt of the third mailing reminded them and motivated them into action. The first responses were received on October 26th, just two days after the first mailing was dispatched. As noted above, the final response was received on March 5th 2007, nearly 15 weeks after the third mailing was posted²⁷.

²⁷ This was actually a questionnaire from the first mailing.

Figure 3.1: Responses received



Four respondents sought to ensure total anonymity by removing the identification number from the questionnaire; in two cases this was achieved by cutting off that corner of the questionnaire cover, while it was deleted by heavy scoring in the other two cases. This meant that these respondents received all three mailings because it was not possible to record the return of the survey for them. Interestingly, with the third mailing two recipients returned it uncompleted with a somewhat indignant note that they had already completed the survey, although their identified responses were never received, suggesting that either their responses were lost in the post or they were two of the anonymous responses.

The final response rate for the survey was 33.5% after allowing for the undelivered questionnaires and the ineligible recipients. This was lower than expected and hoped for, but Brennan (2004) reported it had become more difficult to achieve response rates in excess of 50%, although in the past a response rate of 60-70% was common with a properly designed survey process²⁸.

A substantial number (36.8%) of the respondents demonstrated some interest in the study by requesting a copy of the results summary. In addition, a similar proportion

²⁸ Anecdotal reports also suggest lower response rates are achieved when the survey topic is financial services.

(35.6%) took the opportunity provided in the questionnaire to provide additional comment on switching costs and the study.

3.5.3 Respondent characteristics

As noted above a total of 955 responses were received. The key characteristics of the respondent population are shown in Table 3.7 below. Clearly there are some differences between the sample and the New Zealand population, which represent differences between respondents and non-respondents, and therefore there is potential for non-response bias. This is discussed in section 3.7.1.

Table 3.7: Respondent population characteristics

Characteristic	Category	No	Proportion	New Zealand ²⁹
Gender	Female	527	57.0%	51.2%
	Male	397	43.0%	48.8%
Age	18-19	11	1.2%	4.1% ³⁰
	20-29	85	9.3%	17.6%
	30-39	158	17.3%	19.8%
	40-49	206	22.6%	20.8%
	50-59	177	19.4%	16.6%
	60-69	168	18.4%	11.2%
	70+	108	11.8%	9.9%
Ethnicity ³¹	NZ European	716	75.0%	64.8%
	NZ Maori	62	6.5%	14.0%
	Pacific Islander	19	2.0%	6.6%
	Other ³²	152	15.9%	24.5%
Education	No qualification	159	17.2%	22.4%
	Secondary school	303	32.9%	n.c. ³³
	Vocational	222	24.1%	n.c.
	Bachelor degree	152	16.5%	10.0%
	Higher degree	86	9.3%	4.2%

²⁹ New Zealand figures are from the 2006 census data available from Statistics New Zealand (www.statistics.govt.nz).

³⁰ The 2006 census data is provided in 5-year age groups. To enable more accurate comparative figures, the 18-19 age group has been estimated as 40% of the 15-19 age group, assuming equal proportions within the group for each year.

³¹ Some respondents chose more than one response for ethnicity so the categories are not exclusive.

³² The "Other" Category includes 39 respondents who identified themselves as Kiwis or New Zealanders.

³³ n.c. = directly comparable data for New Zealand not available.

The sample is dominated by females to a greater extent than is the New Zealand population, which is in line with the assertion by Hair et al. (2006) that mail survey respondents are more likely to be female. There is a reasonable distribution of respondents across the age groups, although the sample is older than the New Zealand population. Furthermore, a higher proportion of the respondents identified as New Zealand European than in the general population. Newell, Rosenfeld, Harris, and Hindelang (2004) reported that other research had found demographic differences between those who do and those who do not complete surveys, including education, gender and age. Similarly, Green (1996) reported survey respondents are likely to be more educated and to be female. She also found “age may play a role, but most likely for older groups” (p. 178).

Table 3.8: Respondents' banking relationships

Bank	Bank with ³⁴		Main Bank ³⁵		NZ %
	Number	%	Number	%	
ANZ	232	24.3	140	14.8	15.3
ASB	238	24.9	148	15.6	18.4
BNZ	273	28.6	139	14.6	12.8
Credit Union	37	3.9	3	0.3	0.8
HSBC	15	1.6	2	0.2	n.a. ³⁶
Kiwibank	121	12.7	49	5.2	4.9
The National Bank	252	26.4	182	19.2	17.2
PSIS	47	4.9	19	2.0	1.5
SBS	26	2.7	8	0.8	0.6
TSB	55	5.8	31	3.3	2.5
Westpac	319	33.4	215	22.7	19.5
Other	67	7.0	13	1.4	6.5

Table 3.8 shows the proportion of respondents reporting a relationship or a main bank relationship with each of the banks. The first set of percentages does not sum to 100% as respondents could have multiple relationships. Nearly half (48.1%) reported a relationship with just one financial institution, but around one third (34.1%) reported a relationship with two. A further proportion (13.4%) reported banking with three financial institutions, while the balance reported relationships with 4-11 institutions.

³⁴ The number/proportion of respondents who indicated they had some form of banking relationship with the financial institution.

³⁵ The number/proportion of respondents who indicated the financial institution was their main bank, irrespective of the definition used.

³⁶ HSBC is included in “Other” for the New Zealand figures.

The final column provides the main bank market share for the 12 months ended May 2007 as calculated by Roy Morgan from their Single Institution Monitor, which had a sample of 10,514 people aged 14+. This is used for comparison to identify any significant anomalies in the data collected. While Table 3.8 shows some differences between this sample and the comparative Roy Morgan data, the differences do not appear significant.

Among the 37 respondents reporting a relationship with a credit union, 21 different credit unions were identified. The Other financial institutions included four building societies, GE Finance (reflecting their acquisition of the Superbank mortgage book), Rabobank and Sovereign.

3.6 Data Analysis

3.6.1 Data cleaning

Data cleaning is necessary to check for inconsistencies in the data, and to determine how to deal appropriately with missing responses. Consistency checks include identification of data that is “out of range, logically inconsistent, or have extreme values” according to Malhotra (2004, p. 409). Some inconsistencies were noted and recorded during the data entry process, for later action. Out of range values were found by testing in Excel and/or SPSS, using counts by response option and frequency analysis.

Some of the respondents selected multiple answers, where only one response was appropriate and requested. In some cases additional categories were introduced for multiple responses, in other cases a decision was made as to which response to accept, while a decision was made to not record a response in other cases. For example in Q6, which asked about the main form of interaction with the respondent’s main bank, a number of respondents selected more than one response option, with the combination of both branch and phone banking being the most common, so two new response categories were introduced in the data coding, being one for multiple responses and one for the branch/phone banking combination specifically. In Q67 about highest qualification, some respondents gave multiple responses, so the highest was recorded.

A number of questions included an option of “Other” with the respondent able to write in what their situation was for that question. In many cases the full answer given could be appropriately matched to one of the options given, so the appropriate option was recorded as the response.

Missing responses were more difficult to deal with, and in most cases nothing was able to be done. Some respondents did not complete Q3 regarding the proportional split of their business between banks. Where only one bank was recorded in question 1, a value of 100% was recorded in both parts of Q3. In most cases missing responses have simply been left. In only one case was the response eliminated from the responses used, and in that case only the first two questions had been answered. In the other cases, the total response has been left in the data file, but with missing values in respect of some questions. A number of respondents chose not to answer specific questions, as they had the right to do, in some cases indicating that they considered the information to be too personal. It was evident that some respondents had simply missed some of the questions by turning pages together. The statistical software dealt with missing values during the analysis, and the issue was considered on a case by case basis for each batch of analysis.

During the data input it became clear that an error had crept into the questionnaire in respect of Q7, regarding the financial products used by the respondent, and phone banking had not been included as one of the response options. After consultation with the supervisors, it was agreed that an additional response option would be created and responses generated based on other information provided by the respondent. Some respondents had written phone banking as their “Other” products, so this was simply recorded as “Phone banking”. Others had indicated their use of phone banking in respect of their main form of interaction with the bank in Q6, so they were deemed to have “Phone banking” as one of their financial products. While this underestimates the extent of phone banking, as well as the full complexity of many respondents’ banking relationships, this was considered better than omitting phone banking.

3.6.2 Types of analysis

Different types of analysis have been used due to differences in the hypotheses to be tested.

3.6.2.1 Primary analysis

Several of the hypotheses, such as H1A, proposed some form of correlation between the variables. That correlation may be positive or negative, and it is important to note that correlation does not identify any causation. There are two principal measures of correlation: Pearson's correlation coefficient and Spearman's correlation coefficient. Spearman's correlation coefficient is used as it is designed for use when the variables are measured using ordinal scales as in this study.

Other hypotheses, such as H4A, propose more simply that there is a difference in mean values between groups, and ANOVA is used to determine whether the means of the groups of interest are in fact statistically different. Where the means are found to be different, pairwise comparisons are used to find which pairs of groups, if any, have significant differences. Undertaking many comparisons using the same means increases the probability that at least one such comparison is found to be statistically significant even when the population means are the same (Norusis, 2006). Multiple comparison procedures are used to reduce this problem by adjusting the observed significance level in line with the number of comparisons made. In this study, the Bonferroni procedure is used for the pairwise comparison because it is a more conservative multiple comparison procedure and therefore considered more appropriate.

There are also hypotheses, such as H3A, where a simple comparison of means is appropriate. The data is non-metric, and therefore a Mann-Whitney test is used, rather than the more common t test to determine whether any difference between the means is statistically significant. Nevertheless, in some cases the Mann-Whitney test cannot be used, and the traditional t test is therefore used. Use of the t test requires an assumption of normality, which is assessed using the Kolmogorov-Smirnov statistic.

3.6.2.2 Factor analysis

The first of the expected outcomes of this study is to explore switching cost categories, and the key form of analysis to do that will be factor analysis. Factor analysis is a technique "used to detect patterns in a set of interval-level variables" with the goal being "to reduce the set of measured variables to a smaller set of underlying factors" (Spicer, 2005, p. 181).

The Principal Component Analysis (PCA) form of factor analysis is used, so the factors are extracted from all the individual differences. The intention is to find fewer switching cost categories (the factors) that explain switching cost perceptions, and Malhotra (2004) explains that PCA enables the fewest factors to be found with the greatest variance. The exploration of switching cost categories uses the 36 switching cost related questions from Section C of the survey. A Varimax rotation is used as part of the PCA, being a popular orthogonal rotation that “forces the factors to be uncorrelated” (Spicer, 2005, p. 190).

It is appropriate to first test that the variables are “sufficiently interconnected” (Spicer, 2005, p. 185) for factor analysis to be undertaken, and the Kaiser-Meyer-Olkin (KMO) statistic is the usual measure. The overall KMO measure of sampling adequacy had a value of 0.85, a level described as ‘meritorious’ by Kaiser (1974). The KMO value for the individual variables ranged from 0.69 to 0.91³⁷. Generally anything with a KMO value over 0.5 is considered acceptable, so none of the variables need to be eliminated, and the PCA can be undertaken.

3.6.2.3 Other analysis

As discussed in section 3.4.3 this study began with nine categories of switching costs. Perceptions regarding these categories were explored using 36 questions, comprising a statement and a 7-point Likert scale for responses. As these categories are used in many of the hypotheses, it is appropriate to confirm the validity of the group of statements used. Cronbach’s alpha is a measure of internal consistency reliability and can be “used to assess the reliability of a summated scale where several items are summed to form a total score” (Malhotra, 2004, p. 268). It will be used to confirm the reliability of the scales of the original switching cost categories of this study.

3.7 Issues

3.7.1 Non-response bias

Data collected from a representative sample is of value because it can be used to make generalizations about the larger population from which the sample was drawn (Burkell, 2003). However, when only some of the sample respond to the invitation to participate

³⁷ See Appendix 9 for the full results.

in the survey or other research, as is usually the case, questions arise as to the extent to which this generalization can occur. This leads to the issue of non-response bias, which refers to the possible difference in views between those who do respond to a survey and those who do not.

Newell et al. (2004) reported that “lower response rates appear to be a universal trend, particularly in mailout surveys” (p. 266), therefore increasing the potential for non-response bias. Gendall (2000) made the important point that the concern with a reduced response rate is related to the increased potential for non-response bias, while also noting that “non-response bias is not inevitable with a low response rate” (p. 3). Burkell (2003), on the other hand, argued that non-response always results in a biased sample, and that the “important issue is whether the bias influences survey results” (p. 243).

Armstrong and Overton (1977) is a recognised and authoritative article on the issue of non-response bias, and they noted that the most frequently recommended method of protecting against non-response bias is simply to reduce the level of non-response. However, they also suggested that another approach is to seek to estimate the non-response bias, and their article discussed how this could be done. Their methodology was used to explore the existence of non-response bias in this study.

The approach followed was the interest hypothesis, which assumes “that people who are more interested in the subject of a questionnaire respond more readily” (Armstrong & Overton, 1977, p. 397). The process involved three expert judges identifying questions that may be subject to non-response bias and the direction of that bias. Where there is consensus on these matters, the questions are tested for the existence of non-response bias. The three experts used were the researcher and the two supervisors, each of whom identified questions that could be subject to bias under the interest hypothesis. A total of 20 questions were identified by one or more of the experts, as shown in Table 3.9. For four questions there was consensus of at least two experts on the existence and direction of the potential bias, and these questions were tested for non-response bias in accordance with the recommendations of Armstrong and Overton (1977).

Table 3.9: Jury of expert opinion on non-response bias

Section	Question	Expert			Consensus
		# 1	# 2	# 3	
A	5	-ve			
B	8	-ve	-ve	+ve	-ve
	9	-ve		-ve	-ve
	10		-ve		
	11		+ve		
	14		+ve	-ve	
	15		+ve	-ve	
	16	+ve			
	17	-ve			
C	21		+ve	+ve	+ve
	22		-ve	-ve	-ve
	23			+ve	
	35		-ve		
	36			-ve	
	42			-ve	
	43			-ve	
	46			-ve	
	52		-ve		
	54			-ve	
	56		-ve		

To test for the existence of non-response bias the responses were split into three waves based on the date the response was received, which related to the three mailings that were sent out. Wave 1 included responses prior to November 12th, Wave 2 included responses for November 12th – 24th inclusive, and Wave 3 was all responses received after November 24th; the appropriateness of these dates can be seen in Figure 3.1 on page 87. Armstrong and Overton (1977) recommend adjusting for non-response bias if there is a consensus on the direction of bias between the experts and the trend between response waves.

The mean for each wave for each of the four questions was calculated and trends sought, as reported in Table 3.10. As can be seen there was little difference in the means, and no clear trend evident for any of the four questions. Accordingly, there is no evidence of non-response bias.

Table 3.10: Means by response wave

Wave	Question 8		Question 9		Question 21		Question 22	
	Mean	N	Mean	N	Mean	N	Mean	N
1	5.82	458	4.39	458	3.46	451	4.42	454
2	6.00	208	4.44	209	3.57	204	4.28	206
3	5.68	278	4.37	281	3.50	270	4.43	269
Total	5.81	944	4.39	948	3.50	925	4.39	929

3.7.2 Other limitations

Hair et al. (2006) note that every study has limitations, and common limitations include sampling bias and systematic errors. They define sampling bias, or sampling error, as the “statistically measured difference between the actual sample results and the true population results”, while they define systematic errors, or non-sampling errors, as “all errors that can enter the survey research design that are not related to the sampling method or sample size” (p. 224).

As noted in section 3.4.7 simple random sampling was used to draw the sample for this study, and as a probability sampling method Hair et al. (2006) note that it allows the findings to be generalized with a known margin of error, and limits the extent of sampling bias. This method requires that the sample is drawn from a complete listing of the population of interest. While all New Zealand citizens aged 18 years and over are legally required to be registered on the electoral roll, which was used in this case, it must be noted that some are not and that some can choose to have their details withheld from any production of the roll. The number involved is believed to be insignificant, but must be acknowledged.

As noted in section 3.5.3, there were differences between the sample and the New Zealand population in respect of gender and age, and a non-parametric chi-square test was used to explore these differences. Gender was tested assuming both an equal split and a split based on the New Zealand population proportions. In both cases a significant difference was found ($\chi^2=18.3$, $p=0.00$ and $\chi^2=12.6$, $p=0.00$ respectively). Age was tested using the proportions for the New Zealand population aged between 20 and 85, and a significant difference was found ($\chi^2=85.6$, $p=0.00$). The same test was used to explore the difference noted in the bank market shares, with this difference also

found to be significant ($\chi^2=57.4$, $p=0.00$). This indicates that generalizing the findings of this research to the general population must be done with care.

One option available to deal with the differences between the sample and the New Zealand population would be weighting. Malhotra (2004) suggests "weighting is most widely used to make the sample data more representative of a target population on specific characteristics" (p. 411). However, he also recommends caution in the application of weighting as it can introduce complications. In this study, no attempt is made to estimate population proportions and therefore it is not considered necessary to apply any weighting to the data.

There are a range of possible non-sampling errors that can arise, most of which are dealt with in the design of the questionnaire and the process undertaken. As noted in section 3.6.1 errors were apparent in some of the responses received, and these have been corrected or removed. Some non-sampling errors may remain, primarily response errors such as deliberate falsification or unconscious misrepresentation, as they are unable to be identified and eliminated. These are not expected to be significant.

CHAPTER 4: RESULTS

This chapter reports the empirical results from the study, obtained from an analysis of the responses to the mail survey. It begins by looking at the reported past switching behaviour and likelihood of future switching. The following section discusses the categorisation of switching costs and the respondents' reported perceptions of switching costs. The remainder of the chapter comprises the findings in relation to the hypotheses developed in Chapter 3.

4.1 Switching Behaviour

Before exploring the hypotheses that are the focus of this research, there is value in having some appreciation of the respondents' switching behaviour and their perceptions of switching costs³⁸.

4.1.1 Past switching behaviour

A useful starting point is understanding the proportion of respondents who had changed their main bank. Only four respondents did not answer this question, and 36.1% of those who responded reported having never changed their main bank. The remainder reported having changed their main bank at least once, with 35.5% having done so just once, 24.6% having switched 2-3 times, and the remaining 3.8% having switched four or more times. So nearly two-thirds of all respondents had some experience of switching to draw on as they answered the questionnaire.

It is also helpful to understand how recently the last switch was done, as respondents should have a clearer memory of a more recent experience, which should therefore have a stronger influence on their perceptions. Of the respondents who had switched, just 5.0% had done so within the previous 12 months, with a further 6.1% having switched 12-24 months prior to taking part in the survey. This is in line with the anecdotal claims of a churn rate of around 5% per annum, with Lees, Garland, and Wright (2007), for example, reporting that 3.6% of their large sample had switched their main bank in the previous 12 months. Most respondents in this study (69.5%) who had switched, had

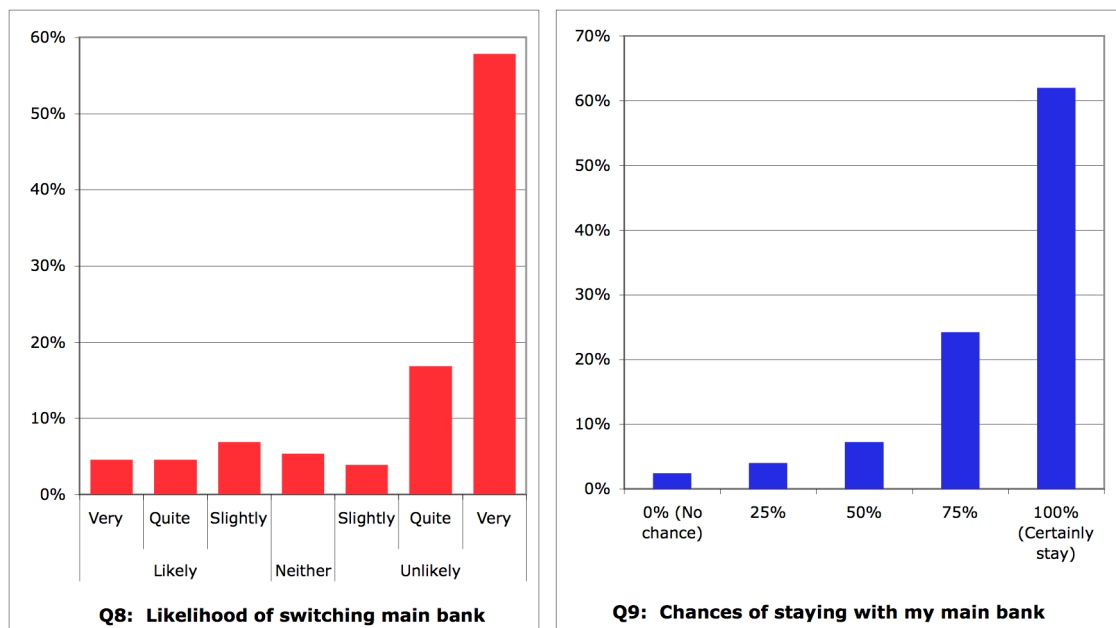
³⁸ Results, including percentages, are reported to one decimal place, except values between 0 and 1, which are reported to two decimal places.

done so more than 5 years prior to completing the survey, with the balance (19.4%) having switched between 2 and 5 years prior. In the questions related to past switching behaviour only those who had switched within the previous five years were asked to respond, on the basis that responses related to a switch over five years before were of limited relevance. Similarly, analysis related to past switching behaviour was restricted to those respondents who had switched in the last five years.

4.1.2 Future switching behaviour

Also of interest at this stage is the respondents' expected future switching behaviour, or more specifically their likelihood of future switching. An indication of the likelihood of changing their main bank was sought in two ways, asking (Q8) about the likelihood that they would change their main bank in the subsequent twelve months, followed by a question (Q9) about the chances of staying with their current bank for the subsequent twelve months.

Figure 4.1: Likelihood of future switching



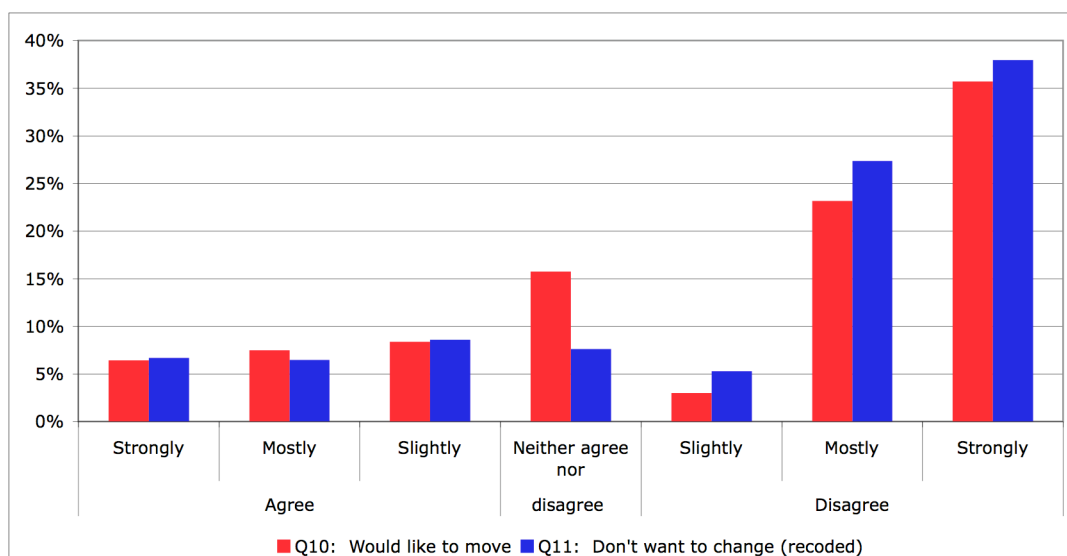
The distribution of responses for these questions is shown in Figure 4.1, and clearly the majority are unlikely to change their main bank in the next twelve months. The mean response for Q8 was 5.8, which is close to the response of 'Quite unlikely' (represented by a value of 6) and for Q9 it was 4.4, which is just over the response of '75%' (represented by a value of 4). For both questions the median response was the final option, i.e. 'Very unlikely' and '100%' respectively. A minority of respondents did

indicate some future potential for changing their main bank, with 16.0% of respondents indicating some likelihood of switching, but only 6.4% reporting a less than 50% chance of staying with their current bank.

Both questions were expected to generate similar responses, and this was tested with a Spearman’s correlation test. A correlation of 0.74 was found between responses to the two questions, which was significant at the 1% level, indicating a strong correlation. Subsequent analysis on the likelihood of future switching used a mean for the two questions. There was a different number of items in the response scale for Q9, so the response options were adjusted to give equivalent values in a range of 1-7. The variable *Switching Likelihood* was then measured as the mean of these two questions, using the adjusted response values for Q9.

The reported lack of likelihood of changing main bank by most people could indicate that they are happy with their current banking arrangements, but it could also mean they feel locked-in and unable to change. Two questions explored respondents’ desire to switch to better understand whether the reported likelihood of future switching indicated satisfaction or a feeling of being locked-in. The first question (Q10) sought the extent of the respondent’s agreement with a statement about whether they would like to move to another bank, while the second (Q11) took the opposite approach and sought the respondent’s agreement with a statement that they would not want to change. For analysis purposes the responses to the second question were inversely recoded.

Figure 4.2: Desire to switch



The spread of responses for both questions is shown in Figure 4.2, and clearly most respondents had no desire to switch. It is interesting to note, however, that around one-fifth of respondents (22.3% for Q10 and 21.7% for Q11) indicated some desire to change banks compared to the 16.0% and 6.4% who indicated some likelihood of actually switching banks in the subsequent 12 months (as discussed above).

As Figure 4.2 shows, the responses to the two questions were very similar, although there were more neutral responses for Q10 and more respondents indicated they did not want to switch for Q11. The correlation between these two questions was tested using Spearman's correlation, with a correlation of 0.60 found, which was significant at the 1% level. Subsequent analysis, relating to the desire to switch, used the mean response for these two questions (with the recoded responses to Q11) as the measure for the variable *Switching Desire*.

"I would like to go to [Bank A]. Too much trouble to do so."^{39,40}

"I would change but truly lack energy to start all over again." (This followed an explanation by the respondent as to why she would like to change her bank.)

"If I knew it would be easy to change to a better bank, that offers better rates + services, I would do it tomorrow."

"I am very dissatisfied with the service from the bank I have been with for over 50 years, and parents before me. I would switch to a NZ-owned bank if it was easy"

A number of respondents provided useful comments, such as those above, that explained their attitude in respect of their desire to switch and the likelihood of them doing so. These respondents expressed a desire to change but reported they were unlikely to do so; in these cases the primary reason for not switching related to the time and effort involved in changing bank. The relationship between likelihood and desire is explored further in section 4.3.1.

³⁹ The names of specific banks provided by the respondents have been removed, as that detail is not generally relevant.

⁴⁰ Minor spelling mistakes in the respondents' written comments have been corrected.

4.2 Perceived Switching Costs

4.2.1 Reliability of switching cost categories

Are the scales used to measure the switching cost categories reliable? Cronbach's alpha was used to provide a measure of internal consistency of the scales used. A summary of the results is provided in Table 4.1 and the full results appear in Appendix 10.

Table 4.1: Internal consistency measure for switching cost categories

Switching cost category	Number of items	Cronbach's alpha
Personal Relationship	4	0.87
Hassle	5	0.77
Benefit Loss	4	0.73
Uncertainty	4	0.69
Monetary Loss	4	0.67
Search	3	0.66
Learning	4	0.64
Service Disruption	4	0.59
Brand Relationship	4	0.56

A value for Cronbach's alpha greater than 0.7 is generally viewed as indicating a good level of consistency, and *Personal Relationship*, *Hassle* and *Benefit Loss* fell into this category. A value of 0.6 to 0.7 is considered to be acceptable, with *Uncertainty*, *Monetary Loss*, *Search* and *Learning* in this category. A value of less than 0.6 is generally viewed as being unsatisfactory (Hair et al., 2006, p. 420), and two of the categories (*Service Disruption* and *Brand Relationship*) were at this level. The Cronbach's alpha for these last two categories, however, was not much less than 0.6, and hence it was not considered necessary to ignore them; in subsequent analysis, however, it was appropriate to treat results for these two latter categories with some caution.

As part of the analysis to find Cronbach's alpha, it was possible to identify any scale items, i.e. statements, that may not be consistent with the other items in the scale. This was true for just five items across the nine scales. In the case of *Hassle* there was a small increase in the value of Cronbach's alpha, from 0.77 to 0.79, when Q21 was eliminated from the scale, while for *Benefit Loss* Cronbach's alpha increased from 0.73 to 0.75 when Q25 was eliminated. The third increase was for *Search*, from 0.66 to 0.70, with the elimination of Q22, and the fourth was from 0.56 to 0.59 for *Brand*

Relationship when Q53 was eliminated. In the case of *Service Disruption*, Cronbach's alpha increased from 0.590 to 0.591 when Q47 was eliminated, but at two decimal places the value did not change. The largest increase in Cronbach's alpha was just 0.04, for *Search*, so no increase was considered large enough to require the elimination of any scale item.

The switching cost category scales used in this study therefore appeared to be reliable, and were used in the subsequent analysis, subject to some caution as noted in respect of the *Service Disruption* and *Brand Relationship* categories.

4.2.2 Alternative categorisation of switching costs

Previous research has grouped the categories of switching costs into higher order classifications. In particular, Burnham et al. (2003) used a Varimax-rotated exploratory factor analysis to reduce their original eight categories to just three – Procedural, Financial and Relational. There was thought to be value in exploring whether a higher order typology could be found for this study, which would have the advantage of greater simplicity.

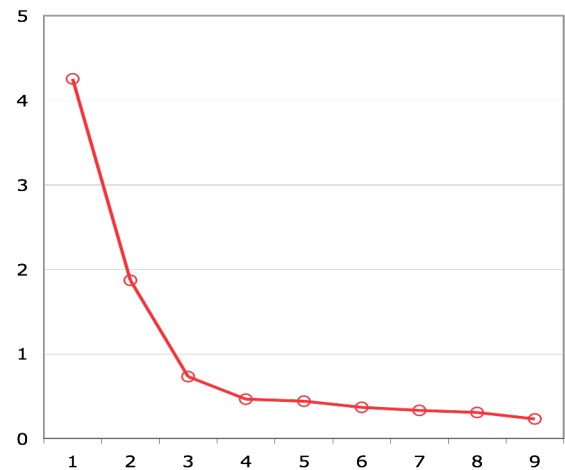
Before undertaking Principal Components Analysis (PCA), it was necessary to check that factor analysis was appropriate. This was done using the KMO measure of sampling adequacy, as discussed in section 3.6.2.2.

The key question with PCA is the number of factors to extract. Table 4.2 and Figure 4.3 show the initial eigenvalues and the associated scree plot, respectively, for the factors obtained from the PCA. From Table 4.2, there were just two factors with an eigenvalue greater than 1, which is a common benchmark as noted by Spicer (2005). However, he also suggested that the scree plot be examined for a natural break. In this case that break appeared at factor 3, as seen in Figure 4.3. The eigenvalue for factor 3 is less than 1, but it does explain 8.1% of the variance. The cumulative variance is also of value, and the first two factors have a cumulative variance of 68.0%, increasing to 76.1% for the first three factors. Fabrigar, Wegener, MacCallum, and Strahan (1999) cautioned against over-factoring, but also argued that it is better to have more factors.

Table 4.2: Eigenvalues for all components

Component	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1	4.25	47.2	47.2
2	1.87	20.8	68.0
3	0.73	8.1	76.1
4	0.47	5.2	81.3
5	0.44	4.9	86.2
6	0.37	4.1	90.3
7	0.34	3.7	94.0
8	0.31	3.4	97.4
9	0.23	2.6	100.0

Figure 4.3: Scree plot



Spicer (2005) noted that a “practice has developed of using 0.30 as a minimum loading on the grounds that such a variable would be accounting for nearly 10% ($.3^2$) of the variance in a factor” (p. 189). On the other hand, Stevens (2002) argued that “one would want in general a variable to share *at least* 15% of its variance with the construct (factor) it is going to be used to help name” (p. 394). In this case a minimum loading of 0.4 was used in line with Stevens’ recommendation, with the advantage of simplifying the description of the factors and having most variables load on only one component.

The components and their factor loadings are shown in Table 4.3, for both the two-factor and the three-factor models. The two-factor model was cleaner, in that each variable loaded onto only one component, but it was more difficult to interpret with six apparently different variables loading onto component one. The three-factor model, on the other hand, had three variables that each loaded onto two components, but it was easier to interpret. It is worth remembering that the variables are themselves composites, and therefore multiple loadings may be appropriate to reflect this. Accordingly, the three-factor model was considered to be the most appropriate.

Table 4.3: Factor loading comparison⁴¹

	2-factor model		3-factor model		
	Components		Components		
	1	2	1	2	3
Learning	0.77		0.89		
Search	0.81		0.71		
Uncertainty	0.78		0.55	0.62	
Benefit loss		0.75		0.67	0.56
Monetary loss	0.74			0.80	
Hassle	0.88		0.86		
Brand relationship		0.80			0.92
Personal relationship		0.89			0.81
Service disruption	0.71		0.54	0.53	

Looking at the components of the three-factor model, five variables loaded onto component 1. These variables were *Learning*, *Hassle*, *Search*, *Uncertainty*, and *Service Disruption*, and it appeared this component related primarily to the time, effort and associated inconvenience involved in switching. The four variables loaded onto the second component were *Monetary Loss*, *Benefit Loss*, *Uncertainty* and *Service Disruption*, which had a theme of loss or more tangible costs. The third component had three variables loaded onto it, being *Brand Relationship*, *Personal Relationship* and *Benefit Loss*. The underlying issue with these variables appeared to be the relationship with the bank, in the wider sense of the relationship. This three-factor model is consistent with the three higher order factors of Procedural, Financial and Relational identified by Burnham et al. (2003). Component 1 of this model clearly corresponds with Procedural costs, Component 2 with Financial costs, and Component 3 with Relational costs. The match is not precise due to methodological and sampling differences between the two studies; however, it is close enough to be regarded as confirmation of Burnham et al.'s results, and indicative of the validity of the scales used in this study. These labels have, therefore, been used for the components in the subsequent discussion.

Where appropriate the higher order factors, from the three-factor model, were used to test the hypotheses, in addition to the original switching cost categories. The variables for the higher order categories were calculated as the simple mean of the lower order categories that loaded onto them. The three categories that loaded onto two factors were included in the calculation for the variable where the loading was the greatest, so *Service Disruption* was included as part of *Procedural*, and *Benefit Loss* and

⁴¹ Loadings less than 0.4 have been suppressed for clarity.

Uncertainty as part of *Financial*. In most cases the calculation method used means that the results for these higher order factors follow quite logically and naturally from those of the original lower order categories. Accordingly, the results for these higher order categories are generally discussed only briefly.

4.2.3 Perceptions of switching costs

At this stage it is useful to consider the perceptions of switching costs, in general terms. Figure 4.4 shows the mean response for each switching cost category, as well as the overall mean switching cost. Response options ranged from 1, Strongly Agree, to 7, Strongly Disagree, so a smaller mean indicates that the switching cost was perceived to be higher. The means ranged from a low of 3.3 to a high of 4.1, so for all switching cost categories, except *Monetary Loss*, respondents perceived the switching cost to be a problem. The lowest mean was for *Hassle*, indicating this was the most important of the switching cost categories for the respondents. A number of respondents commented on the *Hassle* of switching, such as the following:

“It would be a huge drama to get all APs, Direct Debits + credits, credit card and mortgage switched over so I guess we won’t.”

“The hassle is the biggest obstacle, the time involved and having to set up new payments.”

“I shudder to contemplate the prospect of changing our bank and going through all that hassle again.”

The other categories whose mean fell below the overall mean were *Learning* and *Service Disruption*. Respondents also commented on these categories:

“I want to change banks with lower fees but I don’t really have the time to do that & learn a new system.”

“It took her at least 6 months to get missed insurance payments etc sorted after the switch.” (Reporting on a friend’s experience of changing banks).

“The change of bank took approx. 3 months before all payments were converted & running smooth. There were missed payments & penalties – some my fault, some the bank & some the company dealt with.”

It is interesting to note that the only category that had a mean greater than four was the one related to direct financial costs (*Monetary Loss*). As the largest it therefore appears to be the least important for respondents.

A t test⁴² was used to determine whether the mean for each category was significantly different from the neutral value of 4. The Kolmogorov-Smirnov statistic confirmed an assumption of normality, allowing the t test to be used. The t test confirmed that the mean of seven of the switching cost categories, as well as for overall switching costs, was significantly different to the neutral value; the exceptions were *Monetary Loss* and *Benefit Loss*.

Figure 4.4: Perception of switching costs

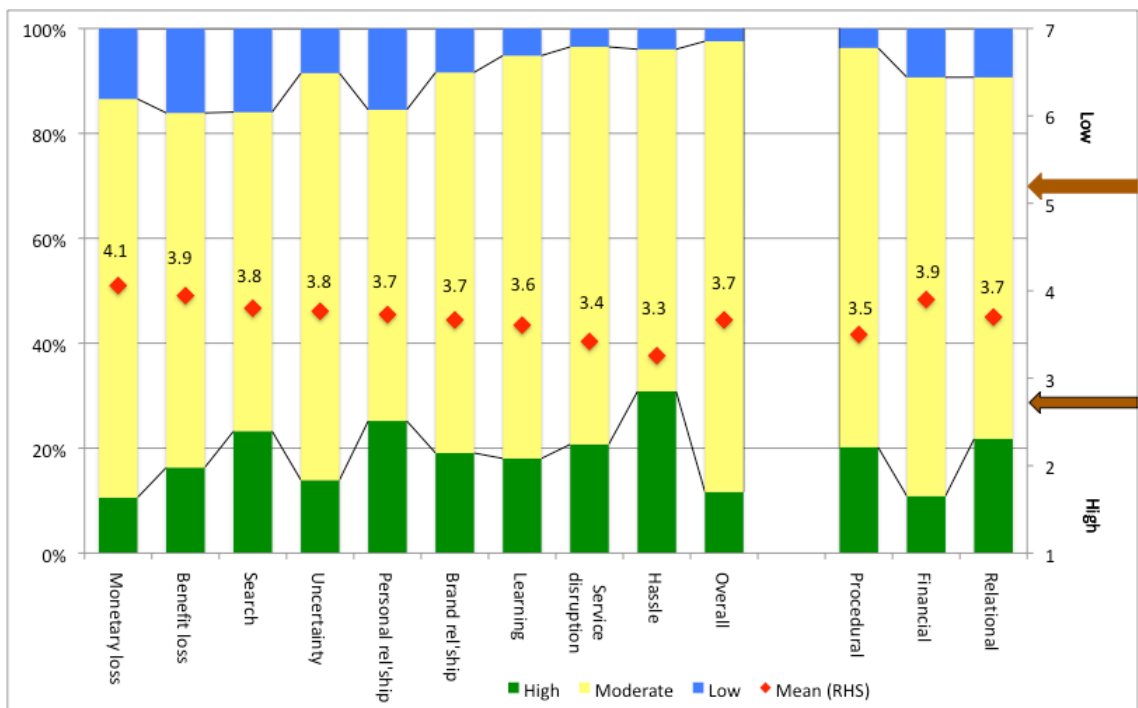


Figure 4.4 also presents the proportion of respondents who were rated as having a perception that a category of switching costs or switching costs overall is high, moderate or low. Where the mean rating for the category, or overall switching costs, was less than 2.75 the respondent was judged to perceive that category of (or overall) switching costs as high. Respondents were considered to have a perception that switching costs are low where the mean was greater than 5.25. A mean value between 2.75 and 5.25 inclusive was considered to indicate a perception that switching costs are moderate. The cut-offs are arbitrary, but were chosen to be at a level such that the respondent appeared to have a reasonably strong view if included in the high or low groups. The graph clearly shows there were different perceptions for different

⁴² A t test assumes a normal distribution, although it is fairly robust to departures from this assumption, and the Kolmogorov-Smirnov statistic was used to assess whether this assumption was appropriate in this case.

categories of switching costs, but for all categories, the proportion of those who consider a cost to be high was not great, with the majority considering them to be moderate.

One respondent usefully summed up the mix of switching costs in the comment that

“There are a lot of emotions going on when changing banks: 1. You wonder if you’re making the right choice; 2. You want to remain loyal after 38 years; 3. It’s a hassle changing direct debits; 4. It takes more time to do than you realise; 5. You want to keep your good banking reputation; 6. There’s always the fear of the unknown”.

4.3 The Effect of Different Types of Switching Costs

The first objective for this study was to examine how different switching cost categories may differ in their effect, specifically with respect firstly to the desire to change banks relative to the likelihood of switching, and secondly to respondents’ preference for having the bank handle the actual switch. Differences in perceptions of switching costs between those who have switched and those who have not switched were also of interest. Three propositions, with ten associated hypotheses, were identified in respect of Objective 1, as discussed in section 3.1.1 of the previous chapter.

4.3.1 Proposition 1: Attitudes towards switching costs affect the relationship between the desire to change banks and the likelihood of actually switching.

The first hypothesis (H1A) was that the likelihood of switching would be less positively correlated with the desire to switch when switching costs were perceived to be high. Likelihood of switching was measured using the *Switching Likelihood* variable and the desire to switch was measured using the *Switching Desire* variable, as discussed in section 4.1.2.

Before exploring the effect of perceived switching costs, it is useful to consider the basic correlation between desire and likelihood. The correlation between these two variables was found to be significant at the 1% level, with a Spearman’s correlation coefficient of 0.54. This indicates a strong positive correlation between desire to switch and likelihood of switching. The fact that the correlation was not stronger suggests that while a person may wish to switch there is some factor that means they will not do so in practice, and it seems reasonable to suggest that switching costs may be such a factor.

To test this hypothesis, the respondents were broken into three groups, comprising those who considered switching costs were high, moderate and low, as discussed in section 4.2.3. As Table 4.4 shows, the correlation between *Switching Likelihood* and *Switching Desire* is positive for all three groups, and it is clearly less where perceived switching costs are high, thereby supporting the hypothesis. The highest correlation was found where switching costs were perceived to be low, although the difference between the moderate and low groups was small. Accordingly, the first hypothesis was supported.

Table 4.4: Correlation between desire to switch and likelihood of switching for different levels of overall switching costs

Switching costs are perceived to be		
High (n=110)	Moderate (n=802)	Low (n=23)
rs=0.37***	rs=0.56***	rs=0.59***

***= significant at the 1% level

The second hypothesis (H1B) was in respect of the same relationship, but considered the effect for each of the nine switching cost categories individually. The results appear in Table 4.5. The final column indicates whether the predicted relationship held, i.e. that the correlation between *Switching Likelihood* and *Switching Desire* increased as the perception of the switching cost category fell; no account was taken of the magnitude of the increase in the correlation.

For seven switching cost categories the results were clear, and the hypothesised relationship held, with a positive correlation that increased from the High group to the Low group. In the case of *Learning Costs* the correlation was greater for both the Moderate and Low groups compared to the High group, but the correlation was smaller for the Low group than the Moderate group. It can be argued that in this case the hypothesis is supported, but only partially. For *Uncertainty*, the correlation was smallest for the Low group, although it was higher for the Moderate group compared to the High group. Nevertheless, the hypothesis should be rejected for this category.

Table 4.5: Correlation between desire to switch and likelihood of switching for different levels of each switching cost category

Switching cost category	Switching cost is perceived to be			Correlation increases	
	High	Moderate	Low		
Learning	rs=0.49*** (n=163)	rs=0.58*** (n=694)	rs=0.55*** (n=46)	No	
Procedural	Search	rs=0.53*** (n=213)	rs=0.55*** (n=553)	rs=0.57*** (n=144)	Yes
	Hassle	rs=0.50*** (n=280)	rs=0.57*** (n=587)	rs=0.60*** (n=36)	Yes
	Service Disruption	rs=0.51*** (n=188)	rs=0.55*** (n=685)	rs=0.58*** (n=32)	Yes
Financial	Uncertainty	rs=0.50*** (n=126)	rs=0.57*** (n=698)	rs=0.46*** (n=77)	No
	Benefit Loss	rs=0.41*** (n=148)	rs=0.50*** (n=608)	rs=0.70*** (n=145)	Yes
	Monetary Loss	rs=0.39*** (n=96)	rs=0.57*** (n=685)	rs=0.60*** (n=121)	Yes
Relational	Brand Relationship	rs=0.43*** (n=170)	rs=0.50*** (n=654)	rs=0.52*** (n=76)	Yes
	Personal Relationship	rs=0.30*** (n=227)	rs=0.53*** (n=534)	rs=0.58*** (n=141)	Yes

***= significant at the 1% level

The hypothesis also held for the higher order categories, with the value of Spearman's rho decreasing from 0.68 to 0.43 for *Procedural*, from 0.73 to 0.35 for *Financial* and from 0.53 to 0.28 for *Relational*, with all correlations significant at the 1% level. It is of note that the size of the decrease was greater for these higher order categories than for the lower order categories.

The relative differences in the level of correlation were not analysed. However, it is of interest to note that the greatest range between high and low for the original categories was found for *Benefit Loss* (0.29), *Personal Relationship* (0.28), and *Monetary Loss* (0.21), while the range for the higher order categories was also substantial. This suggests these three categories of switching costs have a greater impact on deterring people from switching when they would like to do so. Some respondents commented on one of these categories, being the importance of the personal relationship to them:

"I hate [Bank B] but our mortgage consultant is lovely. If she left, we probably would too."

“I do not have a personal relationship with the workers at [Bank C, Branch D] so I feel it would be easy to switch banks at present.”

“Our relationship with our personal banker is too good to lose.”

The smallest differences (for categories where the hypothesis is fully supported) were found for *Search* (0.04) and *Service Disruption* (0.07). This suggests these two categories are more limited in their impact on deterring people from switching if they have a desire to do so.

Table 4.6: Results for Proposition 1 hypotheses

<i>Proposition 1: Attitudes towards switching costs affect the relationship between the desire to change banks and the likelihood of actually switching</i>		
H1A	That the likelihood of switching is less positively correlated with the desire to switch when switching costs are perceived to be high.	Supported
H1B	That the likelihood of switching is less positively correlated with the desire to switch when each category of switching costs is perceived to be high.	
	<ul style="list-style-type: none"> • Learning • Search • Hassle • Service Disruption • Uncertainty • Benefit Loss • Monetary Loss • Brand Relationship • Personal Relationship 	Partial support ^a Supported Supported Supported Rejected Supported Supported Supported Supported

a. *The finding of partial support reflects that the correlation was least for the High group, as hypothesised, but was greater for the Moderate group than the Low group.*

The findings in respect of the hypotheses related to Proposition 1 are summarised in Table 4.6. Overall, the results support the proposition that the relationship between desire to change bank and the likelihood of actually doing so is affected by perceived switching costs. This supports claims made in prior research that switching costs cause customers to be locked-in to their current providers. The finding that seven of the nine categories of switching cost reduce the correlation between *Switching Desire* and *Switching Likelihood* has important implications for the banking market, as it means that banks must address a range of issues in order to turn a potential switcher into an actual switcher.

4.3.2 Proposition 2: Customers' desire to have the bank handle the switch is affected by their perception of switching costs.

4.3.2.1 Customers' desire to have the banks handle the switch

In the strongly competitive environment in which banks now operate they have sought to attract new customers from other banks. In doing so, they have emphasised their ability and willingness to handle the process of switching banks for a new customer switching to them. As pointed out in Chapter 1 this is not a new service, but banks have found it advantageous to promote this service as they seek to overcome customers' reluctance to switch. However, customers do not always want the new bank to do this (for example, see Matthews & Murray, 2007).

Two questions sought to measure respondents' preference for the bank to do the switch. The first (Q12) sought agreement with the idea that the respondent would like the bank to do the switch, while the second question (Q13) took a less direct approach to the issue and referred to the respondents' ability to take care of switching banks on their own. The second question had an inverse wording and was therefore recoded for analysis purposes. Over 50% of respondents strongly agreed, in respect of Q12, that they would like the bank to do the switch for them. However, 40% mostly or strongly agreed, in respect of Q13, that they could handle the switch themselves. So customers who feel confident that they could comfortably handle the switch themselves may still prefer the bank to do it for them, possibly for reasons of time. On the other hand, those who do not feel confident about doing the switch themselves may nevertheless not want the bank to do it for them, perhaps for reasons such as lack of trust. The correlation between the responses to the two questions was low ($r_s=0.18$), and statistically significant. The low correlation suggests that the two questions actually relate to separate issues. This is supported by the comment added by one respondent to Q13 that indicated her agreement to being able to take care of changing her bank herself applied "Unless #12 was in force", i.e. unless the bank was going to do it all for her. Testing of the hypotheses related to preference to have the bank handle the switch was therefore undertaken using the responses to Q12 only.

4.3.2.2 *Relationship between perceived switching costs and having the bank do the switch*

The first hypothesis related to this proposition (H2A) suggested that customers' preference for having the bank do the switch would be positively correlated with their concerns about possible *Service Disruption* as a result of switching. In particular, *Service Disruption* relates to concerns that things will go wrong, for example that payments will be missed and/or a direct credit of wages will not be received. Spearman's correlation coefficient was 0.13, and the result was statistically significant at the 1% level. Accordingly, the hypothesis was supported.

The other category of switching cost that could correlate with a desire for the bank to do the switch would be the *Hassle* of the switching process, whereby the switching process is perceived to be difficult and/or time consuming. The second hypothesis (H2B) explored this relationship, suggesting that customers' preference for having the bank do the switch would be positively correlated with a perception that switching banks is a hassle. Spearman's rho for this correlation was 0.14, and statistically significant at the 1% level, and therefore this hypothesis was also supported.

Both *Hassle* and *Service Disruption* are included within the *Procedural* category. Spearman's rho for the correlation between *Procedural* and a desire to have the bank handle the switch was 0.12, significant at the 1% level.

4.3.2.3 *Summary of results for Proposition 2*

Table 4.7: Results for Proposition 2 hypotheses

<i>Proposition 2: Customers' desire to have the bank handle the switch is affected by their perception of switching costs</i>		
H2A	That a preference for having the bank handle the switching process is positively correlated with concerns about possible disruptions to service.	Supported
H2B	That a preference for having the bank handle the switching process is positively correlated with a perception that switching is a hassle	Supported

The findings in respect of the hypotheses related to Proposition 2 are summarised in Table 4.7. It seems that a customer's preference (or not) for having the new bank take care of the switch for them is affected by both the concerns they have about the possible service disruption, as well as their perception of the associated hassle. Nevertheless, the correlation is low; suggesting that even the influence of these *Procedural* costs is

limited. Therefore, there must be other factors that influence whether customers will be interested in the banks' assorted offers and schemes to take care of the switch for them.

4.3.3 Proposition 3: Customers who have switched, particularly those who have switched more recently, have a different perception of switching costs than those who have not switched.

4.3.3.1 Switchers vs. non-switchers

Customers who have switched banks are able to base their perceptions of switching costs on their experience, rather than making an assessment purely on a theoretical, or perceived/imagined, basis. If switching banks is a relatively simple process, as most financial institutions would have one believe, those who have switched should perceive switching costs as being lower than those who have not switched, for whom the process is an unknown. This was the basis of the first hypothesis (H3A).

While 334 respondents reported having never switched, 605 respondents reported having switched at least once. The mean value for overall switching costs for the non-switchers was 3.6, while for the switchers it was 3.7. A higher mean indicates lower switching costs, so this supported the hypothesis. The difference was small, but ANOVA confirmed the difference was significant at the 1% level ($p=0.00$).

The next step was to look at the difference (if any) between switchers and non-switchers in their perception of each of the switching cost categories. Table 4.8 shows the means for each category of switching cost for both switchers and non-switchers, as well as for all respondents.

For all switching cost categories except *Brand Relationship*, the mean for non-switchers was smaller than for switchers, indicating the non-switchers perceived the switching cost to be a greater issue. In the case of *Brand Relationship*, the mean was the same (although at two decimal places it is marginally higher for those who have not switched). When the significance of the difference was examined, only five of the differences were found to be significant, for the switching cost categories of *Hassle*, *Benefit Loss*, *Search*, *Monetary Loss* and *Uncertainty*. The hypothesis was therefore supported for these categories, and rejected for the other four categories.

Table 4.8: Means for switchers and non-switchers for each switching cost category

		Never switched	Have switched at least once	All respondents	p-value
Procedural	Learning	3.5	3.6	3.6	0.16
	Search	3.7	3.9	3.8	0.04**
	Hassle	3.1	3.3	3.3	0.01***
	Service Disruption	3.4	3.5	3.4	0.12
Financial	Uncertainty	3.7	3.8	3.8	0.08*
	Benefit Loss	3.8	4.0	3.9	0.02**
	Monetary Loss	4.0	4.1	4.1	0.05*
Relational	Brand Relationship	3.7	3.7	3.7	0.73
	Personal Relationship	3.7	3.8	3.7	0.26

***= significant at the 1% level

**= significant at the 5% level

*= significant at the 10% level

A significant difference between switchers and non-switchers was found for two of the higher order categories: *Procedural* and *Financial*. The means for *Procedural* for switchers and non-switchers were 3.6 and 3.4 respectively with a p-value of 0.02. For *Financial* the means were 4.0 and 3.8 for switchers and non-switchers respectively, with the p-value of 0.01 confirming the difference is significant.

4.3.3.2 Effect of time since last switched

As time passes the memory of the actual switching experience fades, and it is expected that the perception of switching costs changes. More specifically, it is expected that as time passes a switcher's perception would become more like that of a non-switcher. The second hypothesis (H3B) suggested that there would be a negative correlation between perceived switching costs and how recently the person has switched, so someone who has switched more recently would be expected to perceive switching costs as lower. As this focussed on how recently a person had switched, non-switchers were excluded from the analysis. Spearman's rho for the correlation was -0.12 and it was significant at the 1% level, supporting the hypothesis.

The correlation was also measured between time since last switched and the perception of each of the switching cost categories. The correlation was negative for each category, as shown in Table 4.9, with the greatest correlation being -0.15 (for *Benefit Loss* and *Hassle*). The correlation was found to be significant (at the 1% level) for only three categories: *Benefit Loss*, *Monetary Loss*, and *Hassle*.

Table 4.9: Correlation between time since last switched and switching cost

		Spearman's rho	Sig. (2-tailed)
Procedural	Learning	-0.03	0.47
	Search	-0.05	0.20
	Hassle	-0.15	0.00***
	Service Disruption	-0.07	0.09
Financial	Uncertainty	-0.06	0.13
	Benefit Loss	-0.15	0.00***
	Monetary Loss	-0.12	0.00***
Relational	Brand Relationship	-0.01	0.76
	Personal Relationship	-0.06	0.15

***= significant at the 1% level

The correlation was significant for the higher order categories of *Procedural* and *Financial*, with Spearman's rho being -0.09 significant at the 5% level and -0.14 significant at the 1% level respectively.

With these results the hypothesis was supported for three categories (*Hassle*, *Benefit Loss* and *Monetary Loss*), and overall switching costs, in that the correlation was negative and significant. The hypothesis was rejected for the other lower order categories of switching cost.

4.3.3.3 Relationship length

The third hypothesis related to Proposition 3 considered the correlation between switching costs and the length of the customer's relationship with the bank (H3C). The longer a customer's relationship, the higher should be the perceived switching costs, especially in respect of brand relationship and personal relationship. The questionnaire had a question that asked simply how long the respondent had been a customer of their main bank (Q5) with five options available, ranging from less than 1 year to more than 10 years. The variance incorporated in the final response option was captured by handwritten comments by some respondents noting that their banking relationship had been in place for 20-59 years. Table 4.10 shows the distribution of responses for this question.

Table 4.10: Distribution for length of main banking relationship

Less than 1 year	2.7%
1-3 years	9.5%
More than 3 years but not more than 5 years	7.7%
More than 5 years but not more than 10 years	16.2%
More than 10 years	63.9%

Spearman's rho for the correlation between length of relationship and switching costs overall was -0.12, significant at the 1% level. A higher value for the relationship variable represented a longer relationship, while for the switching cost variable it represented lower perceived costs, so a negative value for Spearman's rho in fact represents support for the hypothesis.

As before, the correlation was also measured between the length of the banking relationship and each switching cost category, and the results were similar to those for overall switching costs. All the correlations were negative, with the greatest being -0.14 (for *Hassle*), as shown in Table 4.11. Only three correlations were statistically significant, and each of those at the 1% level; the significant correlations were for *Benefit Loss*, *Monetary Loss* and *Hassle*.

With respect to the three higher order categories, a significant (at the 1% level) negative correlation was found for both *Procedural* (-0.09 with Sig.=0.00) and *Financial* (-0.12 with Sig.=0.00). One respondent, who had been with her bank for nearly 30 years, commented that "Being with [Bank E] so long made it difficult to change"; nevertheless, she added that she was pleased the change had been made.

Table 4.11: Correlation between relationship length and switching cost categories

		Spearman's rho	Sig. (2-tailed)
Procedural	Learning	-0.06	0.08
	Search	-0.06	0.07
	Hassle	-0.14	0.00***
	Service Disruption	-0.05	0.17
Financial	Uncertainty	-0.05	0.12
	Benefit Loss	-0.13	0.00***
	Monetary Loss	-0.09	0.01***
Relational	Brand Relationship	-0.01	0.88
	Personal Relationship	-0.04	0.25

***= significant at the 1% level

These results supported the hypothesis for the three categories where the correlation was negative and significant, and for overall switching costs. The hypothesis was rejected for the other categories.

4.3.3.4 Ease of switching

The fourth hypothesis (H3D) was that switching would be easier in practice than it was expected to be. This was tested by looking at how easy switchers reported the actual experience of switching to be compared to how easy non-switchers expected it to be. The perception of how easy it is to switch was measured using two questions. The first sought agreement with the statement that banks make it easy (Q14), while the second simply asked how easy the respondent thought it would be (Q15). To measure the actual experience, recent switchers (those who had switched in the previous five years) were asked how easy they had found the process to be (Q20). Mean responses were compared for three groups: those who had switched in the previous five years (*Recent Switchers*), those who had last switched more than five years previously (*Other Switchers*) and those who had never switched (*Non-switchers*).

The correlation between questions 14 and 15 was tested, with Spearman’s rho found to be 0.50 and significant at the 1% level. This indicated a moderate level of correlation, and subsequent analysis used the mean of the responses for these questions as the measure of expected ease of switching. It should be noted that these questions were recoded for analysis, so that 1 indicated switching was very difficult and 7 that it was very easy.

Table 4.12: Ease of switching

Expected ease of switching	Mean
• Recent Switchers	4.3
• Other Switchers	4.1
• Non-switchers	4.0
• All respondents	4.1
Reported ease of switching (Q20)	
• Recent Switchers	5.2

As shown in Table 4.12, all of the mean responses were greater than 4, being on the ‘easy’ side of the scale. For expected ease of switching, the *Recent Switchers* perceived switching as being easiest of the three groups (having the highest mean). However, as

expected the highest mean was for the actual experience of switching, although it was barely above 5, which represented “Slightly easy”.

Respondents’ comments on their experiences of switching banks came from those who found it went well, as well as those who found it difficult. Examples of both views follow:

“Found it surprisingly easy when I changed approximately two years ago.”

“I found the process much easier than anticipated and would do it again ...”

“It never goes as smoothly as they tell you it will.”

“All in all a ghastly experience not taken on lightly.”

A *t* test was used to compare the mean expected ease of switching for each of the three switching groups to the mean ease of switching reported by *Recent Switchers*. The Kolmogorov-Smirnov statistic confirmed normality could be assumed, and therefore that the *t* test could be used. The *t* test confirmed that the reported ease of switching was greater than it was expected to be for all three groups, with the results significant at the 1% level. Of particular interest was the significant difference for *Recent Switchers* for whom the expected ease of switching would be expected to be close to the actual ease of switching as reported by them.

A Mann –Whitney test⁴³ was then used to compare the differences in expected ease of switching between each possible pairing of the three groups. Only one of the pairings was found to have a significant difference, being that of *Recent Switchers* and *Non-switchers*, with $p=0.02$ and significant at the 5% level. This provided clear support for the hypothesis.

The fifth hypothesis (H3E) suggested that one’s desire to change banks would be positively correlated with how easy the change was expected to be. This was tested by looking at the correlation between *Switching Desire* (measured as explained in section 4.1.2) and the expected ease of switching (measured as explained above). Spearman’s rho was 0.23, and significant at the 1% level. However, the values ascribed to the two variables require a negative value of Spearman’s rho in order to find a positive

⁴³ The choice between a Mann-Whitney test and a *t* test to compare means is discussed in section 3.6.2.1.

correlation between the two variables. This means that the correlation was the opposite of what was hypothesised and the hypothesis must be rejected.

The final hypothesis (H3F) in this section related to the correlation between the likelihood of switching and the expected ease of doing so. This was tested by looking at the correlation between *Switching Likelihood* (measured as explained in section 4.1.2) and the expected ease of switching. In this case, Spearman's rho was 0.08 and was not significant, so there was no correlation and the hypothesis was not supported.

4.3.3.5 Summary of results for Proposition 3

The findings in respect of the hypotheses related to Proposition 3 are summarised in Table 4.13. Overall, the results suggested that experience of changing banks does alter perceptions about switching costs and switching. Furthermore, switching was reported to be easier in practice than respondents anticipated that it would be. Surprisingly, this was true even for those who had recent experience of switching, highlighting an apparent disconnect between the past experience and the future expectation.

Table 4.13: Results for Proposition 3 hypotheses

Proposition 3: Customers who have switched, particularly those who have switched more recently, have a different perception of switching costs than those who have not switched

H3A	That perceived switching costs are lower for people who have switched.	
	<ul style="list-style-type: none"> • Overall switching costs • Learning • Search • Hassle • Service Disruption • Uncertainty • Benefit Loss • Monetary Loss • Brand relationship • Personal Relationship 	<p>Supported</p> <p>Rejected</p> <p>Supported</p> <p>Supported</p> <p>Rejected</p> <p>Supported</p> <p>Supported</p> <p>Supported</p> <p>Rejected</p> <p>Rejected</p>
H3B	That perceived switching costs are negatively correlated with how recently people have switched.	
	<ul style="list-style-type: none"> • Overall switching costs • Learning • Search • Hassle • Service Disruption • Uncertainty • Benefit Loss • Monetary Loss • Brand relationship • Personal Relationship 	<p>Supported</p> <p>Rejected</p> <p>Rejected</p> <p>Supported</p> <p>Rejected</p> <p>Rejected</p> <p>Supported</p> <p>Supported</p> <p>Rejected</p> <p>Rejected</p>
H3C	That perceived switching costs are positively correlated with the length of a customer's relationship with the bank.	
	<ul style="list-style-type: none"> • Overall switching costs • Learning • Search • Hassle • Service Disruption • Uncertainty • Benefit Loss • Monetary Loss • Brand relationship • Personal Relationship 	<p>Supported</p> <p>Rejected</p> <p>Rejected</p> <p>Supported</p> <p>Rejected</p> <p>Rejected</p> <p>Supported</p> <p>Supported</p> <p>Rejected</p> <p>Rejected</p>
H3D	That the ease of switching, as reported by those who have switched, is greater than it is expected to be by those who have not switched in the last five years.	Supported
H3E	That the desire to switch is positively correlated with the expected ease of switching.	Rejected
H3F	That the likelihood of switching is positively correlated with the expected ease of switching	Rejected

4.4 The Life Cycle Influence

The second objective for this study was to examine the relationship between switching costs and the family life cycle. In particular, the study sought to understand whether the importance of switching costs changes as a customer moves through the family life cycle. Four propositions, involving 22 associated hypotheses, were identified as discussed in section 3.1.2 of the previous chapter.

4.4.1 Proposition 4: Life cycle stage affects perceived switching costs and the differences are not due to the confounding effects of the nature of the banking relationships

The underlying thesis of this study was the effect of life cycle stage on perceived switching costs, and this section explores the existence and nature of this effect. Before exploring the related hypotheses, awareness of the distribution of life cycle stages among respondents is useful.

Table 4.14: Respondents by life cycle stage

		This Study	NZ ⁴⁴
Single	Bachelor I	6.1%	
	Bachelor II	7.6%	
	Bachelor III	5.1%	
	TOTAL	18.8%	28.3%
Couple	Young Couple	5.1%	
	Childless Couple	21.0%	
	Older Couple	13.1%	
	TOTAL	39.2%	30.7%
Full Nest	Full Nest I	4.8%	
	Delayed Full Nest I	5.8%	
	Full Nest II	12.1%	
	Full Nest III	13.8%	
	TOTAL	36.5%	33.6%
Single Parent	Single Parent I	0.7%	
	Single Parent II	1.5%	
	Single Parent III	3.2%	
	TOTAL	5.4%	7.5%

⁴⁴ The comparative figures for New Zealand are as at 30th June 2001, being the most recent confirmed data available at the time of writing. Source: Statistics New Zealand (<http://www.stats.govt.nz/store/2006/06/national-family-household-projections-01-base-21-update-hotp.htm?page=para012Master> Retrieved 29th December 2007).

For a proportion of the respondents (11.9%) it was not possible to classify them into any life cycle stage group, and in most cases this was because they did not answer all the necessary questions to enable accurate classification; however, in some cases it was due to the information provided not fitting one particular group. The subsequent testing based on life cycle groups excluded these non-classified respondents. The remaining respondents were split into the life cycle stages used for this study, as discussed in section 3.4.4.1, with the proportions of each as shown in Table 4.14. It should be noted that the data collection for the New Zealand census does not use the same classifications, and therefore direct comparability is not accurate; nevertheless, it provides a level of comparison and some confidence that the figures for this study are representative.

4.4.1.1 Variations between life cycle groups

The first hypothesis (H4A) in this section was simply that perceptions of switching costs vary between life cycle groups, which was tested using ANOVA. This indicated that there was some difference between life cycle groups as to their perceptions of switching costs, but with $p=0.08$ it is difficult to argue the difference is important. The lack of significance was confirmed by post-hoc testing, which found no significant differences between any pairings. Accordingly, the hypothesis was rejected.

However, while perceptions of switching costs as a whole were found to not be different, there may be differences in respect of specific categories of switching costs, which was the subject of the second hypothesis (H4B). Using ANOVA the finding was that perceptions of most of the categories of switching costs did vary between life cycle groups, but the extent of variance differed between switching cost categories. The most significant difference was for *Personal Relationship* ($p=0.00$), followed in descending order of significance by *Benefit Loss* ($p=0.01$), *Brand Relationship* ($p=0.01$), *Search* ($p=0.01$), *Service Disruption* ($p=0.01$), *Hassle* ($p=0.01$), *Monetary Loss* ($p=0.03$), and *Learning* ($p=0.04$). The only switching cost category where the differences did not appear to be significant was *Uncertainty* ($p=0.08$).

Table 4.15: Pairs of life cycle groups for which significant differences in perceptions were found for specific categories, using the Bonferroni procedure.

Switching cost category	Life cycle group I	mean	Life cycle group II	mean	p-value
Search costs	Full Nest II	3.5	Older Couple	4.3	0.01
Hassle	Full Nest I	2.9	Older Couple	3.6	0.02
	Full Nest II	3.1	Older Couple	3.6	0.04
Brand relationship	Full Nest II	4.1	Older Couple	3.3	0.00
Personal relationship	Bachelor I	4.2	Older Couple	3.0	0.00
	Bachelor I	4.2	Bachelor III	2.8	0.00
	Young Couple	4.5	Older Couple	3.0	0.00
	Young Couple	4.5	Bachelor III	2.8	0.00
	Childless Couple	3.8	Older Couple	3.0	0.00
	Childless Couple	3.8	Bachelor III	2.8	0.02
	Delayed Full Nest I	4.3	Older Couple	3.0	0.00
	Delayed Full Nest I	4.3	Bachelor III	2.8	0.00
	Full Nest II	4.2	Older Couple	3.0	0.00
	Full Nest II	4.2	Bachelor III	2.8	0.00

The Bonferroni procedure was used, for each category of switching cost, to identify the pairs of life cycle stages where there was a significant difference, and the results are shown in Table 4.15. It is evident that the Older Couple grouping was most likely to differ from other groups, but the Bachelor III and Full Nest II groups also appear frequently, while the Single Parent groups do not appear at all. Looking at the means, the results indicate that Older Couples perceive *Search* and *Hassle* as being lower than the Full Nest II group, but the *Brand Relationship* and the *Personal Relationship* as being higher. The finding in respect of *Search* is surprising, but may reflect a greater availability of time for Older Couples, as may the finding in respect of *Hassle*. The findings for *Brand Relationship* and *Personal Relationship* may reflect a length of relationship issue, and as seen in section 4.3.3.3 there is some support for this effect. Older Couples also perceive the *Personal Relationship* as being higher than the Bachelor I, Young Couple, Childless Couple and Delayed Full Nest I groups. Similarly, the Bachelor III group perceives the *Personal Relationship* as being higher than the Bachelor I, Young Couple, Childless Couple, Delayed Full Nest I and Full Nest II groups.

For the higher order categories, significant variation was found for both *Procedural* (p=0.01) and *Relational* (p=0.00), but not for *Financial* (p=0.06). The significant

pairings for these categories were similar to those for the related first order categories. The differences were that the associated p-value was higher in some cases, and the pairing of Childless Couple and Bachelor III was not significantly different for *Relational*.

With both the Older Couples and Bachelor III groups showing differences to several other groups, it appears there may be an age effect that should be explored. Using ANOVA to explore the existence of variation in perceived switching costs on the basis of age, a significant variation was found for *Personal Relationship* (p=0.00), *Brand Relationship* (p=0.00), *Benefit Loss* (p=0.00), *Learning* (p=0.03) and *Search* (p=0.06). Post-hoc testing using the Bonferroni procedure confirmed that where there was a significant variation between pairings, the older age groups (60-69 and 70+) generally perceived switching costs to be higher than for the younger age groups. The full results of the Bonferroni procedure for age appear in Appendix 11. This suggests the variation found in respect of life cycle groups is at least in part age-related. However, the significance is greater for the life cycle groups and the variance is significant for more categories of switching cost, indicating that the life cycle grouping contains more information than age that explains the variation found.

As this point it is worth reiterating the points made previously, in section 3.7.2, regarding sample bias. The sample has significant differences from the New Zealand population in terms of age and gender. The findings in relation to life cycle may be influenced by these differences, particularly with respect to age which is one of the characteristics that affects a respondent's life cycle categorisation, as evidenced by the age effect noted above. Accordingly, any generalisation of these findings to the population must be done with care.

4.4.1.2 Effect of size of banking relationship

There are three aspects of a banking relationship that could be related to life cycle stage, and may reflect an underlying reason for the differences noted between life cycle groups. The first of these is the size of the banking relationship, because financial institutions use relationship size as a proxy for the customer's value to the bank and offer better service to bigger ('higher value') customers. At the same time, a customer's financial position, and therefore the size of their banking relationship, may vary as they

progress through the life cycle. The distribution of the size of the banking relationships for the respondents is shown in Table 4.16.

Table 4.16: Distribution for size of banking relationship

Less than \$25,000	40.2%
\$25,000 - \$49,999	11.6%
\$50,000 - \$99,999	12.5%
\$100,000 - \$249,999	20.6%
\$250,000 - \$499,999	10.4%
\$500,000 or more	4.7%

The first size-related hypothesis (H4C_{SIZE}) suggested there was no variation in size of banking relationship between life cycle groups. Using ANOVA, testing found that the size of the banking relationship did vary between life cycle groups and the variation was significant (p=0.00). The Bonferroni procedure was used to find which pairs of life cycle groups had significant differences, as shown with the applicable p-value in Table 4.17. Only two of the life cycle groups do not appear at all, being Single Parent I and Single Parent II. The number shown in italics for each group is the mean value for size for that life cycle group, where 1 represents the lowest value of “Less than \$25,000” and 6 represents the highest value of “\$500,000 or more”, so a lower mean represents a smaller banking relationship size. In Table 4.17 the life cycle groups listed across the top of the table are smaller on average than those listed in the left column. Of the 36 possible pairings 58.3% had a significant difference. The hypothesis of no variation was rejected.

Table 4.17: Significant differences between life cycle groups based on size

		Bachelor I	Bachelor II	Bachelor III	Young Couple	Older Couple	Single Parent III
	<i>mean</i>	<i>1.5</i>	<i>2.4</i>	<i>1.9</i>	<i>2.4</i>	<i>2.2</i>	<i>1.6</i>
Full Nest I	<i>3.1</i>	0.00	n.s.	0.03	n.s.	n.s.	0.01
Delayed Full Nest I	<i>3.7</i>	0.00	0.00	0.00	0.01	0.00	0.00
Full Nest II	<i>3.3</i>	0.00	0.02	0.00	n.s.	0.00	0.00
Full Nest III	<i>3.2</i>	0.00	n.s.	0.00	n.s.	0.00	0.00
Childless Couple	<i>2.9</i>	0.00	n.s.	0.03	n.s.	n.s.	0.01

n.s. = not significant

It is of interest to note that most (71.4%) of the significant differences between pairs of groups were between childless groups and groups with children, with the childless groups having a smaller mean value for relationship size. The exception is the Single Parent III/Childless Couple pairing where the latter group had the larger mean relationship size.

The second size-related hypothesis (H4D_{SIZE}) was that perceptions of overall switching costs did not vary by relationship size. This was tested using ANOVA, which confirmed that there was no variation ($p=0.32$).

This was explored further by looking at whether the perception of specific categories of switching cost varied according to the size of the banking relationship (H4E_{SIZE}). However, ANOVA found that there was no category of switching cost for which perceptions varied with the size of the banking relationship ($p=0.07$ to $p=0.99$). It naturally followed that no significant variation was found for the higher order categories.

So, while there was a difference in average banking relationship size between the life cycle groups, with the full nest groups having the largest, there was no difference in terms of perceptions of switching costs. This means that differences found, in perceptions of switching costs, based on life cycle groups cannot be argued to reflect differences in the size of the banking relationships between those groups.

4.4.1.3 Effect of spread of banking relationships

The spread of banking relationships could also vary between life cycle groups. For example, couples may be more likely to have multiple banking relationships because they each banked with a different financial institution prior to becoming a couple, whereas by the time a Couple becomes a Full Nest they may have rationalised their banking arrangements. Alternatively, the Couple may have increased their banking relationships by each retaining their existing banking relationship and establishing a joint relationship at a third institution. Spread was measured in three ways. The first measure of spread (Spread1) was simply the number of banks the respondent had some form of banking relationship with. Due to the small number of respondents with relationships with more than five financial institutions this first measure of spread was adjusted so that the possible responses were 1, 2, 3, 4, and 5 or more.

The second and third measures of spread looked at the proportion of the respondent's banking business done with each bank, firstly in terms of total loans and deposits (Spread2) and secondly in terms of transactions (Spread3). These measures of spread were calculated as the difference in proportion between the bank with the highest proportion of the respondent's banking business and that of the bank with the lowest

proportion. A small value indicates a wide spread, with a value of 0 for example indicating the relationships were equal, such as two banks with 50% each or four banks with 25% each. A large value indicates a narrow spread, where one bank has a much greater proportion; for example, a value of 90 could indicate one bank has 95% of the respondent's business and a second bank has just 5%. To enable more effective analysis these two measures of spread were also adjusted, into groups with values of 0-9.9%, 10-24.9%, 25-49.9%, 50-74.9%, 75-89.9%, 90-99.9% and 100%. The final group (100%) represented those with just one banking relationship.

Table 4.18: Distribution for spread of banking relationships

No. of banking relationships		Difference in proportion of	Loans/Deposits	Transactions
Spread1		Spread2 Spread3		
1	48.1%	0-9.9%	1.8%	1.8%
2	34.1%	10-24.9%	2.1%	2.1%
3	13.4%	25-49.9%	2.9%	2.9%
4	3.1%	50-74.9%	9.4%	10.1%
5 or more	1.3%	75-89.9%	9.6%	10.4%
		90-99.9%	12.3%	14.6%
		100%	55.9%	58.1%

Analysis was undertaken with both the adjusted and unadjusted version of all three spread measures. Similar results were achieved for both, with the key difference being that in some cases the p-value changed. The results are reported for the adjusted measures.

The first of the spread-related hypotheses was that spread did not vary between life cycle groups ($H4C_{SPREAD}$). There was a difference between life cycle groups in terms of the number of banks, according to the ANOVA, which was significant ($p=0.01$). However, looking at the difference between individual pairings, using the Bonferroni procedure, none were found to be significant. There was no significant difference found between life cycle groups in terms of the other two measures of spread ($p=0.08$ for Loans/Deposits and $p=0.43$ for Transactions). Combining these results, the appropriate finding was that the hypothesis of no variation was supported.

The second hypothesis related to spread was that perceptions of overall switching costs did not vary by relationship spread ($H4D_{SPREAD}$). The ANOVA found that there was significant variation for all three adjusted measures of spread. The Bonferroni procedure was used to test for significant differences between pairings but only one

pairing was found to have a significant difference, and then only for the third measure of spread. The results are shown in Table 4.19. The hypothesis of no variation was rejected.

Table 4.19: Perception of overall switching costs and spread of banking relationships

		p-value
Spread1	Number of banks	0.03
Spread2	Proportional split for loans/deposits	0.01
Spread3	Proportional split for transactions	0.00
	<i>50-74.9% and 100%</i>	<i>0.00</i>

The final spread-related hypothesis was that perceptions of specific categories of switching cost did not vary according to the spread of one's banking relationship (H4E_{SPREAD}). Using ANOVA, each of the measures of spread was found to vary significantly for at least two of the switching cost categories. The Bonferroni procedure was used to find specific pairings where the difference was significant. The results are shown in Table 4.20, with the blue sections showing the pairs where a significant difference was found – the number in brackets represents the mean value of the switching cost category for that group.

The strongest relationship was for *Benefit Loss*, where the variation was significant for all three measures of spread. Strong relationships were also found for *Uncertainty* and *Personal Relationship*, both of which showed significant variance for two of the three measures of spread. The results showed that in all cases, where there is a significant difference between two groups, the group representing a greater concentration of banking, i.e. less spread, has a perception of higher switching costs. In the case of *Benefit Loss*, *Uncertainty*, and *Personal Relationship* the hypothesis of no variation should be rejected. The appropriate finding for *Learning*, *Search*, *Monetary Loss* and *Hassle* is one of partial support, because there was significant variance in respect of one measure of spread. In the case of *Brand Relationship* and *Service Disruption* the hypothesis of no variation was supported.

Table 4.20: Spread effects for switching cost categories where significant variation was found

			Spread1	Spread2	Spread3
Procedural	Learning		0.01	n.s.	n.s.
	1 (3.6)	5+ (4.6)	0.01	n.a.	n.a.
	2 (3.7)	5+ (4.6)	0.02	n.a.	n.a.
	3 (3.5)	5+ (4.6)	0.00	n.a.	n.a.
	4 (3.6)	5+ (4.6)	0.04	n.a.	n.a.
	Search		n.s.	n.s.	0.01
	100% (3.7)	50-74.9% (5.3)	n.a.	n.s.	0.01
	Hassle		n.s.	0.02	n.s.
Financial	Uncertainty		n.s.	0.00	0.04
	75-89.9% (3.7)	25-49.9% (4.6)	n.a.	0.00	n.s.
	90-99.9% (3.7)	25-49.9% (4.6)	n.a.	0.00	n.s.
	100% (3.7)	25-49.9% (4.6)	n.a.	0.00	n.s.
	100% (3.7)	50-74.9% (4.1)	n.a.	n.s.	0.03
	Benefit Loss		0.02	0.03	0.00
	100% (3.8)	50-74.9% (4.4)	n.a.	n.s.	0.00
	Monetary Loss		n.s.	0.03	n.s.
Relational	Personal Relationship		n.s.	0.02	0.01
	100% (3.6)	50-74.9% (4.3)	n.a.	n.s.	0.01

n.s. = not significant n.a. = not applicable

For the higher order categories, it was not surprising to find there was no significant variation for any of the measures of spread for *Relational*. Significant variation was found for *Procedural* only for Spread3, with p=0.03. However, there was significant variation for all three measures of spread for *Financial*, with p=0.02 for Spread1 and p=0.00 for both Spread2 and Spread3. There were only three pairings found through the Bonferroni procedure where there was a significant difference.

So there were differences in perceptions of switching costs related to the spread of the banking relationships. The direction of causality was not explored in this study, and it is therefore not known whether the narrow spread was due to a perception of high switching costs, or whether the perception of high switching costs was due to the narrow spread of banking relationships. From the work with focus groups, it appears that customers acquire additional banking relationships during the switching process because they keep the old account until the new account is fully operational but for some reason, the customer does not finally close the old account. This is illustrated by one respondent's comment that she had "changed from [Bank F] to [Bank G] because of poor service in 1961", yet she has an account with both banks, albeit heavily skewed with [Bank G] having 96% of her business. This suggests that for these customers the

switching costs have not been so high as to prevent them switching, and therefore that higher perceived switching costs may cause a narrow spread of banking. However, another respondent simply noted that it is “useful to have two different banks”. It would be useful to examine this relationship further.

4.4.1.4 *Effect of the complexity of the main bank relationship*

The other aspect of the banking relationship that could vary between life cycle groups, and thereby influence their perception of switching costs, was the complexity of the banking relationship. Complexity was measured in two ways. Firstly, it was the number of different types of products that the respondent had with their main bank (Complex1). A respondent could report having up to 14 different types of products with their main bank. The highest values had relatively small numbers of respondents so the measure was adjusted such that the possible responses were 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, and 11 or more. As a customer may have more than one of any particular product type, two savings accounts for example, the second measure was the total number of products that the respondent had with their main bank (Complex2). This measure ranged from 1-35, but treating each value separately made the Bonferroni procedure awkward and the upper values had relatively small numbers of respondents. As a result this measure was also adjusted, into the groups shown in Table 4.21.

Table 4.21: Distribution for complexity of banking relationship

Complex1		Complex2	
<i>Number of product types</i>		<i>Total number of products</i>	
1	2.4%	1-5	23.0%
2	4.9%	6-10	39.6%
3	7.1%	11-15	21.8%
4	8.5%	16-20	9.2%
5	12.9%	21-25	4.4%
6	15.4%	26 or more	2.0%
7	16.6%		
8	11.6%		
9	10.6%		
10	6.1%		
11 or more	3.0%		

As with the analysis related to spread, analysis was undertaken using both the adjusted and unadjusted versions of both measures of complexity. Again, similar results were found although the p-values varied and some individual pairings became insignificant. The reported results are for the adjusted measures.

The first complexity-related hypothesis was that there would be no variation in complexity between life cycle groups (H4C_{COMPLEXITY}). In fact, ANOVA found that complexity did vary between life cycle groups, with $p=0.00$ for both measures of complexity. The Bonferroni procedure was then used to find the specific life cycle group pairings where significant differences existed. For the first measure of complexity 23 pairings were found to be significantly different and 21 pairings for the second measure, being 63.8% and 58.3% of all possible pairings respectively. Accordingly the hypothesis was rejected.

Table 4.22: Complexity and life cycle groups

	Childless Couple		Full Nest I		Delayed Full Nest I		Full Nest II		Full Nest III	
	6.6	2.5	7.3	2.9	7.6	3.0	7.4	2.8	7.2	2.9
Bachelor I 5.2 / 1.8	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bachelor II 5.6 / 2.0	n.s.	n.s.	0.03	0.00	0.01	0.00	0.00	0.00	0.00	0.00
Bachelor III 5.0 / 2.0	0.00	n.s.	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00
Older Couple 5.0 / 2.1	0.00	n.s.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Single Parent III 5.3 / 1.9	n.s.	n.s.	0.03	0.03	0.02	0.00	0.02	0.02	0.01	0.01

n.s. = not significant

Table 4.22 shows the results of the Bonferroni procedure, with those in blue being for Complex2. The first number given for each life cycle group in the table is the mean value for Complex1, and the second number (blue) is the mean value for Complex2. The groups along the top of the table had more complex banking relationships than those listed at the left of the table. The majority of the significant pairings indicated families with children had more complex banking relationships than singles.

The second hypothesis on complexity was that perceptions of overall switching costs did not vary by complexity of the banking relationship (H4D_{COMPLEXITY}). ANOVA found that there was no significant variation ($p=0.31$) for the first measure of complexity, but there was a significant difference ($p=0.00$) for the second measure. Only one pairing, for Complex2, was found to have a significant difference, being for the 6-10 group (mean=3.75) and the 16-20 group (mean=3.39), with $p=0.00$. Overall, there was some support for this hypothesis, but the results were mixed.

The final hypothesis with respect to complexity was that perceptions of specific categories of switching costs did not vary according to the complexity of one's banking relationship (H4E_{COMPLEXITY}). Using ANOVA, the first measure of complexity was found to be significant for three of the cost categories, while the second measure was significant for all categories. As before, the Bonferroni procedure was used to identify specific pairings where the difference was significant. Based on these results, the hypothesis was rejected. The results for both measures are shown in Table 4.23.

Table 4.23: Complexity effects for switching cost categories

		Complex1		Complex2			
Procedural	Learning		0.01	Learning		0.00	
		3 (3.9)	9 (3.3)	0.04	1-5 (3.7)	16-20 (3.3)	0.01
		4 (3.9)	9 (3.3)	0.01	6-10 (3.7)	16-20 (3.3)	0.01
					Search		0.01
					6-10 (4.0)	16-20 (3.5)	0.02
		Hassle		0.00	Hassle		0.00
		4 (3.6)	8 (3.1)	0.02	1-5 (3.4)	11-15 (3.1)	0.01
		4 (3.6)	9 (3.1)	0.02	1-5 (3.4)	16-20 (3.0)	0.01
					6-10 (3.5)	11-15 (3.1)	0.04
Financial					Service disruption		0.03
					Uncertainty		0.02
					Benefit loss		0.00
					6-10 (4.1)	16-20 (3.6)	0.02
					6-10 (4.1)	26+ (3.0)	0.02
					11-15 (4.0)	26+ (3.0)	0.04
Relational					Monetary loss		0.00
					6-10 (4.2)	16-20 (3.7)	0.01
					Brand relationship		0.03
		Personal relationship			Personal relationship		0.00
		6 (4.0)	3 (3.2)	0.00	11-15 (4.0)	1-5 (3.5)	0.01
		7 (3.9)	3 (3.2)	0.02			
	8 (4.0)	3 (3.2)	0.03				

The results in Table 4.23 indicate that on average those with a more complex banking relationship had a perception that switching costs were higher. The exception is in the case of *Personal Relationship* where those with a more complex relationship perceived that category of switching costs to be lower, which is a surprising result, and no obvious explanation exists. These results suggest that some of the differences found in switching cost perceptions between the life cycle groups may be due to differences in complexity of their banking arrangements. As with spread, the direction of causality has not been investigated.

Complex1 varied significantly for two of the higher order categories, *Procedural* (p=0.03) and *Relational* (p=0.04), while Complex2 varied significantly for all three higher order categories (p=0.00 for each). No pairings were found to have a significant difference for Complex1, while there were two or three significant pairings for each of the higher order categories for Complex2.

4.4.1.5 Summary of results for Proposition 4

Table 4.24: Results for Proposition 4 hypotheses

<i>Proposition 4: Life cycle stage affects perceived switching costs and the differences are not due to the confounding effects of the nature of the banking relationships</i>		
H4A	That perceptions of overall switching costs vary between family life cycle groups.	Rejected
H4B	That perceptions of each category of switching cost vary between family life cycle groups. <ul style="list-style-type: none"> • Learning • Search • Hassle • Service Disruption • Uncertainty • Benefit Loss • Monetary Loss • Brand Relationship • Personal Relationship 	Supported Supported Supported Supported Rejected Supported Supported Supported Supported
H4C	That the size, spread and/or complexity of banking arrangements do not vary between family life cycle groups. <ul style="list-style-type: none"> • Size • Spread • Complexity 	Rejected Supported Rejected
H4D	That perceptions of overall switching costs do not vary according to the size, spread and/or complexity of banking arrangements. <ul style="list-style-type: none"> • Size • Spread • Complexity 	Supported Rejected Partial support ^a
H4E	That perceptions of each switching cost category do not vary according to the size, spread and/or complexity of banking arrangements. <ul style="list-style-type: none"> • Size – for all categories • Spread <ul style="list-style-type: none"> ○ Benefit Loss, Uncertainty, Personal Relationship ○ Learning, Search, Monetary Loss, Hassle ○ Brand Relationship, Service Disruption • Complexity – for all categories 	Supported Rejected Partial support ^b Supported Rejected

a The outcome is partial support because the hypothesis was supported for one measure of complexity and rejected for the second

b The outcome is partial support because the hypothesis was rejected for two measures of spread, but supported for one measure.

The findings in respect of the hypotheses related to Proposition 4 are shown in Table 4.24. The results showed that while perceptions of overall switching costs did not vary between life cycle groups, they did for most of the categories. However, the results in respect of size, spread, and complexity suggested that some of this variance may be due to the changing needs of the life cycle groups reflected in changing banking arrangements, rather than the life cycle group itself.

4.4.2 Proposition 5: There is a relationship between life cycle stage and switching behaviour

Although the results reported above indicate that perceptions of overall switching costs did not vary between life cycle groups, perceptions of some categories did. It is possible then that switching behaviour differs between life cycle groups.

4.4.2.1 Past switching behaviour

The first aspect of switching behaviour considered was past switching behaviour (H5A), and two measures of past switching behaviour were used. The first was how often the respondent had switched banks (PastI) and the second measure was how long it was since the respondent last changed their main bank (PastII).

Both measures were found, using ANOVA, to have a significant variance between life cycle groups, with $p=0.00$ in each case. Using the Bonferroni procedure, some pairings of life cycle groups were found to have significant differences, although only for PastI, as shown in Table 4.25. These pairings indicated that the Bachelor II, Full Nest I and Delayed Full Nest I groups were likely to have switched more often than the Older Couple group, while the Full Nest I and Delayed Full Nest I groups were also likely to have switched more often than the Bachelor III group. Accordingly, the hypothesis of variation was supported.

Table 4.25: Pairs of life cycle groups with a significant difference in frequency of past switching behaviour (Past I)

			Older Couple	Bachelor III
		<i>Means</i>	<i>1.7</i>	<i>1.6</i>
Past I	Bachelor II	2.2	0.04	n.s.
	Full Nest I	2.3	0.01	0.02
	Delayed Full Nest I	2.3	0.01	0.01

n.s. = not significant

It is somewhat surprising that the older life cycle groups reported less experience of switching, given the greater opportunity to have done so. This may reflect a cohort effect, whereby these groups have a past that incorporates a time when loyalty to one's bank was encouraged, and changing banks could make it difficult to borrow money.

4.4.2.2 Likelihood of future switching

The second aspect of switching behaviour explored was future likelihood of switching (H5B). *Switching Likelihood* was found, using ANOVA, to vary between life cycle groups, ($p=0.00$). Using the Bonferroni procedure, five specific pairings were found to have significant differences as shown in Table 4.26. The groups in the first column of Table 4.26 indicated they were more likely to switch banks in the next twelve months than the respective group in the second column. The hypothesis of variation was supported.

Table 4.26: Pairs of life cycle groups with a significant difference in likelihood of future switching

Life cycle group 1	Life cycle group 2	p-value
<i>Mean</i>	<i>Mean</i>	
Bachelor I	Older Couple	0.08
Bachelor I	Bachelor III	0.01
Young Couple	Bachelor III	0.04
Delayed Full Nest I	Bachelor III	0.01
Single Parent I	Bachelor III	0.08

4.4.2.3 Summary of results for Proposition 5

Table 4.27: Results for Proposition 5 hypotheses

<i>Proposition 5: There is a relationship between life cycle stage and switching behaviour</i>		
H5A	That past switching behaviour varies between family life cycle groups	Supported
H5B	That the likelihood of future switching varies between family life cycle groups	Supported

The findings in respect of the hypotheses related to Proposition 5 are shown in Table 4.27. The results supported the proposition that there was a relationship between life cycle stage and switching behaviour.

4.4.3 Proposition 6: Demographic characteristics, other than family life cycle stage, influence and explain people's attitudes to switching costs and/or switching behaviour

Demographic characteristics other than life cycle stage could explain at least some aspects of the difference in respect of perceived switching costs and/or switching behaviour. Five demographic characteristics are explored in this section.

4.4.3.1 Household income

The first of the demographic characteristics explored was household income, and Table 4.28 shows the distribution of income for respondents. By comparison the median annual household income for New Zealand as at June 2007 was at the upper end of the range \$44,900 to \$55,799, while the average annual household income at that date was \$69,578.⁴⁵

Table 4.28: Distribution of household income

\$20,000 or less	11.7%
\$20,001 - \$40,000	23.2%
\$40,001 - \$70,000	29.0%
\$70,001 - \$100,000	17.4%
\$100,001 or more	18.7%

The first hypothesis was that perceived switching costs would be positively correlated with household income (H6A). Testing found there was a positive correlation between the two factors, with Spearman's rho being 0.10 and significant at the 1% level. Accordingly the hypothesis was supported.

Given the positive correlation for overall switching costs, it suggested there would be value in looking for a positive correlation for specific categories of switching costs, which may be more meaningful. A positive correlation was found for six categories as shown in Table 4.29, with the strongest correlation being for *Personal Relationship*. In line with these results, two of the higher order categories, *Financial* ($r_s=0.11$) and *Relational* ($r_s=0.17$), also had a positive correlation significant at the 1% level.

⁴⁵ Source: Statistics NZ website at <http://www.stats.govt.nz/products-and-services/hot-off-the-press/household-economic-survey/household-economic-survey-year-ended-jun30-07-hotp.htm?page=para002Master> Retrieved 20th October 2008.

Table 4.29: Significant correlations for switching cost categories and household income

Procedural	Service disruption	rs=0.09**
Financial	Uncertainty	rs=0.11***
	Benefit Loss	rs=0.10***
	Monetary Loss	rs=0.09**
Relational	Brand Relationship	rs=0.07**
	Personal Relationship	rs=0.21***

*** = significant at the 1% level
** = significant at the 5% level

The other factor that could be related to income is the likelihood of future switching, and it was hypothesised that there would be a negative correlation with household income (H6B). The correlation between the likelihood of future switching and household income was found to be small and not significant ($p=0.10$), so this hypothesis was rejected.

4.4.3.2 Ethnicity

The second demographic characteristic of interest was ethnicity. The survey had one question (Q66) on ethnicity, giving eight possible response options including an “Other” response. A number of respondents chose more than one response, while a reasonable number also selected Other and wrote in Kiwi or New Zealander. The breakdown by ethnicity was noted in section 3.5.3, and is shown in Table 4.30. Initial testing of each ethnicity-related hypothesis used the single ethnicity measure, where respondents with multiple responses were treated as a single group. Where significant results were found in respect of ethnicity further testing was undertaken to find which ethnicities showed differences. Each ethnicity was tested in turn, using a variable for the specific ethnicity that had two possible values; the two values were being of that ethnicity and not being of that ethnicity. This approach was taken to allow respondents with multiple responses to be included in all the ethnic groups with which they identified.

The first ethnicity related hypothesis was that perceived switching costs did not vary by ethnic group (H6C). This hypothesis was supported by the ANOVA, with $p=0.40$ indicating no variance.

The second question was whether there might be a difference by ethnicity in terms of past switching behaviour, with the expectation that there would be no variation (H6D). As with the previous discussion of past switching behaviour, in section 4.4.2.1, both measures of past switching behaviour have been tested. A significant variation between ethnic groups was found for both measures of past switching behaviour, as shown in Table 4.30, so the hypothesis (of no variation) was rejected.

In the subsequent testing for each ethnic group, a significant variation was found between Pacific Islanders and non-Pacific Islanders for both measures of past switching behaviour. Similarly, a significant variation was found in the case of the Other Asian ethnic group for both measures. The associated means indicated that both Pacific Islanders and those in the Other Asian group were less likely to have switched than those who did not identify as belonging to those two ethnic groups, and if they had switched it was less recently.

Table 4.30: Ethnicity and past switching behaviour (p-values)

Ethnicity	<i>Proportion</i> ⁴⁶	PastI Number of times switched	PastII Time since last switched
		0.00**	0.03**
NZ European	75.0%	0.04**	0.14
NZ Maori	6.5%	0.10	0.04**
Kiwi/New Zealander	4.1%	0.30	0.42
Pacific Islander (PIs)	2.0%	0.00**	0.03**
Chinese	1.2%	0.21	0.21
Indian	0.9%	0.89	0.56
Other Asian	1.8%	0.01**	0.03**
Other European	7.2%	0.16	0.15
Other	0.7%	0.24	0.13

** = variance is significant at the 5% level

In terms of the other ethnic groups Table 4.30 shows that some variance existed for at least one of the measures of past switching behaviour for the NZ European and NZ Maori groups. This meant that for both these groups, as well as Pacific Islanders and Other Asians, the hypothesis (of no variance) should be rejected. While there were some ethnic groups for which there was no variance, and the hypothesis was therefore supported, the overall result must be to reject the hypothesis of no variation.

⁴⁶ Respondents who identified multiple ethnicities are counted separately for each ethnicity. Some respondents (3.6%) did not answer this question.

The third issue investigated with respect to ethnicity was whether the likelihood of future switching varied between ethnic groups, with the hypothesis being that there would be no variation (H6E). A significant variation was found based on the single ethnicity measure. In subsequent testing for each ethnicity individually, significant differences were found between those who identify, at least partly, as NZ European, NZ Maori, and Chinese, and those who do not. The NZ European group reported being less likely to switch, while the NZ Maori and Chinese groups reported being more likely to switch banks in the next twelve months. Based on these results, the hypothesis of no variation was rejected.

Table 4.31: Ethnicity and the likelihood of future switching (p-values)

Ethnicity	0.02**
NZ European	0.00***
NZ Maori	0.02**
Kiwi	0.13
Pacific Islander (PIs)	0.37
Chinese	0.01***
Indian	0.18
Other Asian	0.17
Other European	0.86
Other	0.83

*** = results are significant at the 1% level

** = results are significant at the 5% level

4.4.3.3 Education

The third demographic characteristic of interest was the respondent's highest level of education. The distribution of responses was noted in section 3.5.3.

The first hypothesis suggested that there would be a negative correlation between education level and perceived switching costs (H6F). The value of Spearman's rho was in fact positive ($r_s=0.10$) and significant at the 1% level. In terms of the hypothesis this translated to a negative correlation between the two variables, and the hypothesis was therefore supported.

The second hypothesis related to education was that it would be positively correlated with the likelihood of future switching (H6G). For *Switching Likelihood* a negative value for Spearman's rho was found ($r_s=-0.12$), which was significant at the 1% level.

In terms of the hypothesis this value translated to a positive correlation, and the hypothesis was supported.

Education was expected to have a correlation with two specific switching cost categories. It was expected that higher education would make it easier to find a new bank and to learn about it, so the switching cost categories of *Search* and *Learning* should be perceived as being lower. Accordingly, it was hypothesised that education would be negatively correlated with both *Search* (H6H) and *Learning* (H6I). In the case of *Search*, a negative value for Spearman’s rho was found ($r_s = -0.06$), but it was not significant. This value translated to a positive correlation, and the lack of significance meant the hypothesis should be rejected. In the case of *Learning*, a negative value was also found for Spearman’s rho ($r_s = -0.08$), which was significant at the 5% level. However, this value translated to a significant positive correlation between the variables and the hypothesis was rejected. Similarly, the correlation between education level and the higher order category of *Procedural* was positive and significant.

4.4.3.4 Location

The next demographic characteristic to be considered was that of location. Respondents were asked to specify where they lived, with response options ranging from City to Rural (more than 20km from nearest town or city). It was believed that those in an urban location with easier access to bank branches may have a different view on the ease of switching. Table 4.32 provides details of the proportion of respondents in each of the five location options.

Table 4.32: Distribution of respondents' home location

Urban	City	32.6%
	Suburban	26.5%
	Town	18.3%
Rural	Rural (20km or less from nearest town/city)	13.8%
	Rural (More than 20 km from nearest town/city)	5.1%

The hypothesis was that there would be no difference in the perception of switching inconvenience between rural and urban locations (H6J). This was tested firstly against all response options, and then against a reduced version of simply Urban and Rural. The ANOVA using the original responses generated a p-value of 0.60 indicating there was no variance, and therefore supporting the hypothesis. The ANOVA using the

reduced version of the responses generated a higher p-value (0.92), also supporting the hypothesis. The results were similar for the related higher order category of *Procedural*, with $p=0.91$ for the full version of location and $p=0.90$ for the reduced version.

4.4.3.5 Internet access

The internet is an increasingly common way for people to gather information, but different levels of access to the internet exist in the population. As Table 4.33 shows, over 80% of the respondents reported having some form of access to the internet, and nearly 70% had access to the internet at home.

Table 4.33: Primary form of internet access

I don't have access to the internet	17.4%
I usually access the internet at home	47.6%
I usually access the internet at work	8.4%
I access the internet at home and work about the same amount	19.5%
I access the internet somewhere else	2.8%

The associated hypothesis was that perceived *Search* costs would not vary with internet access (H6K). Testing with ANOVA found that the p-value was 0.20, indicating that there was no variance and therefore supporting the hypothesis. The result was checked by retesting with the responses grouped in different ways. Firstly, the responses were recoded to simply having or not having internet access, and secondly, by combining the three responses related to access at work and home as one group but leaving the others separate. In both cases the original finding was supported, although the p-value changed. Testing the hypothesis using the higher order category of *Procedural* in place of *Search* produced similar results, with the p-value ranging from 0.45 to 0.66. This is counter to the expectation raised by Shapiro and Varian (1999) that IT, including the internet, would lower search costs. However, it provides some support for the view of Cruickshank (2000) that search costs remain significant despite technological advances.

4.4.3.6 Interaction

The final characteristic of interest was the nature of the respondent's interaction with their bank, due to its potential for influencing their relationship with the organisation. As Table 4.34 shows, the greatest proportion of respondents reported that their main form of interaction with their main bank was through internet banking, followed by the branch.

Table 4.34: Most frequent form of interaction with the main bank

Internet banking	36.5%
Branch	29.8%
Phone banking	16.5%
Relationship manager/Personal banker	5.4%
I don't use any of these methods very often	4.2%
I use all these methods equally	2.3%
Branch & phone banking	1.9%
Other multiple selection	1.2%
Txt/mobile banking	0.1%
Other	0.3%

There are three ways in which the type of interaction may have an impact. The first suggests that the respondent's perception of switching costs may change, relative to their primary form of interaction (H6L). This was tested using ANOVA, giving a p-value of 0.00 indicating variance and therefore requiring that the hypothesis be rejected. One of the response groups had only one response (being Txt/mobile banking), which prevented the use of the Bonferroni procedure. To overcome this the responses were recoded and the single Txt/mobile banking response was moved into the Other category. The ANOVA was rerun, achieving the same result. The Bonferroni procedure was used, but no pairings with a significant difference were found.

Given this finding it was then considered appropriate to investigate whether perceptions of any specific switching cost categories varied between respondents based on their primary interaction with their bank. Using ANOVA on the reduced measure of interaction, significant variation was found for all categories of switching costs, with the two exceptions of *Search* and *Brand Relationship*. This supported the rejection of the hypothesis. The results for the individual switching cost categories are shown in Table 4.35, along with the pairings where a significant variation was found using the Bonferroni procedure. Remembering that a smaller mean for a switching cost means a higher cost, in most cases it appeared that, as expected, a more personal relationship with the bank (through the branch or a relationship manager) created a perception of higher switching costs than did the more remote relationships based primarily on use of internet and phone banking. The exception was *Hassle*, where the more personal relationship actually created a perception of lower costs. A significant variation was found, using ANOVA, for each of the higher order categories, with a p-value of 0.01 for *Procedural* and p=0.00 for both *Financial* and *Relational*.

Table 4.35: Switching cost categories and interaction (p-values)

			p-value
Procedural	Learning		0.01
	Hassle		0.00
	<i>Internet banking (3.1)</i>	<i>Branch (3.4)</i>	<i>0.04</i>
	Service disruption		0.04
	<i>Other multiple (2.9)</i>	<i>Branch/phone banking (4.3)</i>	<i>0.02</i>
Financial	Uncertainty		0.02
	Benefit loss		0.00
	<i>Relationship manager (3.4)</i>	<i>Internet banking (4.2)</i>	<i>0.00</i>
	Monetary loss		0.04
Relational	Personal relationship		0.00
	<i>Branch (3.3)</i>	<i>Phone banking (4.0)</i>	<i>0.00</i>
	<i>Branch (3.3)</i>	<i>Internet banking (4.1)</i>	<i>0.00</i>
	<i>Relationship manager (2.8)</i>	<i>Phone banking (4.0)</i>	<i>0.00</i>
	<i>Relationship manager (2.8)</i>	<i>Internet banking (4.2)</i>	<i>0.00</i>

The second way in which the nature of interaction could have some influence was in respect of the respondent's likelihood of future switching, with the hypothesis being that there would be no variation (H6M). This was tested using the adjusted measure of interaction. Using ANOVA a p-value of 0.15 was found, so no variance was evident and the hypothesis was supported.

The third and final issue where the nature of the interaction could have an influence was in respect of the respondent's past switching behaviour. The hypothesis tested was that there was no variation in past switching behaviour relative to the form of interaction (H6N). Both measures of past switching behaviour were tested using the adjusted measure of principal interaction. Both were found to vary, and the variance was found to be significant, with $p=0.00$ in each case. Accordingly the hypothesis was rejected. The Bonferroni procedure was used to find the specific pairings where the variance was found to be significant, with the results shown in Table 4.36. Looking at the values for the form of interaction, those who interacted primarily with the branch were less likely to have switched than if they had another form of interaction, including if that interaction was with a relationship manager, which was somewhat surprising.

Table 4.36: Past switching behaviour and interaction (p-values)⁴⁷

Past I		p-value
Branch (1.7)	Relationship manager (2.3)	0.00
Branch (1.7)	Internet banking (2.2)	0.00
Branch (1.7)	Other (3.3)	0.01
Phone banking (1.8)	Internet banking (2.2)	0.00
Phone banking (1.8)	Other (3.3)	0.03
Don't use any very often (1.7)	Internet banking (2.2)	0.03
Don't use any very often (1.7)	Other (3.3)	0.02
Past II		
Branch (3.0)	Internet banking (3.7)	0.00

4.4.3.7 Summary of results for Proposition 6

The findings in respect of the hypotheses related to Proposition 6 are summarised in Table 4.37. Overall, the results indicated that there was some influence of demographic characteristics on perceptions of switching costs and on switching behaviour.

⁴⁷ The form of interaction listed first represents the group that are less likely to have switched banks in the past.

Table 4.37: Results for Proposition 6 hypotheses

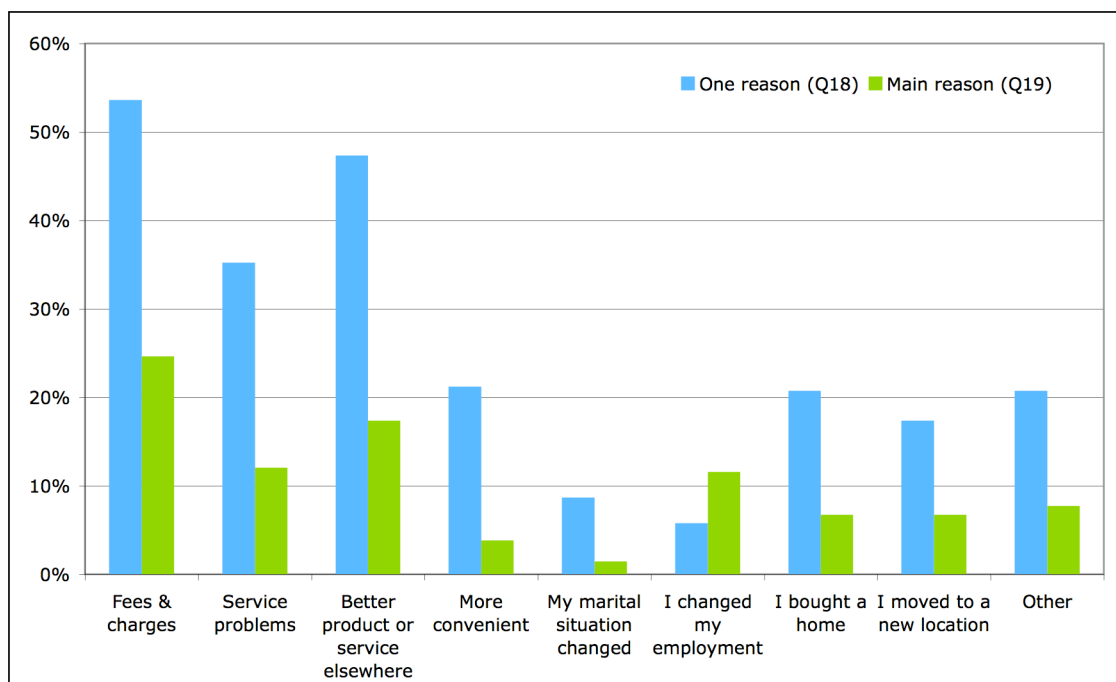
<i>Proposition 6: Demographic characteristics, other than family life cycle stage, influence and explain people's attitudes to switching costs and/or their switching behaviour</i>		
H6A	That perceived switching costs are positively correlated with household income.	Supported
H6B	That the likelihood of future switching is negatively correlated with household income.	Rejected
H6C	That perceived switching costs do not vary between ethnic groups.	Supported
H6D	That past switching behaviour does not vary between ethnic groups.	Rejected
H6E	That the likelihood of future switching does not vary between ethnic groups.	Rejected
H6F	That perceived switching costs are negatively correlated with level of education.	Supported
H6G	That the likelihood of future switching is positively correlated with level of education.	Supported
H6H	That perceived search costs are negatively correlated with level of education.	Rejected
H6I	That perceived learning costs are negatively correlated with level of education.	Rejected
H6J	That perceived switching inconvenience does not vary between rural and urban locations.	Supported
H6K	That perceived search costs do not vary with the type of internet access.	Supported
H6L	That perceived switching costs do not vary with the main form of interaction people have with their main bank.	Rejected
H6M	That the likelihood of future switching does not vary with the main form of interaction people have with their main bank.	Supported
H6N	That past switching behaviour does not vary with the main form of interaction people have with their main bank.	Rejected

4.4.4 Proposition 7: There is a relationship between switching and major life changes

Major life changes can reflect the transition from one life cycle group to another, such as marriage, birth of a child, or divorce. They can also trigger changes to financial arrangements, so the study explored the reasons respondents gave for having changed banks.

Respondents were asked for all the reasons they had switched banks (Q18) and were then asked for the main reason for switching (Q19)⁴⁸. The results are shown in Figure 4.5. The responses to Q19 do not add up to 100% as some respondents did not read the question correctly and ticked multiple answers so these were not included; however, it is worth noting that one respondent chose Other and then listed four reasons, suggesting they were equally important. Among the other reasons for switching given in respect of the main reason were: the bank had been sold; adverse publicity surrounding their main bank; identity theft; and, the manager. As the graph shows the most important reasons were *Fees & charges* and getting a *Better product or service*, making up 45.5% in total. The average number of reasons for switching was 2.5.

Figure 4.5: Reasons for switching main bank



Looking at the reasons for switching in terms of life changes, four of the possible reasons related to life changes – changed marital status, changed employment, buying a home, and moving – although only one (changed marital status) would be associated with a life cycle group change. As can be seen in Figure 4.5 these reasons were the lowest ranked for both questions. Accordingly, the hypothesis must be rejected. In

⁴⁸ As noted in section 4.1.1, only those who had switched banks within the previous five years were asked to respond to these questions about reasons for having changed banks.

fact, the results showed that the key triggers for switching related to satisfaction issues, such as fees and service.

Table 4.38: Result for Proposition 7 hypothesis

<i>Proposition 7: There is a relationship between switching and major life changes</i>		
H7	That the main reason reported for switching banks is major life changes	Rejected

The finding in respect of the hypothesis for Proposition 7 is summarised in Table 4.38.

4.5 Chapter Summary

This chapter began with background data related to switching behaviour and the likelihood of future switching reported by the survey respondents. This was followed by testing the reliability of the switching cost categories used in this study, and they were found to be reliable. Subsequently, Principal Component Analysis was used to explore the existence of higher order categories. Three components were found, and these were similar to those identified by Burnham et al. (2003), supporting the existence of three categories of *Procedural*, *Financial* and *Relational*. The remainder of the chapter reported the empirical results from exploring the seven propositions and thirty-two related hypotheses developed in Chapter 3.

The first proposition that the relationship between the desire to change banks and the likelihood of switching is affected by attitudes towards switching costs was supported. The first of the related hypotheses that the likelihood of switching is less positively correlated with the desire to switch when switching costs are perceived to be high was supported, while the second similar hypothesis for each category of switching cost was supported for seven of the nine switching cost categories.

The results were mixed for Proposition 2 that customers' preference for having the bank handle their change of banks is affected by their perception of switching costs. The hypothesis that there was a positive correlation for a preference for having the bank do the switch and *Hassle* was supported, but the hypothesis of a positive correlation with *Uncertainty* was rejected.

Proposition 3 that there is a difference in switching cost perceptions between those who have experience of switching and those who do not was partially supported, with three of the five related hypotheses having some support. However, the two hypotheses related to a positive correlation between the expected ease of switching and switching desire and switching likelihood were rejected.

The effect of the life cycle stage was the subject of the fourth proposition. While the hypothesis of variation in switching cost perceptions was rejected for overall switching costs, it was supported for eight of the nine categories of switching cost. There were mixed results in respect of the impact of the size, spread and complexity of banking relationships, which suggested some of the variation found may be due to changing banking requirements related to life cycle stage rather than the life cycle stage itself. The fifth proposition that there is a relationship between life cycle stage and switching behaviour was supported, with both the related hypotheses being supported.

Mixed results were found in respect of Proposition 6 that other demographic characteristics may help explain attitudes towards switching and/or switching behaviour. Some influence was found in respect of household income, ethnicity, education, and the main form of interaction the respondent had with their main bank. However, switching inconvenience and search costs were found not to vary with the respondent's location and internet access, which supported the hypothesis but was contrary to expectations. Overall, half of the fourteen hypotheses associated with Proposition 6 were supported. The final proposition (7) that there is a relationship between switching and major life changes was rejected.

The next chapter returns to the objectives of the study, and draws conclusions from the results. The implications of the findings are discussed, and possible responses from regulators identified.

CHAPTER 5: CONCLUSIONS

This thesis set out to increase the understanding of switching costs in banking, and particularly in the New Zealand banking market. This chapter reviews the findings in respect of the research questions, and the other expected outcomes, identified in Chapter 1. The academic contribution made by the thesis is noted, before the chapter concludes by identifying possible directions for further research on switching costs, particularly in banking.

5.1 Research Objectives

As noted above, this study sought to contribute to the understanding of switching costs in banking markets. Two objectives were established as the basis for the study, as discussed in section 1.4. In this section we review the results in relation to each of these objectives and summarise the findings.

5.1.1 Objective 1 – To examine the differences in effect of different types of switching costs

Although switching costs can be categorised in a number of ways, much of the previous research has been based on switching costs in toto, rather than on the individual categories of switching costs. The first objective related to better understanding the differences between categories of switching cost. To achieve this, in section 3.1.1 three propositions and ten associated hypotheses were developed. The propositions related to the effect of switching costs on the relationship between the desire to switch and the likelihood of doing so (Proposition 1), the effect of switching costs on customers' desire to have the bank handle the switch on their behalf (Proposition 2), and differences in perceptions related to the experience of switching (Proposition 3).

The study found that, as expected, where switching costs are perceived to be high it is less likely that a desire to switch will be acted on. This applied in respect of overall switching costs, as well as seven of the nine individual categories of switching cost, with the exception of *Learning Costs* and *Uncertainty*. This supports the existing literature on switching costs that suggest customers are 'locked-in' to their existing supplier due to the costs attached to switching (for example, Bansal & Taylor, 1999; Beggs & Klemperer, 1992; Pae & Hyun, 2002).

Therefore, it is reasonable to argue that the low rate of churn in the New Zealand banking market, reported by Sheeran (2003), Carlisle and De Freitas (2004) and Rogers (2008b) and discussed in Chapter 1, is due in part to the effect of switching costs. Many bank customers who would like to change their main bank, irrespective of the reason, feel unable to do so, and are effectively trapped in their existing banking relationship. This, therefore, provides an explanation for the monopolistic competition found in the New Zealand banking market by Smith and Tripe (2001) and Chan et al (2007).

The results also provide evidence that different categories of switching costs do differ in the nature and/or extent of their effects. The category of switching cost with the greatest apparent effect was found to be *Benefit Loss*, being the category for which the correlation between *Switching Desire* and *Switching Likelihood* showed the greatest increase as the perception of the switching cost reduced. *Monetary Loss*, another *Financial* category, had the third largest increase. This contrasts with the finding that these two categories had the highest mean perception level, at levels close to the neutral value of 4, which suggested that on average they are not important. The second largest effect on the correlation was by the *Relational* category of *Personal Relationship*. In addition, as noted above, two categories of switching costs were found not to have the lock-in effect hypothesized.

Banks' response to concerns about switching costs in the market have primarily related to the actual process of switching, and have comprised similar offers to make it easy and to do most of it for the customer. One respondent commented on the limited value of these offers:

“All major trading banks, in personal markets, offer a switching service which is supposed to take the time & effort away from the customer. However, customer must still provide information/details for this to proceed.”

The study found that concerns about both *Service Disruption* and the *Hassle* of switching are significantly positively correlated with a preference for having the bank handle the switching process, yet the correlations were relatively low at 0.13 and 0.14 respectively. This suggests that the banks' offers to take care of the actual switching process will have limited effect in terms of persuading potential customers to switch. However, this does not mean these offers are unimportant, as more than 50% of respondents indicated a desire for the bank to take care of the switch on their behalf. This compares with the experience reported by Matthews and Murray (2007) that fewer

than half of switching customers took up the option to have the new bank complete the switch for them.

Switchers, being those who have switched in the past, are able to draw on past experience(s) to inform their perception of switching costs, and are therefore expected to assess switching costs differently. The study found that, as expected, switching costs are perceived to be lower by those who have switched in the past, although only for five of the nine individual switching cost categories as well as for switching costs overall. Of particular note, neither of the relationship-related switching costs was significantly lower. Perceptions of switching costs were found to increase significantly as time since the last switch had occurred increased for three of the switching cost categories, and for overall switching costs. Perceptions also increased for the other categories, but the increase was not significant. *Benefit Loss*, *Monetary Loss*, and *Hassle* were the switching cost categories to which both sets of findings applied, suggesting that all three categories of switching cost are less of an issue in reality than they are perceived to be, but the recollection of the financial-related costs incurred and the hassle of switching fades. In a separate finding, the perception of cost increased for these same three categories as the length of the customer relationship with their bank increased. The intuitive logic of that finding relates to the relationship becoming more established and more complex, an issue considered in the next section. However, it is surprising that neither of the *Relational* categories was positively correlated with the length of the relationship as might have been expected.

The remaining hypotheses in this section were in relation to the ease or difficulty of the switching experience. As hypothesised, the actual experience of switching was easier than expected, although it was surprising that this applied also for those with recent experience of switching. An explanation for the cognitive dissonance found between the experience and the future expectation has not been identified. However, neither the desire to switch nor the likelihood of switching was positively correlated with the expected ease of switching, as hypothesised. In fact, the desire to switch was found to be significantly negatively correlated with the expected ease of switching, which is counterintuitive. A possible explanation is that where the ease of switching is perceived to be less, the desire is acted upon and therefore no longer exists.

Table 5.1: Findings for Objective 1

Objective 1: To examine the differences in effect of different types of switching costs.

Proposition 1	Attitudes towards switching costs affect the relationship between the desire to change banks and the likelihood of actually switching.	Supported
Proposition 2	Customers' desire to have the bank handle the switch affect is affected by their perceptions of switching costs	Supported
Proposition 3	Customers who have switched, particularly those who have switched more recently, have a different perception of switching costs than those who have not switched	Supported for: Hassle, Benefit Loss Monetary Loss, and Overall switching costs

Clearly, different categories of switching costs do have different effects. The average perceptions of switching costs varied by category, as did the locking-in effect, measured through changes in the correlation between *Switching Desire* and *Switching Likelihood*. The three categories that were found to have the greatest effect on attitudes and behaviours related to switching were *Benefit Loss*, *Monetary Loss* and *Hassle*. In the case of *Benefit Loss* and *Monetary Loss*, their relatively strong influence is surprising given the average perception of both were the highest, and not significantly different from neutral. In contrast, the effect of *Learning* and *Uncertainty* were relatively limited, although *Learning* was ranked third highest for average perception.

5.1.2 Objective 2: To examine how the relative importance of different switching cost types, and switching costs as a whole, changes over a customer's life cycle

Customers are different, and this means their attitudes and needs vary. Prior research has found that attitudes towards financial issues vary based on their position within the family life cycle (for example, Bodie et al., 2007; Dumont, 2001; Javalgi & Dion, 1999). The second objective for this study sought to examine the relationship between the family life cycle and attitudes towards switching costs, as well as switching behaviour. To address this objective, four propositions with 22 associated hypotheses were developed in section 3.1.2. Three propositions related to the influence of the family life cycle with respect to perceptions of switching costs (Proposition 4), switching behaviour (Proposition 5), and reasons for switching (Proposition 7). The choice of family life cycle model categories was based closely on that of Schaninger

and Lee (2002), but adapted to enable the use of less intrusive questions in the questionnaire in order to enhance response rates. The fourth proposition for this objective sought to identify contributing and/or confounding demographic factors outside the family life cycle model (Proposition 6).

Although perceptions of overall switching costs were found not to vary on the basis of family life cycle, perceptions of the individual switching cost categories did vary, with the exception of *Uncertainty*. Both past switching behaviour and the likelihood of switching banks in the future were also found to vary significantly in respect of the family life cycle. When the relationships between specific pairings of life cycle groups were explored the Older Couple and the Bachelor III groups were frequently found to be significantly different to some or all of the other groups. While this suggests an age effect, age on its own was found to be less useful in explaining differences in perceptions of switching costs than the life cycle groups.

Given the relationship identified with respect to the life cycle group and bank switching, as reported above, major life events were expected to be important reasons for the bank switching that occurred. However, this was found to not be the case, with customer service and customer satisfaction issues being the primary reasons reported for switching banks. Furthermore, the only clearly life cycle related event, changed marital status, was ranked eighth of the eight possible main reasons for switching, and seventh as one of the reasons for switching.

The differences found in perceptions of switching costs with respect to life cycle groups could simply reflect differences in the nature of the banking relationships. Both the size of the banking relationship and the complexity of the banking relationship were found to vary between life cycle groups. The primary differences were for life cycle groups that involved families with children at home, which were found on average to have bigger and more complex banking relationships than did the other life cycle groups. The effect of size and complexity of the banking relationship on perceptions of switching costs and switching behaviour was investigated to explore whether either factor was the real explanation for the differences found for life cycle groups. The size of the banking relationship was found to have no explanatory value. However, the complexity of the banking relationship was found to have some explanatory value, particularly with respect to the total number of banking products held. This measure

had slightly stronger explanatory power than the other complexity measure in respect of the variations in perceptions of switching costs. Further study to better understand the interaction between banking relationship complexity and life cycle stage and the resultant effect on switching cost perceptions would be useful. These findings have practical implications for banks. It means that the most desirable customers, being those with the greatest volume of business, are those in the middle of the family life cycle who are also the most averse to switching.

The spread of banking relationships did not vary in relation to life cycle groups, but switching cost perceptions did vary with spread. In particular, a narrower relationship spread was found to be related to higher perceptions of switching costs, although the direction of causality was not investigated. The focus group work provided some support for the view that perceptions of higher switching costs cause the narrow spread of banking, but further work is needed to better understand the relationship between these two factors.

A number of other demographic-related factors were also investigated to explore their relationship with perceptions of switching costs and switching behaviour. Perceptions of switching costs were found to be related to the level of household income and education, with income being significantly positively correlated with perceptions of most switching cost categories, while education was significantly negatively correlated with overall switching cost perceptions. This is somewhat surprising as education is generally positively correlated with income. These results support earlier studies that have found differences in attitudes and behaviours around financial issues on the basis of income (for example, Cooil et al., 2007) and education (for example, Mittal & Kamakura, 2001).

Perceptions of all but two of the switching cost categories varied with the main form of interaction with the bank. As expected more personal interaction was related to higher perceived switching costs, except for *Hassle*. The contrary finding for *Hassle* may reflect that making greater use of people for banking interaction makes things appear simple.

When it comes to actual switching behaviour, variation was found between ethnic groups and on the basis of the main form of interaction with the bank. Specifically,

both past and likely future switching behaviour varied for the NZ European, NZ Maori, Pacific Islanders and Other Asians ethnic groups. Both Pacific Islanders and Other Asians were less likely to have switched banks in the past, possibly reflecting a greater cultural tendency for loyalty. Chinese were more likely to switch in the next twelve months. NZ Maori had switched less in the past, but were more likely than others to switch in the next 12 months, while NZ Europeans reported the opposite situation of having switched more in the past and being less likely to switch in the future. There is no obvious explanation for these ethnic differences.

Those whose primary interaction was with a branch were less likely to switch, as were those who primarily used phone banking and those who had limited interaction with their bank. The finding for branch interaction is not surprising, as that would be expected to generate a stronger relationship and a greater reluctance to switch. However, the results for phone banking and limited interaction are surprising as these would not be expected to generate strong ties, although the issue with phone banking may be related to concerns about having to learn a new system at a new bank.

Table 5.2: Findings for Objective 2

Objective 2: To examine how the relative importance of different switching cost types, and switching costs as a whole, changes over a customer's life cycle.

Proposition 4	Life cycle stage affects perceived switching costs and the differences are not due to confounding effects of the nature of the banking relationships	Partial support
Proposition 5	There is a relationship between life cycle stage and switching behaviour.	Supported
Proposition 6	Demographic characteristics, other than family life cycle stage, influence and explain people's attitudes to switching costs and/or their switching behaviour.	Supported
Proposition 7	There is a relationship between switching and major life changes	Rejected

This study found strong evidence that perceptions of switching costs do vary between life cycle groups, with the “middle” stages (those with children) perceiving most categories of switching costs to be greater. Switching behaviour also varies between life cycle groups, although life cycle stage was not found to be the impetus for

switching. However, other demographic factors were also found to help explain some of the differences in switching cost perceptions and switching behaviour.

5.2 Other Expected Outcomes

In addition to the two specific research objectives addressed in the study, two other outcomes were expected as a result of the information collected during the study. The findings in respect of these outcomes are discussed in this section.

5.2.1 Expected outcome 1: An assessment of the appropriate classification of switching costs

As discussed in section 2.1.1, earlier studies have used different categories of switching costs in their research. These categories were summarised in Table 3.3, and similarities identified. This study used nine categories of switching costs, primarily based on those of Burnham et al. (2003) but with some changes to the names ascribed to the categories to better reflect the associated concepts and with the addition of *Hassle* as a separate category (see section 3.4.3.1 for more detail).

The survey questionnaire used 36 statements to measure perceptions of these nine switching cost categories. As discussed in section 4.2.1, the scales used were found to be reliable. The inclusion of *Hassle* as a separate category was supported by the finding that it was perceived by respondents to be the most important individual switching cost. Accordingly, the nine categories used in this study are an appropriate first-order classification for future research into switching costs.

While the original nine categories used in this study are valid, a higher order, and smaller, set of alternative categories would be useful. In line with Burnham et al. (2003) a Principal Components Analysis was undertaken to determine whether such a set could be found. As discussed in section 4.2.2, a reduced set of three factors was found. These factors corresponded with Burnham et al.'s (2003) three factors of *Procedural*, *Financial* and *Relational*, and therefore the study confirms the Burnham et al. results. As a result, a simpler approach to the categorisation of switching costs using these three categories is supported.

Based on these findings, two sets of classifications have been identified for use in future research.

5.2.2 Expected outcome 2: Recommendations for regulators with respect to the issue of switching costs in the banking market

Although switching costs have been recognized as an issue in banking for some time, regulators have given them limited attention. This is now changing. Based on the findings from this study, four recommendations for banking regulators have been identified.

5.2.2.1 Switching costs and competition

Previous research has suggested the effects of switching can be considered by regulators as part of the merger approval process (Berger & Hannan, 1998). In addition, there should be regulatory concerns about switching costs in terms of the effect on the market, particularly in terms of competition and concentration. As discussed in section 1.3.6, these issues were addressed by the Commerce Commission in New Zealand in 2003 in its decision on the application by ANZ to acquire the National Bank. However, the Commerce Commission essentially discounted the effect of switching costs, accepting ANZ's arguments that they had limited impact on competition.

The application by ANZ almost exclusively discussed switching costs in financial terms. For example, in paragraph 147 it referred to the legal costs, application fees and break fees (for early termination of fixed rate loans) that would be likely to be incurred to change mortgage providers. There was some reference to the issue of the inconvenience of switching, such as the comment in paragraph 167 in relation to transaction accounts that "in addition to the direct tangible fees set out above, there is an inconvenience cost associated with switching providers" (ANZ, 2003, p. 57). However, this study has confirmed that there are a range of non-financial costs, such as the loss of personal relationships, that are more difficult to measure, but are at least as important as the financial costs. This leads to the first recommendation:

Recommendation 1: *Regulators should acknowledge and take account of the full range of switching costs, both financial and non-financial, in any consideration of competition issues in financial services.*

5.2.2.2 Mergers and acquisitions

This study has shown that switching costs do restrict the level of switching done by bank customers, and some customers who would like to change banks do not do so

because of the associated switching costs. Therefore, in the event of a merger, some customers of the acquired bank who are unhappy about the new ownership will nevertheless not switch to another bank because they are “locked-in” to their existing banking relationship by switching costs. The study has also disproved ANZ’s claim in paragraph 134 that “faced with an increase in price by ANZ (post acquisition) or a decrease in quality of service in any of the relevant markets, an existing participant could expand its market share so as to constrain ANZ” (ANZ, 2003, p. 51). Whereas such activity by ANZ may have generated a desire for its customers to switch to a competitor institution, switching costs may have meant that they did not do so. As an example, one respondent noted that her bank’s ownership had changed three times (over a period of more than 10 years) and each time she “lost points and schemes” and the conditions of her mortgage changed. The second recommendation relates specifically to mergers and acquisitions, as follows:

Recommendation 2: *In future decisions on mergers and acquisitions in the New Zealand banking market, the impact of switching costs in deterring customers from switching banks should be acknowledged and taken into account.*

5.2.2.3 Regulatory comparative disclosure

Shapiro and Varian (1999) argued that the internet would lower search costs, but this is not supported by the findings in this study that perceptions of search costs were not related to internet access. Nevertheless, this study found that search costs are perceived to be less important than most other types of switching costs, and they were also found to have limited effect on attitudes and behaviours compared to other switching cost categories.

It has been argued that regulators could have a role in reducing search costs, with one option being to legislate disclosure requirements that make it easier to find and compare information on alternative providers. One of the Cruickshank (2000) recommendations was the publication of comparative tables by the regulator. This would be a relatively simple option to implement.

However, with the internet likely to be the source of any comparative information today, and given the finding that internet access does not affect perceptions of switching costs, the benefits of regulated disclosure appear limited. In addition a number of

private organisations already provide comparative information.⁴⁹ Respondents' views on the issue were mixed, with one respondent asking whether there is “an internet site that one could view all the banks with what they offer in one summary”, while another took the view that “Having information available for the public in the form of brochures, leaflets or readily available to download from their website is great”. These conflicting views and the findings related to search costs give rise to the third recommendation:

Recommendation 3: *Regulators should not seek to legislate comparative disclosure requirements in respect of bank providers and services, leaving this for the market to address.*

5.2.2.4 Number portability

Anecdotal evidence from the focus groups conducted as part of this study (see section 3.3.2), as well as the findings of the relative importance of *Hassle* and the perceived difficulties of switching confirm the time and effort involved, and the process of switching are issues for bank customers. Primarily this is about step 2 of the switching process (outlined in section 1.3.3) and relates to the need to open a new account, which has a different account number necessitating redirection of any existing direct credits such as salary payments, and reloading on the new account of existing payment authorities, such as those for power, telephone and rates. Similar issues in the telecommunications industry have been overcome with the introduction of Mobile Number Portability (MNP) (as discussed in section 2.6). Bank account number portability would eliminate most of the hassle of switching, by removing the need to re-establish direct credits and payment authorities. A customer would be able to retain their existing bank account number, but it would now be associated with a different bank.⁵⁰

The introduction of bank account number portability in New Zealand was discussed by market participants in the 1990s and at a technical level portability is possible

⁴⁹ In New Zealand, Consumer (www.consumer.org.nz) is a good example of a private organisation providing comparative information. Australia currently has three privately run websites dedicated to helping consumers compare financial products: mozo (www.mozo.com.au); RateCity (www.ratecity.com.au); and, infochoice (www.infochoice.com.au).

⁵⁰ Bank account number portability was effectively introduced for transfers between branches of the same bank about 20 years ago. Prior to that the process of moving to another branch of the same bank was almost the same as that of moving to another bank, involving a similar level of hassle. However, bank account number portability within a bank is a much different process to that required between banks.

(S. Miller, personal communication, 3rd November, 2008). However, participants in the market are unlikely to push the development of number portability because it is a “two-edged sword” – while they would like to make it easier for customers to switch to them, they do not want to make it any easier for customers to switch away from them. In addition, there would be substantial costs to establish number portability, as well as ongoing operational and maintenance costs for the system. Reaching agreement on how these costs might be apportioned would be difficult. This is evidenced by the telecommunications market, where the implementation of MNP has been delayed by operators due to the perceived costs and perceived lack of benefits (Garcia-Murillo, 2007). However, bank account number portability is something a regulator could require to be implemented, including specifying how the associated costs would be apportioned, as outlined in the final recommendation:

Recommendation 4: *Regulators should investigate the implementation of number portability, including an assessment of establishment and operational costs.*

5.3 Academic Contribution

This thesis makes several contributions to the academic literature. Empirical work on switching costs has been noted as being more limited than the theoretical literature (Farrell and Klemperer, 2006). Accordingly, the first contribution is the provision of empirical analysis about switching costs, from a relatively large and broad study.

Previous research, as discussed in section 2.5, has found that the family life cycle affects attitudes towards financial issues, but no prior research was found related to switching costs and the family life cycle. The second contribution of this thesis is the confirmation that life cycle stage does affect perceptions of switching costs, as well as switching behaviour, as hypothesised. Specifically, the “middle” stages of the family life cycle generally perceived switching costs to be greater. Furthermore, the findings in relation to the complexity of the banking relationship suggest it may help explain the variation found between life cycle groups in their perception of switching costs.

The third contribution to the academic literature is the confirmation of the higher order categories identified by Burnham et al. (2003), of *Procedural*, *Financial* and *Relational*. This allows for a simpler approach to research on switching costs. The study also

provides justification for the use of *Hassle* as a separate category of switching cost at the first order level, rather than it being subsumed within another category as has commonly occurred in prior research.

Previous research has found evidence of switching costs in the banking industry, but has not clearly shown their contribution to the low churn rate that exists. This thesis provides evidence that switching costs do contribute to bank customers not switching banks when they would like to, thereby locking them into their current bank.

The fifth contribution is the comparison between the actual experience of switching and the expectation, which does not appear to have been previously investigated. The finding that in practice switching is easier than it is expected to be was not surprising. However, finding that this was true even for those who have recent experience of switching was not anticipated, and identifies an apparent disconnect between past experience and future expectation.

Switching costs are becoming an issue of increasing interest for banking regulators. This thesis contributes to the discussion around the appropriate regulatory response to switching costs, with four recommendations for regulators.

During the course of undertaking this research project, a number of conference papers, journal articles and presentations on aspects of switching costs and switching behaviour were completed. The publications are listed in Appendix 12.

5.4 Future Research

This study addressed a range of issues related to switching costs in banking, as discussed above. However, no study is able to address all the issues related to a particular topic and opportunities exist for further research on switching costs, both in banking and in other markets.

This study found a relationship between life cycle stage and perceptions of switching costs. However, there is limited understanding of the nature of the relationship. Future research should seek to better understand how perceptions of switching costs change as an individual moves through the family life cycle.

A relationship was also found between the complexity of the banking relationship and perceptions of switching costs. In addition, a relationship between life cycle stage and banking relationship complexity was found and further work to enhance the understanding of the relationship between these two factors, and to therefore better understand how they influence perceptions of switching costs, would be useful.

While it was not surprising to find that switching is easier in practice than it is expected to be, finding that this also applied for those who had recently switched banks was unexpected. Further work into the actual experience of switching banks may help to explain this. Case studies, preferably based on detailed interviews completed at the time the switch occurs, would be a useful way to better understand people's experience of switching.

Nine switching cost categories were used in this study, measured using a total of 36 statements. These categories were subsequently found to be able to be reduced into the same three higher order categories suggested by Burnham et al. (2003). Developing a suitable set of statements for measuring the higher order *Procedural*, *Financial* and *Relational* categories would allow a standard model of switching costs to be used by other researchers.

The potential for bank account number portability is discussed in section 5.2.2.4 above. There is no evidence of any work being done on the potential effect on rates of bank switching. One option would be to investigate what impact the introduction of MNP in telecommunications and the provider-managed switching process used in the electricity industry have had on perceptions of switching costs and switching behaviour in those markets.

A final issue to be studied would be whether the life cycle stage has a similar effect on perceptions of switching costs and on switching behaviour in markets other than banking, such as telecommunications, insurance, and electricity. The relationship found between the complexity of the banking relationship and the life cycle stage may mean that the life cycle effect is specific to banking. Determining whether a similar effect exists in other markets could enhance the understanding of the effect found in the banking market.

APPENDICES

Appendix 1: Mergers and acquisitions in the New Zealand banking market from 1985

Appendix 2: Registered banks in New Zealand as at 31st December 2008

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Appendix 6: Pilot survey documentation

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Appendix 8: Survey information sheets

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Appendix 12: Thesis-related publications

Appendix 1: Mergers and acquisitions in the New Zealand banking market from 1985⁵¹

Year	Target	Acquirer
1987	Broadbank (76% share)	National Australia Bank
	Countrywide Banking Corporation	Bank of Scotland (40%) and General Accident Insurance NZ (20%) ⁵²
1989	Rural Bank	Fletcher Challenge
	ASB Bank (75% share)	Commonwealth Bank
	PostBank	ANZ Banking Group
	Regional Trust Banks (9) ⁵³	Trust Bank New Zealand
1990	United Bank	State Bank of South Australia
	Westland Bank	ASB Bank
1992	Bank of New Zealand	National Australia Bank
	United Bank	Countrywide Banking Corporation
	Rural Bank	The National Bank of New Zealand
	Countrywide Banking Corporation	Bank of Scotland (acquisition of balance)
1994	Primary Industry Bank of Australia	Rabobank
1996	Trust Bank New Zealand	Westpac Banking Corporation
1998	Countrywide Banking Corporation	The National Bank of New Zealand
	Barclays	ABN Amro
	Bankers Trust	Deutsche Bank ⁵⁴
2000	ASB Bank (25% balance)	Commonwealth Bank
2001	BNZ Finance	Bank of New Zealand
2003	The National Bank of New Zealand	ANZ Banking Group

⁵¹ This listing of merger and acquisition activity may not be complete – there is no recognised source for this information. Situations where the business of a bank was sold before the bank was wound up (such as Superbank in 2006) have been excluded.

⁵² The acquisition was part of the demutualisation and bank registration process undertaken by Countrywide Building Society.

⁵³ Trust Banks Auckland, Bay of Plenty, Canterbury, Central, Otago, South Canterbury, Southland, Waikato, Wellington

⁵⁴ This was part of a global acquisition of BT by Deutsche.

Appendix 2: Registered banks in New Zealand as at 31st December 2008

ABN AMRO Bank NV

ANZ National Bank Limited

ASB Bank Limited

Bank of New Zealand

Citibank N A

Commonwealth Bank of Australia

Deutsche Bank A G

JPMorgan Chase Bank NA

Kiwibank Limited

Kookmin Bank

Rabobank Nederland

Rabobank New Zealand Limited

Southland Building Society

The Bank of Tokyo-Mitsubishi UFJ

The Hongkong and Shanghai Banking Corporation

TSB Bank Limited

Westpac Banking Corporation

Westpac New Zealand Limited

Appendix 3: Bank interview summary

Between March and September 2005, interviews were undertaken with staff at the eight major retail bank brands operating in New Zealand: ANZ, ASB, BNZ, Kiwibank, NBNZ, Superbank, TSB, and Westpac. The staff ranged in level from the CEO to a product manager. At the higher management levels, interviewees clearly had a broader perspective on the issue.

- Banks agree that switching costs are an issue and that it is difficult to get customers to switch.
- Banks have made attempts to persuade customers that switching is easy, but with limited success.
- There is an NZBA protocol on switching, but it isn't really effective
 - It is not mandatory as it is in the UK and which it needs to be
- Banks can buy information from Baycorp to have early warning that a customer may be going to leave them, and so be able to act in an attempt to prevent it.
 - This information takes the form of advice that another bank has sought a credit check, and has led at least one bank to avoid credit checks on new customers where possible
- Bank switching tends to be driven by major life events or “catalytic events” as one interviewee put it.
- A number of interviewees had been in the position of moving their bank accounts
 - One had still to do so, because it seemed too difficult
 - Others noted that it was time consuming even for knowledgeable bank staff
 - It required hours of time over weeks
- Responses to the question of whether banks use switching costs to retain customers were mixed
 - One interviewee suggested this was a “cynical view” and almost an “offensive” suggestion
 - Others suggested it was not a deliberate strategy, but rather a by-product of banks' normal operations
 - And others suggested that they certainly do
- In terms of the most important switching costs, responses included
 - Uncertainty as to whether it has happened and happened properly
 - Understanding the process
 - Hassle
 - Fear of something going wrong
 - Time and effort
 - There was agreement that financial switching costs are unimportant
- Different customers are affected differently. It was suggested that it depends upon
 - Life stage
 - Socio-economic status
 - Younger, less wealthy and less complex are more likely to move

Appendix 4: Focus group report

(1) The groups

Three separate focus groups were held, each comprising 4 or 5 individuals. Group 1 was targeted as a Young group, and comprised 3 people who knew each other and a 4th person who responded to a separate request for participants. Group 2 was organised through a Palmerston North primary school, and was targeted to include individuals with families. This School group had a wider age range than the Young group. Group 3 comprised staff of Massey University who responded to a campus-wide request for participants. This was targeted as an older and better educated group.

Table A1 shows the key characteristics of each of the three groups involved. The groups were predominately female, with just three males involved in total. The financial institutions at which participants banked comprised the main banks in New Zealand, as well as a mix of other financial institutions: ANZ, ASB, BNZ, a credit union, Kiwibank, National Bank, PSIS, TSB and Westpac, as well as NAB (Australia). The main banks of the participants were identified as ANZ (3), ASB (1), BNZ (2), National Bank (4), Westpac (2), and the credit union (1).

Table A1: Key characteristics of the focus groups

	Group 1 (Young)	Group 2 (School)	Group 3 (Massey)
Number in group	4	4	5
Age range	23-28	21-37	33-55
Number of financial institutions per person	1 or 2	1-3	2-3
Total number of different financial institutions represented	5	6	6
Qualification level	Secondary – UG	All secondary	Trade - PG

(2) Would you like to switch banks?

The first issue discussed was the question of whether the participants would like to change to another bank/financial institution. With this issue the emphasis was on the desire rather than the intention to switch. Over all the groups almost all the participants had at least given some thought to switching their banking relationship. In the Young group there was a unanimous and strong desire to switch, and in practice they had done so on a regular basis. The School group included one participant who had not given any thought to switching, while another though about switching regularly. In the Massey group, all participants had thought about switching and with one exception they had in fact done so. However, everyone in the Massey group had split banking, so their switch had not been complete.

When it came to the reasons for switching, fees and charges tended to be the dominant driver. Charges were a key driver for the Young group, but maturity and starting work were other factors behind previous switches. One participant in this group had switched specifically to make travelling easier. For the School group the issue tended to be dissatisfaction with fees, particularly in terms of the quantum of fees paid.

Dissatisfaction in respect of service received was another factor. For the Massey group the driver tended to be getting a better mortgage deal, generally reflected in a lower interest rate.

However, concerns were also raised against switching. One participant from the Massey group commented that switching means a loss of history with the bank, which can make it more difficult to get your future needs met. The example given was being able to get a \$20,000 overdraft for a month without any security due to the past history he had with the bank, but he noted that this leverage would be lost if he moved his accounts to another financial institution.

(3) What types of issues are likely to affect the decision to switch banks?

At least initially no guidance was given in respect of types of issues that could be considered, but some suggestions were given if necessary to stimulate discussion. The School group needed to be guided more than the other two groups in terms of considering possible issues related to switching. Use of the term switching costs was avoided as it could be seen as a jargon term that is difficult to understand, and also frequently restricts discussion to financial issues because of the way in which the term “cost” is generally understood.

The time and effort involved in changing banks was the most important issue for all three groups, with all referring to the hassle involved. The Young group indicated that the form filling in changing banks was a deterrent to switching. Associated with the form filling was a need to take in a lot of information, which was seen as discouraging the change. One of the Massey participants noted that there was a lot running around involved, while another from the Massey group described it as “overwhelming” due to everything involved. Another Massey participant commented that he would prefer to do the switch himself if he was to change banks as he would not trust the banks to get it right. It is worth noting that he did not distinguish between banks in making this comment.

Costs were an issue for both the Young and School groups with one of the Young participants noting that “everything you do with a bank costs money”. The School group described set up costs as a barrier to changing banks.

The Massey group agreed that communication was an important part of changing banks, and one stated that using an 0800 number to make contact was no good, and a specific contact was needed. Another noted that internal communication in the banks needs to be better with a lack of notes complicating matters.

Both the Young and the Massey groups suggested that a good deal was needed to make a change of banks worthwhile. One of the Young participants suggested finding a new bank was an issue. However, the School group disagreed with this view, suggesting that the internet has sorted that issue.

(4) How could banks make it easier to switch?

The Young group agreed that reducing the amount of form filling required was something the banks could do. The School group had no suggestions to offer. The Massey group, however, had some reasonably practical suggestions.

Better internal communication was seen as an important improvement, and this related to the need to deal with different staff at different times. Another suggestion was a centralised resource for customers in the process of switching to use to get assistance with any issues that arose in the process. The same participant suggested having a booklet about switching available for customers that outlined the steps involved. The group suggested that the issue of set up fees could be dealt with by wiping or reducing the fees automatically. They noted that it was often possible to get them wiped on request, but felt getting it done automatically, as part of the process, would be better.

(5) What is the extent of split banking and what is the reason for it?

In all three groups there was a reasonable level of split banking. The School and Young groups were both equally divided between those who had split banking and those that did not. In the Massey group all participants had split banking. However, there were interesting differences in the reasons for the split banking. In the Young group it tended to not be true split banking, as it was more a case of not having closed the old account so it was still open but not used following a change of bank. The split bankers in the School group indicated it was the result of having moved only part of their banking relationship to the new bank and having left part of it at the old bank. This tended to be the result of looking for the best deal for each individual product. The Massey group were similar to the School group, in that they liked the parallel banking arrangements. Like the School group they sought the best deal for each product.

(6) Summary

The possibility of switching was one that most participants in all three groups had thought about. While most participants had actually switched, the Young group were generally more relaxed about it, and had done so more frequently. The Young group did note the existence of the hassles of switching, but seemed to simply accept them as a necessary part of the switch. There was agreement among the three groups that the most important switching cost was the time and effort involved. The key drivers for switching were getting the best deal and major life events, e.g. getting a job or buying a new house. Split banking was more prevalent and more deliberate among the Massey group, and for this group represented part of the switching process.

(7) Limitations

Unfortunately all three groups ended up smaller than anticipated and than desired. This limits the conclusions that can be drawn, but as an exploratory part of the research project this is not a significant concern. However, the results do support the expectation that time and hassle is seen as the most significant cost, and that many of the other costs identified in the literature have minimal effect. The differences between the groups were not great, but there were some, which provides support for further, more thorough investigation.

Appendix 5: User panel emails

Email 1: A Favour

I am in the process of preparing the questionnaire for my PhD research and I'd like to ask a favour of you. If you agree, I'll send you the draft questionnaire, and I would then appreciate your comments on it. I'm not interested in your responses to the questionnaire. Rather I want to know if the question and answer options make sense.

If you can help, please confirm by return email and I'll send you the draft questionnaire.

Thanks

Claire

Email 2: The Questionnaire

Thank you for agreeing to help me. The draft questionnaire is now attached.

What I'd like you to do is to complete it as if you are participating in the survey. As I indicated previously, I'm not interested in your actual responses, and I don't want the form back at all.

What I would like are answers to the following:

- (1) Did the instructions at the start of the questionnaire make sense? Were they useful?
- (2) Roughly how long did it take you to complete the questionnaire?
- (3) Did you have any problems with any of the questions? Did the questions themselves make sense? Was there any question where the answer you wanted to give wasn't available? Please give details of any problems you encountered.
- (4) Did you object to any of the questions? For example, did you feel it was inappropriate for any of the questions to be asked, or did you feel uncomfortable answering any of the questions, or would you refuse to answer any particular question? If so, please tell me which question and what you saw as the problem with it.

Finally, please feel free to provide any other comments about the questions that you wish. If possible, I would appreciate a response before June 16th.

Thanks again for your help. It's most appreciated.

Claire

Appendix 6: Pilot survey documentation

Appendix 6.1: Pilot survey questionnaire

Appendix 6.2: Pilot survey information sheet

Appendix 6.3: Pilot survey letter for second mailing



Massey University
COLLEGE OF BUSINESS
Kaupapa Whai Pakihi

DEPARTMENT OF FINANCE
BANKING & PROPERTY
Private Bag 11 222
Palmerston North
New Zealand
T 64 6 350 5799 extn 2323
F 64 6 350 5651
www.massey.ac.nz

Customers Changing Banks in New Zealand



Instructions

Thank you for participating in this study. The questionnaire will take approximately 15 minutes to complete.

Please tick the appropriate box(es) for each question or write the required information on the line provided.

This survey is asking about your *personal* banking business only. Any business-related banking which you may also have is not included. Please answer the questions as they apply with respect to *all* personal accounts with which you are involved, including joint accounts and children's accounts.

In the following questions the term *bank* is used in its widest sense, and includes both registered banks and non-bank financial institutions such as PSIS, building societies and credit unions.

Most of the questions refer to your *main bank*. There are different ways to select your main bank; for example, your main bank may be the bank where you have your everyday, transactional account, or it may be the bank where you have your home loan, or it may be the bank where you have the greatest sum of deposits and loans. It is up to you which you use.

On completion please return the questionnaire to the researcher in the addressed and postage paid envelope provided.

If you withdraw from the study, please feel free to return the uncompleted questionnaire to the researcher, also in the envelope provided.

As noted in the covering letter, all information will remain confidential.

Section A: Your Banking Relationships

*I would like to ask you some questions about the banking relationships that you have. Please remember that **bank** means 'bank or financial institution'.*

1. Which of the following financial institutions do you currently have some form of banking relationship with, in New Zealand? Please mark **ALL** that apply.

- []₁ ANZ
[]₂ ASB
[]₃ BNZ
[]₄ Credit Union, please write in which one _____
- []₅ HSBC
[]₆ Kiwibank
[]₇ The National Bank
[]₈ PSIS
[]₉ Southland Building Society
[]₁₀ TSB
[]₁₁ Westpac
[]₁₂ Other, please write in _____

2. Which of the following financial institutions would you describe as your **main bank** in New Zealand? Please select **ONE** only. *Remember it is up to you how you define which is your **main bank**.*

- []₁ ANZ
[]₂ ASB
[]₃ BNZ
[]₄ Credit Union, please write in which one _____
- []₅ HSBC
[]₆ Kiwibank
[]₇ The National Bank
[]₈ PSIS
[]₉ Southland Building Society
[]₁₀ TSB
[]₁₁ Westpac
[]₁₂ Other, please write in _____

3. Please show the approximate percentage of your business that you have with each bank that you deal with, in New Zealand. The numbers in each column should add up to 100%. If you don't have any business with a particular bank, please leave it blank or put zero(0). I would like you to do this for both your current balances, and also for the number of transactions in the last 12 months.

	Percentage (%) share of total loans and deposits currently	Percentage (%) share of transactions over the last 12 months
ANZ	_____	_____
ASB	_____	_____
BNZ	_____	_____
Credit Union, please write in _____	_____	_____
HSBC	_____	_____
Kiwibank	_____	_____
The National Bank	_____	_____
PSIS	_____	_____
Southland Building Society	_____	_____
TSB	_____	_____
Westpac	_____	_____
Other, please write in _____	_____	_____
	100%	100%

4. How long have you been a customer of the bank you identified as your **main bank** (in question 2)?
- ₁ Less than 1 year
 - ₂ 1 – 3 years
 - ₃ More than 3 years but not more than 5 years
 - ₄ More than 5 years but not more than 10 years
 - ₅ 10 or more years
5. What is the **TOTAL** amount of all loans and deposits that you have with your **main bank**. Please include mortgages, credit cards, overdrafts and personal loans, **as well as** any form of deposit. For example if you have \$10,000 in a savings account and a \$50,000 overdraft limit, the total value would be \$60,000.
- ₁ Less than \$25,000
 - ₂ \$25,000 - \$49,999
 - ₃ \$50,000 - \$99,999
 - ₄ \$100,000 - \$249,999
 - ₅ \$250,000 - \$499,999
 - ₆ \$500,000 or more
6. Which of the following do you use **MOST OFTEN** to interact with your **main bank**? Please select **ONE** only.
- ₁ Branch
 - ₂ Relationship manager/Personal banker
 - ₃ Phone banking
 - ₄ Internet banking
 - ₅ Txt/mobile banking
 - ₆ I use all these methods equally
 - ₇ I don't use any of these methods very often (less than twice a year)

7. Please indicate **HOW MANY** of each of the following financial products you have with your **main bank**. Please put '0' (zero), or leave it blank, if you don't have that product with your **main bank**.

- _____ Cheque (transaction) account
- _____ Savings account
- _____ Term deposit
- _____ Insurance
- _____ Credit Card
- _____ Debit (EFTPOS) card
- _____ Automatic payment
- _____ Direct debit
- _____ Direct credit
- _____ Mortgage/Housing loan
- _____ Other loan
- _____ Phone banking service
- _____ Internet banking service
- _____ Bank accounts for a connected entity, such as children or a business
- _____ Other, please write in _____

Section B: Switching behaviour

*In this section I would like to ask you some questions about changing your **main bank** to another bank.*

To what extent do you agree or disagree with the following statements?	Strongly agree	Mostly agree	Slightly agree	Neither agree nor disagree	Slightly disagree	Mostly disagree	Strongly disagree
8. <i>In an ideal world, i.e. ignoring any possible difficulties, I would like to move from my existing main bank to another bank.</i>	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
9. <i>I am happy with my main bank and don't want to change.</i>	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
	Very likely	Quite likely	Slightly likely	Neither likely nor unlikely	Slightly unlikely	Quite likely	Very unlikely
10. How likely are you to switch to a competing financial institution as your main bank during the next twelve months?	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
		0% (No chance I will stay)	25%	50%	75%		100% (I will certainly stay)
11. What are the chances that you will stay with your bank for the next year?	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
To what extent do you agree or disagree with the following statements?	Strongly agree	Mostly agree	Slightly agree	Neither agree nor disagree	Slightly disagree	Mostly disagree	Strongly disagree
12. <i>If I was changing my main bank, I would like my new bank to take care of the whole process for me.</i>	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
13. <i>If I was changing my main bank I would be able to take care of it all myself.</i>	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
14. <i>Banks make it easy for customers to switch to another bank.</i>	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇

Very easy Quite easy Slightly easy Neither easy nor difficult Slightly difficult Quite difficult Very difficult

15. Overall, how easy or difficult do you think it would be to change your **main bank**? []₁ []₂ []₃ []₄ []₅ []₆ []₇

16. How many times have you ever changed your **main bank**?

- []₁ Never
- []₂ 1 time
- []₃ 2 – 3 times
- []₄ 4 or more times

17. How long ago did you last change your **main bank**?

- []₁ I've never changed my main bank
- []₂ Less than 12 months
- []₃ 12 – 24 months
- []₄ More than 2 years ago but less than 5 years ago
- []₅ 5 or more years ago

18. If you have changed your **main bank** in the **last 5 years**, what reasons did you have for doing so? Please tick **ALL** that apply.

- []₁ I haven't changed my main bank in the last 5 years **OR**
- []₂ Fees & charges
- []₃ Service problems
- []₄ Better product or service elsewhere
- []₅ More convenient
- []₆ My marital situation changed
- []₇ I changed my employment
- []₈ I bought a home
- []₉ I moved to a new location
- []₁₀ Other, please write in _____

19. If you have changed your **main bank** in the **last 5 years**, what was the **MAIN REASON** for doing so? Please select **ONE** only.

-]₁ I haven't changed my main bank in the last 5 years **OR**
-]₂ Fees & charges
-]₃ Service problems
-]₄ Better product or service elsewhere
-]₅ More convenient
-]₆ My marital situation changed
-]₇ I changed my employment
-]₈ I bought a home
-]₉ I moved to a new location
-]₁₀ Other, please write in _____

I haven't changed my bank in the last 5 years **OR**
 Very easy Quite easy Slightly easy Neither easy nor difficult Slightly difficult Quite difficult Very difficult

20. If you have changed your **main bank** in the **last 5 years**, how would you describe the process of doing so?

-]₈]₁]₂]₃]₄]₅]₆]₇

Section C: Switching Costs

*In this section I would like to know how you feel about different costs associated with changing banks, including non-monetary costs such as time and effort. Please indicate the extent to which you agree or disagree with each of the following statements by ticking the appropriate box. Please tick **ONE** box for each statement.*

	Strongly agree	Mostly agree	Slightly agree	Neither agree nor disagree	Slightly disagree	Mostly disagree	Strongly disagree
21. The process of starting up with a new bank is quick/easy.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
22. It would take a lot of time and effort to locate a new bank.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
23. There is not much involved in understanding a new bank well.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
24. I worry that the service offered by other banks won't work as well as expected.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
25. Switching to a new bank would mean losing or replacing points, credits, services and so on that I have accumulated with my main bank .	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
26. Switching to a new bank would involve some up-front costs (set-up fees, membership fees, etc) at the new bank.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
27. I like the public image of my main bank .	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
28. I would miss working with the people at my main bank if I changed to another bank.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
29. If I try to switch banks, I might end up with bad service for a while.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
30. Switching to a new bank will probably result in some unexpected hassle.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
31. I cannot afford the time to get the information I need to be able to fully evaluate other banks.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇

	Strongly agree	Mostly agree	Slightly agree	Neither agree nor disagree	Slightly disagree	Mostly disagree	Strongly disagree
32. Getting used to how another bank works would be easy	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
33. I am likely to end up with a bad deal financially if I switch to a new bank.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
34. I will lose benefits of being a long-term customer if I leave my bank.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
35. It would take a lot of money to pay for all of the costs associated with switching banks.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
36. I feel a sense of loyalty to my main bank .	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
37. The people at my main bank matter to me.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
38. If I change my bank it is likely that some of my regular payments will not be paid while the change is taking place.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
39. It takes time to go through the steps of switching to a new bank.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
40. Comparing the benefits of my bank with the benefits of other banks takes too much time/effort, even when I already have the information.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
41. Learning to use the features offered by a new bank as ably as I use those of my current bank would take time.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
42. The service from another bank could be worse than the service I now receive.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
43. I receive preferential treatment from my main bank .	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
44. I would be concerned about negative financial outcomes if I changed my main bank .	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇

	Strongly agree	Mostly agree	Slightly agree	Neither agree nor disagree	Slightly disagree	Mostly disagree	Strongly disagree
45. I do not care about the brand/company name of the bank I use.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
46. I like talking to the people at my main bank .	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
47. I have put effort into adapting my bank services to meet my needs.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
48. There are a lot of formalities involved in switching to a new bank.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
49. If I were to switch banks, I would have to learn how things work at the new one.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
50. I would be uncertain of what the outcome would be if I changed banks	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
51. My main bank provides me with particular privileges I would not receive elsewhere.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
52. I feel locked in because of the products I have with my main bank .	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
53. In my view all banks are the same.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
54. My main bank knows my needs.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
55. It would take time to get my new banking relationship set up to best suit my needs.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇
56. Switching banks would be too much bother in terms of time and effort.	[] ₁	[] ₂	[] ₃	[] ₄	[] ₅	[] ₆	[] ₇

Section D: Demographic Information

Finally, I would like to ask some questions about you and your household. An important part of this study is making comparisons between people based on where they are within the family life-cycle, and these questions will help identify which group you belong to.

57. Which of the following best describes your marital status?

-]₁ Never married
-]₂ Never married but living with a partner
-]₃ Now married or in a civil union
-]₄ Separated
-]₅ Divorced
-]₆ Widowed

58. How many children do you have (including adult children)? _____

59. How many of your children are living at home with you? _____

60. What are the ages of the oldest and youngest children living at home with you?

Oldest Child..... _____

Youngest Child..... _____

61. Which of the following best describes the employment status of the person you would describe as the head of your household?

-]₁ Not currently in paid employment
-]₂ Paid part-time employment
-]₃ Paid full-time employment
-]₄ Self-employed
-]₅ Retired

62. What is the annual income for your household?

-]₁ \$20,000 or less
-]₂ \$20,001 – \$40,000
-]₃ \$40,001 – \$70,000
-]₄ \$70,001 – \$100,000
-]₅ \$100,001 or more

63. What year were you born? 19 _____

64. If you have a partner, what year was he/she born? 19 _____

₁ I don't have a partner

65. What is your gender?

₁ Male

₂ Female

66. Which of the following best describes your ethnicity?

₁ NZ European

₂ NZ Maori

₃ Pacific Islander

₄ Chinese

₅ Indian

₆ Other Asian

₇ Other European

₈ Other, please write in _____

67. What is your highest education level?

₁ No qualification

₂ Secondary School qualification, e.g. School certificate, NCEA, UE

₃ Vocational qualification

₄ Bachelor degree

₅ Higher degree

₆ Other, please write in _____

68. Which of the following best describes where you live?

₁ City

₂ Suburban

₃ Town

₄ Rural, 20km or less from nearest town or city

₅ Rural, more than 20km from nearest town or city

69. Which of the following best describes your access to the internet?

-]₁ I don't have access to the internet
-]₂ I usually access the internet at home
-]₃ I usually access the internet at work
-]₄ I access the internet at home and at work about the same amount
-]₅ I access the internet somewhere other than at home or work, such as a friend's home or a library

70. Do you have any other comments you would like to make about changing banks, or this survey?

Thank you for taking the time to complete this survey form.

Appendix 6.2: Pilot survey information sheet

CUSTOMERS CHANGING BANKS IN NEW ZEALAND

Information Sheet

I am a senior lecturer in banking in the Department of Finance, Banking and Property at Massey University (Palmerston North). I am writing to ask you to take part in a survey, as part of my PhD research on why people do or do not change banks. I will use the findings from this research project in my doctoral thesis. I also plan to use them for articles in appropriate academic journals and/or as conference papers.

Your name was selected at random from the New Zealand electoral roll. All completed questionnaires are confidential, and no individuals will be identified in any publications resulting from this survey. Participation in this study is voluntary, and as a participant you have the right to:

- choose not to answer any question(s);
- withdraw from the study at any point until you return the questionnaire to me;
- contact me for clarification of questions;
- receive a copy of the summary findings at the end of the study.

If you agree to participate and would like a copy of the summary findings, please complete the enclosed form with your address details and return it with the questionnaire. I will send you a copy of the survey results summary when it becomes available, which is expected to be in early 2007.

If you agree to take part in the study please complete the enclosed questionnaire, which will take approximately 15 minutes to complete. Please send the completed questionnaire back to me using the enclosed addressed and postage paid envelope.

My supervisors for this project are Prof. Chris Moore from the Department of Finance, Banking & Property at Massey University and A/Prof. Malcolm Wright from the School of Marketing and International Business at Victoria University.

If you would like to know more about this study or have any questions about it, please feel free to contact me at (06) 356 9099 Extn 2329 during business hours or by email at C.D.Matthews@massey.ac.nz. Alternatively you may wish to contact my supervisor, Prof. Chris Moore, at (06) 356 9099 Extn 2330 during business hours, by fax at (06) 350 5628 or by email at C.I.Moore@massey.ac.nz.

This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University's Human Ethics Committees. The researchers named above are responsible for the ethical conduct of this research. If you have any concerns about the conduct of this research that you wish to raise with someone other than the researchers, please contact Professor Sylvia Rumball, Assistant to the Vice-Chancellor (Ethics & Equity), telephone: 06 350 5249, email humanethicspn@massey.ac.nz.

I hope you will participate in this survey. Your response is valuable in helping to understand how to make the banking sector better for customers.

Thank you.

Claire

Claire Matthews

Appendix 6.3: Pilot survey letter for second mailing

CUSTOMERS CHANGING BANKS IN NEW ZEALAND

Recently I sent you a questionnaire, asking you to take part in a survey that is part of a research project investigating the reasons why people do or do not change banks in New Zealand.

If you have already completed and returned the questionnaire, thank you for your participation.

If you have not yet completed and returned the questionnaire I would like to remind you that your response will be valuable in helping to understand how to make the banking sector better for customers. I would be grateful if you would complete the survey, and send it back to me in the reply paid envelope that accompanied it.

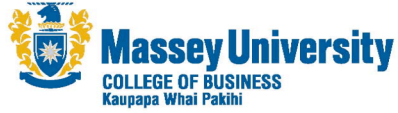
If you have misplaced your copy of the questionnaire and would like another copy, or if you have any questions about the research, please feel free to contact me at (06) 356 9099 Extn 2329 during business hours or by email at C.D.Matthews@massey.ac.nz. Alternatively you can contact my supervisor, Prof. Chris Moore, at (06) 356 9099 Extn 2330 during business hours, by fax at (06) 350 5628 or by email at C.I.Moore@massey.ac.nz.

Thank you.

Claire

Claire Matthews

Appendix 7: Survey questionnaire



Customers Changing Banks in New Zealand

DEPARTMENT OF FINANCE,
BANKING & PROPERTY
Private Bag 11 222
Palmerston North
New Zealand
T 64 6 350 5799 extn 2323
F 64 6 350 5651
www.massey.ac.nz



Te Kupenga
ki Pūrehuroa

INSTRUCTIONS

Thank you for participating in this study. The questionnaire will take approximately 15 minutes to complete.

Please tick the appropriate box(es) for each question or write the required information in the box provided.

This survey is asking about your **personal** banking business only. Any business-related banking which you may also have is not included. Please answer the questions as they apply with respect to all personal accounts with which you are involved, including joint accounts and children's accounts.

In the following questions the term **bank** is used in its widest sense, and includes both registered banks and non-bank financial institutions such as PSIS, building societies and credit unions.

Most of the questions refer to your **main bank**. There are different ways to select your main bank; for example, your main bank may be the bank where you have your everyday, transactional account, or it may be the bank where you have your home loan, or it may be the bank where you have the greatest sum of deposits and loans. It is up to you which you use.

On completion please return the questionnaire to the researcher in the addressed and postage paid envelope provided.

If you withdraw from the study, please feel free to return the uncompleted questionnaire to the researcher, also in the envelope provided.

As noted in the covering letter, all information will remain confidential.

Section A

Your Banking Relationships

I would like to ask you some questions about the banking relationships that you have. Please remember that bank means 'bank or financial institution'.

1. Which of the following financial institutions do you currently have some form of banking relationship with, in New Zealand? Please tick **ALL** that apply.

- 1 ANZ
- 2 ASB
- 3 BNZ
- 4 Credit Union, *please write in which one:*
- 5 HSBC
- 6 Kiwibank
- 7 The National Bank
- 8 PSIS
- 9 Southland Building Society
- 10 TSB
- 11 Westpac
- 12 Other, *please write in:*

2. Which of the following financial institutions would you describe as your **main bank** in New Zealand? Please select **ONE** only.

Remember it is up to you how you define which is your main bank.

- 1 ANZ
- 2 ASB
- 3 BNZ
- 4 Credit Union, *please write in which one:*
- 5 HSBC
- 6 Kiwibank
- 7 The National Bank
- 8 PSIS
- 9 Southland Building Society
- 10 TSB
- 11 Westpac
- 12 Other, *please write in:*

3. Please show the approximate percentage of your business that you have with each bank that you deal with, in New Zealand. The numbers in each column should add up to 100%. If you don't have any business with a particular bank, please leave it blank or put zero(0). I would like you to do this for both your current balances, and also for the number of transactions in the last 12 months.

	Percentage (%) share of total loans and deposits currently	Percentage (%) share of transactions over the last 12 months
ANZ	<input type="text"/>	<input type="text"/>
ASB	<input type="text"/>	<input type="text"/>
BNZ	<input type="text"/>	<input type="text"/>
Credit Union, <i>please write in:</i>		
<input type="text"/>	<input type="text"/>	<input type="text"/>
HSBC	<input type="text"/>	<input type="text"/>
Kiwibank	<input type="text"/>	<input type="text"/>
The National Bank	<input type="text"/>	<input type="text"/>
PSIS	<input type="text"/>	<input type="text"/>
Southland Building Society	<input type="text"/>	<input type="text"/>
TSB	<input type="text"/>	<input type="text"/>
Westpac	<input type="text"/>	<input type="text"/>
Other, <i>please write in:</i>		
<input type="text"/>	<input type="text"/>	<input type="text"/>
	100%	100%

4. What is the **TOTAL** amount of all loans and deposits that you have with your **main bank**. Please include mortgages, credit cards, overdrafts and personal loans, **as well as** any form of deposit. For example if you have \$10,000 in a savings account and a \$50,000 overdraft limit, the total value would be \$60,000.

- 1 Less than \$25,000
- 2 \$25,000 - \$49,999
- 3 \$50,000 - \$99,999
- 4 \$100,000 - \$249,999
- 5 \$250,000 - \$499,999
- 6 \$500,000 or more

5. How long have you been a customer of the bank you identified as your **main bank** (in question 2)?

- 1 Less than 1 year
- 2 1 – 3 years
- 3 More than 3 years but not more than 5 years
- 4 More than 5 years but not more than 10 years
- 5 More than 10 years

6. Which of the following do you use **MOST OFTEN** to interact with your **main bank**? Please select **ONE** only.

- 1 Branch
- 2 Relationship manager/Personal banker
- 3 Phone banking
- 4 Internet banking
- 5 Txt/mobile banking
- 6 I use all these methods equally
- 7 I don't use any of these methods very often (less than twice a year)

7. HOW MANY of each of the following financial products do you have with your main bank? Please tick the appropriate number

- | | | | | | |
|--|----------------------------|----------------------------|----------------------------|----------------------------|------------------------------------|
| Cheque (transaction) account | <input type="checkbox"/> 0 | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 or more |
| Savings account | <input type="checkbox"/> 0 | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 or more |
| Term deposit | <input type="checkbox"/> 0 | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 or more |
| Insurance | <input type="checkbox"/> 0 | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 or more |
| Credit Card | <input type="checkbox"/> 0 | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 or more |
| Debit (EFTPOS) card | <input type="checkbox"/> 0 | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 or more |
| Automatic payment | <input type="checkbox"/> 0 | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 or more |
| Direct debit | <input type="checkbox"/> 0 | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 or more |
| Direct credit | <input type="checkbox"/> 0 | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 or more |
| Mortgage/Housing loan | <input type="checkbox"/> 0 | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 or more |
| Internet banking service | <input type="checkbox"/> 0 | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 or more |
| Bank accounts for a connected entity, such as children or a business | <input type="checkbox"/> 0 | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 or more |
| Other, <i>please write in:</i> | <input type="checkbox"/> 0 | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 or more |

Section B

Switching behaviour

In this section I would like to ask you some questions about changing your main bank to another bank.

- Very likely Quite likely Slightly likely Neither likely nor unlikely Slightly unlikely Quite unlikely Very unlikely
8. How likely are you to switch to a competing financial institution as your main bank during the next twelve months? ₁ ₂ ₃ ₄ ₅ ₆ ₇
- 0% (No chance I will stay) 25% 50% 75% 100% (I will certainly stay)
9. What are the chances that you will stay with your bank for the next year? ₁ ₂ ₃ ₄ ₅

To what extent do you agree or disagree with the following statements?

- Strongly agree Mostly agree Slightly agree Neither agree nor disagree Slightly disagree Mostly disagree Strongly disagree
10. In an ideal world, i.e. ignoring any possible difficulties, I would like to move from my existing main bank to another bank. ₁ ₂ ₃ ₄ ₅ ₆ ₇
11. I am happy with my main bank and don't want to change. ₁ ₂ ₃ ₄ ₅ ₆ ₇
12. If I was changing my main bank, I would like my new bank to take care of the whole process for me. ₁ ₂ ₃ ₄ ₅ ₆ ₇
13. If I was changing my main bank I would be able to take care of it all myself. ₁ ₂ ₃ ₄ ₅ ₆ ₇
14. Banks make it easy for customers to switch to another bank. ₁ ₂ ₃ ₄ ₅ ₆ ₇

Very easy Quite easy Slightly easy Neither easy nor difficult Slightly difficult Quite difficult Very difficult

15. Overall, how easy or difficult do you think it would be to change your **main bank**? ₁ ₂ ₃ ₄ ₅ ₆ ₇

16. How many times have you ever changed your **main bank**?

- ₁ Never
- ₂ 1 time
- ₃ 2 – 3 times
- ₄ 4 or more times

17. How long ago did you last change your **main bank**?

- ₁ I've never changed my main bank
- ₂ Less than 12 months
- ₃ 12 – 24 months
- ₄ More than 2 years ago but less than 5 years ago
- ₅ 5 or more years ago

18. If you have changed your **main bank** in the **last 5 years**, what reasons did you have for doing so? Please tick **ALL** that apply.

- ₁ I haven't changed my main bank in the last 5 years **OR**
- ₂ Fees & charges
- ₃ Service problems
- ₄ Better product or service elsewhere
- ₅ More convenient
- ₆ My marital situation changed
- ₇ I changed my employment
- ₈ I bought a home
- ₉ I moved to a new location
- ₁₀ Other, *please write in:*

19. If you have changed your **main bank** in the **last 5 years**, what was the **MAIN REASON** for doing so? Please select **ONE** only.

- 1 I haven't changed my main bank in the last 5 years **OR**
- 2 Fees & charges
- 3 Service problems
- 4 Better product or service elsewhere
- 5 More convenient
- 6 My marital situation changed
- 7 I changed my employment
- 8 I bought a home
- 9 I moved to a new location
- 10 Other, please write in:

I haven't changed my bank in the last 5 years **OR**

Very easy	Quite easy	Slightly easy	Neither easy nor difficult	Slightly difficult	Quite difficult	Very difficult
--------------	---------------	------------------	----------------------------------	-----------------------	--------------------	-------------------

20. If you have changed your **main bank** in the **last 5 years**, how would you describe the process of doing so?

<input type="checkbox"/> 8	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5	<input type="checkbox"/> 6	<input type="checkbox"/> 7
----------------------------	----------------------------	----------------------------	----------------------------	----------------------------	----------------------------	----------------------------	----------------------------

Section C

Switching Costs

In this section I would like to know how you feel about different costs associated with changing banks, including non-monetary costs such as time and effort. Please indicate the extent to which you agree or disagree with each of the following statements by ticking the appropriate box. Please tick ONE box for each statement.

- | | Strongly agree | Mostly agree | Slightly agree | Neither agree nor disagree | Slightly disagree | Mostly disagree | Strongly disagree |
|--|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| 21. The process of starting up with a new bank is quick/easy. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 22. It would take a lot of time and effort to locate a new bank. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 23. There is not much involved in understanding a new bank well. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 24. I worry that the service offered by other banks won't work as well as expected. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 25. Switching to a new bank would mean losing or replacing points, credits, and so on that I have accumulated with my main bank . | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 26. Switching to a new bank would involve some up-front costs (set-up fees, membership fees, etc) at the new bank. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 27. I like the public image of my main bank . | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 28. I would miss working with the people at my main bank if I changed to another bank. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 29. If I try to switch banks, I might end up with bad service for a while. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |

- | | Strongly
agree | Mostly
agree | Slightly
agree | Neither
agree nor
disagree | Slightly
disagree | Mostly
disagree | Strongly
disagree |
|--|----------------------------|----------------------------|----------------------------|----------------------------------|----------------------------|----------------------------|----------------------------|
| 30. Switching to a new bank will probably result in some unexpected hassle. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 31. I cannot afford the time to get the information I need to be able to fully evaluate other banks. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 32. Getting used to how another bank works would be easy | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 33. I am likely to end up with a bad deal financially if I switch to a new bank. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 34. I will lose benefits of being a long-term customer if I leave my bank. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 35. It would take a lot of money to pay for all of the costs associated with switching banks. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 36. I feel a sense of loyalty to my main bank . | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 37. The people at my main bank matter to me. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 38. If I change my bank it is likely that some of my regular payments will not be paid while the change is taking place. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 39. It takes time to go through the steps of switching to a new bank. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |

- | | Strongly
agree | Mostly
agree | Slightly
agree | Neither
agree nor
disagree | Slightly
disagree | Mostly
disagree | Strongly
disagree |
|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| 40. Comparing the benefits of my bank with the benefits of other banks takes too much time/effort, even when I already have the information. | <input type="checkbox"/> ₁ | <input type="checkbox"/> ₂ | <input type="checkbox"/> ₃ | <input type="checkbox"/> ₄ | <input type="checkbox"/> ₅ | <input type="checkbox"/> ₆ | <input type="checkbox"/> ₇ |
| 41. Learning to use the features offered by a new bank as ably as I use those of my main bank would take time. | <input type="checkbox"/> ₁ | <input type="checkbox"/> ₂ | <input type="checkbox"/> ₃ | <input type="checkbox"/> ₄ | <input type="checkbox"/> ₅ | <input type="checkbox"/> ₆ | <input type="checkbox"/> ₇ |
| 42. The service from another bank could be worse than the service I now receive. | <input type="checkbox"/> ₁ | <input type="checkbox"/> ₂ | <input type="checkbox"/> ₃ | <input type="checkbox"/> ₄ | <input type="checkbox"/> ₅ | <input type="checkbox"/> ₆ | <input type="checkbox"/> ₇ |
| 43. I receive preferential treatment from my main bank . | <input type="checkbox"/> ₁ | <input type="checkbox"/> ₂ | <input type="checkbox"/> ₃ | <input type="checkbox"/> ₄ | <input type="checkbox"/> ₅ | <input type="checkbox"/> ₆ | <input type="checkbox"/> ₇ |
| 44. I would be concerned about negative financial outcomes if I changed my main bank . | <input type="checkbox"/> ₁ | <input type="checkbox"/> ₂ | <input type="checkbox"/> ₃ | <input type="checkbox"/> ₄ | <input type="checkbox"/> ₅ | <input type="checkbox"/> ₆ | <input type="checkbox"/> ₇ |
| 45. I do not care about the brand/company name of the bank I use. | <input type="checkbox"/> ₁ | <input type="checkbox"/> ₂ | <input type="checkbox"/> ₃ | <input type="checkbox"/> ₄ | <input type="checkbox"/> ₅ | <input type="checkbox"/> ₆ | <input type="checkbox"/> ₇ |
| 46. I like talking to the people at my main bank . | <input type="checkbox"/> ₁ | <input type="checkbox"/> ₂ | <input type="checkbox"/> ₃ | <input type="checkbox"/> ₄ | <input type="checkbox"/> ₅ | <input type="checkbox"/> ₆ | <input type="checkbox"/> ₇ |
| 47. I have put effort into adapting my bank services to meet my needs. | <input type="checkbox"/> ₁ | <input type="checkbox"/> ₂ | <input type="checkbox"/> ₃ | <input type="checkbox"/> ₄ | <input type="checkbox"/> ₅ | <input type="checkbox"/> ₆ | <input type="checkbox"/> ₇ |
| 48. There are a lot of formalities involved in switching to a new bank. | <input type="checkbox"/> ₁ | <input type="checkbox"/> ₂ | <input type="checkbox"/> ₃ | <input type="checkbox"/> ₄ | <input type="checkbox"/> ₅ | <input type="checkbox"/> ₆ | <input type="checkbox"/> ₇ |
| 49. If I were to switch banks, I would have to learn how things work at the new one. | <input type="checkbox"/> ₁ | <input type="checkbox"/> ₂ | <input type="checkbox"/> ₃ | <input type="checkbox"/> ₄ | <input type="checkbox"/> ₅ | <input type="checkbox"/> ₆ | <input type="checkbox"/> ₇ |

- | | Strongly
agree | Mostly
agree | Slightly
agree | Neither
agree nor
disagree | Slightly
disagree | Mostly
disagree | Strongly
disagree |
|---|----------------------------|----------------------------|----------------------------|----------------------------------|----------------------------|----------------------------|----------------------------|
| 50. I would be uncertain of what the outcome would be if I changed banks. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 51. My main bank provides me with particular privileges I would not receive elsewhere. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 52. I feel locked in because of the products I have with my main bank. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 53. In my view all banks are the same. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 54. My main bank knows my needs. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 55. It would take time to get my new banking relationship set up to best suit my needs. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |
| 56. Switching banks would be too much bother in terms of time and effort. | <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 | <input type="checkbox"/> 6 | <input type="checkbox"/> 7 |

Section **D**

Demographic Information

Finally, I would like to ask some questions about you and your household. An important part of this study is making comparisons between people based on where they are within the family life-cycle, and these questions will help identify which group you belong to.

57. Which of the following best describes your marital status?

- 1 Never married
- 2 Never married but living with a partner
- 3 Now married or in a civil union
- 4 Separated
- 5 Divorced
- 6 Widowed

58. How many children do you have (including adult children)?

59. How many of your children are living at home with you?

60. What are the ages of the oldest and youngest children living at home with you?

Oldest Child

Youngest Child

61. Which of the following best describes the employment status of the person you would describe as the head of your household?

- 1 Not currently in paid employment
- 2 Paid part-time employment
- 3 Paid full-time employment
- 4 Self-employed
- 5 Retired

62. What is the annual income for your household?

- 1 \$20,000 or less
- 2 \$20,001 – \$40,000
- 3 \$40,001 – \$70,000
- 4 \$70,001 – \$100,000
- 5 \$100,001 or more

63. What year were you born? 19

64. If you have a partner, what year was he/she born? 19

₁ I don't have a partner

65. What is your gender?

₁ Male

₂ Female

66. Which of the following best describes your ethnicity?

₁ NZ European

₂ NZ Maori

₃ Pacific Islander

₄ Chinese

₅ Indian

₆ Other Asian

₇ Other European

₈ Other, *please write in:*

67. What is your highest education level?

₁ No qualification

₂ Secondary School qualification, e.g. School certificate, NCEA, UE

₃ Vocational qualification

₄ Bachelor degree

₅ Higher degree

₆ Other, *please write in:*

68. Which of the following best describes where you live?

₁ City

₂ Suburban

₃ Town

₄ Rural, 20km or less from nearest town or city

₅ Rural, more than 20km from nearest town or city

Appendix 8: Survey information sheets

Appendix 8.1: Information sheet for initial mailing

Appendix 8.2: Second mailing letter

Appendix 8.3: Third mailing information sheet

Appendix 8.1: Information sheet for initial mailing



DEPARTMENT OF FINANCE
BANKING & PROPERTY
Private Bag 11 222
Palmerston North
New Zealand
T 64 6 350 5799 extn 2323
F 64 6 350 5651
www.massey.ac.nz

CUSTOMERS CHANGING BANKS IN NEW ZEALAND

Information Sheet

I am a senior lecturer in banking in the Department of Finance, Banking and Property at Massey University (Palmerston North). I am writing to ask you to take part in a survey, as part of my PhD research on why people do or do not change banks. I will use the findings from this research project in my doctoral thesis. I also plan to use them for articles in appropriate academic journals and/or as conference papers.

Your name was selected at random from the New Zealand electoral roll. All completed questionnaires are confidential, and no individuals will be identified in any publications resulting from this survey. Participation in this study is voluntary, and as a participant you have the right to:

- choose not to answer any question(s);
- withdraw from the study at any point until you return the questionnaire to me;
- contact me for clarification of questions;
- receive a copy of the summary findings at the end of the study.

If you agree to participate and would like a copy of the summary findings, please complete the enclosed form with your address details and return it with the questionnaire. I will send you a copy of the survey results summary when it becomes available, which is expected to be in mid-2007.

If you agree to take part in the study please complete the enclosed questionnaire, which will take approximately 15 minutes to complete. Please send the completed questionnaire back to me using the enclosed addressed and postage paid envelope.

My supervisors for this project are Prof. Chris Moore from the Department of Finance, Banking & Property at Massey University and A/Prof. Malcolm Wright from the School of Marketing and International Business at Victoria University.

If you would like to know more about this study or have any questions about it, please feel free to contact me at (06) 356 9099 Extn 2329 during business hours or by email at C.D.Matthews@massey.ac.nz. Alternatively you may wish to contact my supervisor, Prof. Chris Moore, at (06) 356 9099 Extn 2330 during business hours, by fax at (06) 350 5628 or by email at C.I.Moore@massey.ac.nz.

This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University's Human Ethics Committees. The researchers named above are responsible for the ethical conduct of this research. If you have any concerns about the conduct of this research that you wish to raise with someone other than the researchers, please contact Professor Sylvia Rumball, Assistant to the Vice-Chancellor (Ethics & Equity), telephone: 06 350 5249, email humanethicspn@massey.ac.nz.

I hope you will participate in this survey. Your response is valuable in helping to understand how to make the banking sector better for customers.

Thank you.

Claire

Claire Matthews



Appendix 8.2: Second mailing letter



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CUSTOMERS CHANGING BANKS IN NEW ZEALAND

Recently I sent you a questionnaire, asking you to take part in a survey that is part of a research project investigating the reasons why people do or do not change banks in New Zealand.

If you have already completed and returned the questionnaire, thank you for your participation.

If you have not yet completed and returned the questionnaire I would like to remind you that your response will be valuable in helping to understand how to make the banking sector better for customers. Even if you have not changed banks recently, your views are important. I would be grateful if you would complete the survey, and send it back to me in the reply paid envelope that accompanied it.

If you have misplaced your copy of the questionnaire and would like another copy, or if you have any questions about the research, please feel free to contact me at (06) 356 9099 Extn 2329 during business hours or by email at C.D.Matthews@massey.ac.nz. Alternatively you can contact my supervisor, Prof. Chris Moore, at (06) 356 9099 Extn 2330 during business hours, by fax at (06) 350 5628 or by email at C.I.Moore@massey.ac.nz.

Thank you.

Claire
Claire Matthews



Appendix 8.3: Third mailing information sheet



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Private Bag 11 222
Palmerston North
New Zealand
T 64 6 350 5799 extn 2323
F 64 6 350 5651
www.massey.ac.nz

CUSTOMERS CHANGING BANKS IN NEW ZEALAND

Information Sheet

I am a senior lecturer in banking in the Department of Finance, Banking and Property at Massey University (Palmerston North). Recently I asked you to help with a survey, as part of a research project investigating why people do or don't change banks. I don't appear to have received a response from you. If you have already completed and returned the questionnaire, thank you for your participation. If you have not yet completed and returned the questionnaire this is a reminder that your response is valued and important. Even if you have not changed banks recently and/or have no plans to change banks, your views are important. I will use the findings from this research project in my doctoral thesis. I also plan to use them for articles in appropriate academic journals and/or as conference papers.

Your name was selected at random from the New Zealand electoral roll. All completed questionnaires are confidential, and no individuals will be identified in any publications resulting from this survey. Participation in this study is voluntary, and as a participant you have the right to:

- choose not to answer any question(s);
- withdraw from the study at any point until you return the questionnaire to me;
- contact me for clarification of questions;
- receive a copy of the summary findings at the end of the study.

If you agree to participate and would like a copy of the summary findings, please complete the enclosed form with your address details and return it with the questionnaire. I will send you a copy of the survey results summary when it becomes available, which is expected to be in early 2007.

If you agree to take part in the study please complete the enclosed questionnaire, which will take approximately 15 minutes to complete. Please send the completed questionnaire back to me using the enclosed addressed and postage paid envelope.

My supervisors for this project are Prof. Chris Moore from the Department of Finance, Banking & Property at Massey University and A/Prof. Malcolm Wright from the School of Marketing and International Business at Victoria University. If you would like to know more about this study or have any questions about it, please feel free to contact me at (06) 356 9099 Extn 2329 during business hours or by email at C.D.Matthews@massey.ac.nz. Alternatively you may wish to contact my supervisor, Prof. Chris Moore, at (06) 356 9099 Extn 2330 during business hours, by fax at (06) 350 5628 or by email at C.I.Moore@massey.ac.nz.

This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University's Human Ethics Committees. The researchers named above are responsible for the ethical conduct of this research. If you have any concerns about the conduct of this research that you wish to raise with someone other than the researchers, please contact Professor Sylvia Rumball, Assistant to the Vice-Chancellor (Ethics & Equity), telephone: 06 350 5249, email humanethicspn@massey.ac.nz.

I hope you will participate in this survey. Your response is valuable in helping to understand how to make the banking sector better for customers.

Thank you.

Claire

Claire Matthews



Appendix 9: Kaiser-Meyer-Olkin measure of sampling adequacy

Table A2: KMO measure of sampling adequacy

	Measure of sampling adequacy	Description (Kaiser, 1974)
Overall	.85	Meritorious
Uncertainty	.91	Marvellous
Search costs	.90	
Monetary loss	.89	Meritorious
Service disruption	.89	
Learning costs	.87	
Benefit loss	.85	
Hassle/Inconvenience	.81	
Personal relationship	.70	Middling
Brand relationship	.69	Mediocre

Appendix 10: Full results for Cronbach's alpha

Table A3: Cronbach's alpha results for the switching cost categories

PERSONAL RELATIONSHIP	Cronbach's Alpha		N of items	
	.874		4	
Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item- Total Correlation	Cronbach's Alpha if Item Deleted
Q28	11.02	20.785	.742	.835
Q37	10.91	20.604	.789	.815
Q46	11.46	22.178	.757	.829
Q54	11.35	23.926	.641	.873
HASSLE	Cronbach's Alpha		N of items	
	.767		5	
Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item- Total Correlation	Cronbach's Alpha if Item Deleted
Q21	12.07	23.077	.363	.786
Q30	13.56	21.927	.590	.710
Q39	13.79	20.721	.601	.703
Q48	13.48	20.631	.637	.691
Q56	13.42	20.318	.532	.729
BENEFIT LOSS	Cronbach's Alpha		N of items	
	.729		4	
Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item- Total Correlation	Cronbach's Alpha if Item Deleted
Q25	11.87	19.551	.380	.745
Q34	11.99	16.567	.568	.639
Q43	11.79	17.192	.558	.645
Q51	11.69	17.347	.580	.634

UNCERTAINTY				
	Cronbach's Alpha		N of items	
	.693		4	
Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item- Total Correlation	Cronbach's Alpha if Item Deleted
Q24	11.56	12.207	.464	.638
Q33	10.59	12.127	.465	.637
Q42	11.45	13.004	.430	.657
Q50	11.59	11.741	.553	.581

MONETARY LOSS				
	Cronbach's Alpha		N of items	
	.669		4	
Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item- Total Correlation	Cronbach's Alpha if Item Deleted
Q26	12.87	14.759	.426	.617
Q35	11.81	13.377	.589	.508
Q44	12.34	14.718	.434	.612
Q52	11.70	15.007	.364	.661

SEARCH				
	Cronbach's Alpha		N of items	
	.662		3	
Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item- Total Correlation	Cronbach's Alpha if Item Deleted
Q22	7.01	8.515	.382	.695
Q31	7.84	7.811	.548	.462
Q40	7.96	8.784	.503	.533

LEARNING				
	Cronbach's Alpha		N of items	
	.637		4	
Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item- Total Correlation	Cronbach's Alpha if Item Deleted
Q23	10.52	11.012	.340	.630
Q32	10.08	10.876	.455	.541
Q41	11.06	10.749	.459	.537
Q49	11.63	11.604	.425	.565

SERVICE DISRUPTION	Cronbach's Alpha		N of items	
	.590		4	
Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item- Total Correlation	Cronbach's Alpha if Item Deleted
Q29	9.67	10.995	.374	.516
Q38	9.99	10.477	.379	.514
Q47	10.83	12.590	.269	.591
Q55	10.56	10.994	.474	.444

BRAND RELATIONSHIP	Cronbach's Alpha		N of items	
	.555		4	
Item-Total Statistics				
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item- Total Correlation	Cronbach's Alpha if Item Deleted
Q27	11.74	14.102	.410	.432
Q36	11.17	12.451	.418	.411
Q45	10.40	13.547	.334	.487
Q53	10.69	15.394	.211	.584

Appendix 11: Bonferroni procedure results for age

Table A4: Pairs of age groups for which significant differences in perceptions were found for specific categories of switching costs, using the Bonferroni procedure

Age group 1	Age group 2	Switching cost category	Sig.
50-59 years	30-39 years	Personal relationship	0.04
60-69 years	20-29 years	Personal relationship	0.00
		Benefit loss	0.00
		Brand relationship	0.00
		Personal relationship	0.00
	40-49 years	Brand relationship	0.02
		Personal relationship	0.00
		50-59 years	Personal relationship
70-79 years	20-29 years	Personal relationship	0.00
		Benefit loss	0.04
		Brand relationship	0.00
		Personal relationship	0.00
	40-49 years	Brand relationship	0.03
		Personal relationship	0.00
		50-59 years	Personal relationship

No pairs with significant differences were found for the following categories of switching costs:

Search costs

Learning costs

Uncertainty

Monetary loss

Service disruption

Hassle

Appendix 12: Thesis-related publications

- Matthews, C.D. & Murray, D. (2004). *Helping bank customers switch – a New Zealand case study*. 17th Australasian Finance and Banking Conference. Sydney, Australia.
- Matthews, C.D. (2005). *Switching costs in the New Zealand banking industry*. 16th Asian Finance Association Conference. Kuala Lumpur, Malaysia.
- Matthews, C.D. and MacRae, M.S. (2006). *The demographics of switching*. 11th Finsia and Melbourne Centre for Financial Studies Banking and Finance Conference. Melbourne, Australia. 25-26 September 2006.
- Matthews, C.D. and Murray, D. (2007, May). Helping bank customers switch: A case study. *Journal of Financial Services Marketing*, 11(4), pp. 360-369
- Matthews, C.D., Moore, C.I. and Wright, M. (2008). *Why not switch? Switching costs and switching likelihood*. 13th Finsia and Melbourne Centre for Financial Studies Banking and Finance Conference. Melbourne, Australia. 29-30 September 2008.
- Matthews, C.D., Moore, C.I. and Wright, M. (2008). *Is switching banks easy? Perception vs experience*. 21st Australasian Finance and Banking Conference. Sydney, Australia.
- Matthews, C.D. (2009 forthcoming). *The family life cycle and banking relationships*. Accepted for the 2009 meetings of Academy of Financial Services, Anaheim, CA, USA.

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