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Switching Costs in the New Zealand Banking Market

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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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