

How behavioural economics can improve customer research in retail banking markets

A NOTE PREPARED FOR THE CMA'S RETAIL BANKING MARKET INVESTIGATION

At the recent meeting between the Competition and Markets Authority (“CMA”) and Lloyds Banking Group (“LBG”) there was a discussion about methodologies for undertaking customer research and, in particular, the insights that can be gained for its investigation from the advances in behavioural economics. The CMA asked for further thoughts on this issue, and LBG has asked Frontier Economics (“Frontier”) to share some of its wider experience, and to identify how it might apply to retail banking markets.

This note describes three issues that are relevant for the CMA’s consideration of customer research in banking markets.

- Traditional market research methods often underestimate the importance of unconscious and heuristic processes that consumers use in their decision making. Considered thinking is a physiologically expensive activity, and as such, cognitive effort is rationed. Contextual influences and emotions are extremely important in the real decision making process; the context in which a decision is made is pivotal to its outcome.
- The less conscious and considered thinking is, the less effective traditional market research methods will be at delivering insights into why consumers have acted as they have. Customers of retail banking markets frequently exhibit the use of unconscious and heuristic processes in making decisions. This means that reliance on traditional methods to understand customer behaviour in the context of banking is likely to lead to inaccurate or misleading insights – insights which may be biased towards confirming prior hypotheses.
- For these reasons, when looking at customers within banking markets, our experience is that traditional research methods should be complemented with a broader set of tools. These tools will be better able to provide insights into what customers have done (not what they *say* they have done), why they have done it and what would be required to change their behaviour. These complementary methods include field trials, laboratory experiments and other testing.

We explain these issues in more detail below and summarise some of the alternative research methods that could be considered by the CMA. We have not attempted to set out a detailed and prescriptive methodology but we would be

happy to discuss such a methodology – or anything else in this note – if the CMA would find that useful.

Introduction

Understanding customer behaviour is a key part of Frontier’s work with clients, in both regulatory and commercial contexts, and we have spent several years learning how to use behavioural economics (and other toolkits) to improve our understanding. Over this period we have learnt that the definition of behavioural economics can cause confusion, that many (especially from the economics profession) can erroneously see it as the study of ‘bias’, and that others are sometimes tempted to draw on behavioural concepts as ex post rationalisations of behaviours that they do not truly understand.

We are, however, firmly of the view, as indeed are many policy-makers, regulators and businesses, that behavioural economics can create a significant leap forward in our ability to understand customer behaviour. This includes identifying the nature of the problem, as well as providing insights on what changes are likely to have the biggest impact on behaviour. To achieve such a leap, however, requires a careful and consistent use of the key tools and insights.

This note summarises our experience based on client work in financial services markets and other consumer markets. We explain why advances in psychology and behavioural economics have raised significant questions about the validity of many traditional forms of market research, particularly in situations where unconscious factors are at play. These issues are of particular importance in many financial services markets, which are often characterised as having low ‘customer engagement’, limited conscious attention and habitual behaviours. In these circumstances, traditional market research techniques can yield unreliable results and should be complemented by alternative forms of research.

The views set out in this note are those of Frontier, based on our own experience with a range of clients, but we understand that both the FCA and the Behavioural Insights Team broadly share these views.

This note is structured around five sets of thoughts.

1. The key insights we have taken from behavioural economics.
2. The aspects of customer behaviour we think the CMA will need to explore.
3. The typical problems we envisage that will arise using traditional methods to research these financial services areas.
4. Some approaches to minimise the problems with traditional research in this context.
5. Alternative methods and techniques that can be used to complement or replace the traditional research techniques.

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1. Key insights from behavioural economics

In our experience, there are four key insights from our work on behavioural economics and from the wider published research across the relevant academic fields.

1. **The unconscious mind is often underestimated.** The overwhelming majority of customer decision making involves unconscious processes within the brain. Rational, considered thinking is a physiologically expensive activity, and so cognitive effort is rationed. As relatively few decisions are made using carefully considered thinking, unconscious processes such as heuristics and existing implicit associations often drive customer actions.

2. **Context can change everything.** Contextual influences and emotions are extremely important in the decision making process. The context in which a decision is made is pivotal to its outcome. This means that customers can make different decisions on the same matter just because the context and/or emotions have changed.

3. **Traditional market research is therefore often flawed.** The consequence of the first two points is that there is a fundamental limitation with traditional market research – both quantitative surveys and qualitative interviewing. First, we cannot expect people to articulate the processes which led to their past decisions fully or accurately, because if the processes were unconscious they will have no direct access to them and frequently no awareness of their involvement. Whilst people usually attempt to post-rationalise their former decisions and articulate a coherent story, this does not mean it accurately reflects how the decision was made.

Second, market research routinely removes, or significantly alters, the context in which the decision is made, and replaces it with an artificial one. Everything from the introduction, choice of wording, question topics and presence of other people has been shown to bias response.

4. **Trialling is an effective way to understand and predict behaviour.** Human behaviour is complicated and difficult to predict. Whilst sensible estimates can be made about how a large number of people may respond to a significant event (for example, what happens to the demand for petrol when prices increase), more detailed and nuanced behaviours are very difficult to predict (for example, how different customers respond to annual summaries of charges). Testing and trialling propositions or different scenarios in the field is the most robust way to predict customer behaviour (and indeed this is the approach used by many firms when assessing, for example, new product features or user interfaces). This is important as it allows customers to make their decisions in the context in which it would naturally happen. Where field trials are not feasible, the use of other carefully designed behavioural experiments can be useful in understanding behaviour.

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The FCA is a keen advocate of the use of behavioural economics and has used these tools in several recent market studies. For example, in its market study on General Insurance add-ons, the FCA complemented its quantitative and qualitative consumer research with an innovative behavioural experiment.¹ This experiment tested consumers' reactions to the add-on mechanism in a simulated environment.

As the FCA has also noted, there are some important advantages of experiments over other methodologies such as field trials or consumer surveys, including:

- reliability in establishing causal effects;
- the possibility of observing the effects on consumer behaviour, not just changes in outcomes; and
- the ease of investigating general underlying principles of behaviour.

We appreciate that the CMA, like many of our client organisations, has a long track-record of undertaking traditional customer surveys and we know that such methods may appear easier and safer to adopt than some of the methods we describe in this note. However, the results of these traditional customer surveys can be misleading. For example, the OFT's recent review of the personal current account market suggested that annual summaries would help consumers manage their finances and compare interest rates. It found that 15 per cent of those who received one felt it helped a great deal in understanding the costs and benefits of their current account.² Yet, the FCA has recently found that annual summaries have had no effect on customer behaviour.³ Likewise, a pre-CASS market research survey suggested that more customers would switch than actually did switch.⁴

The weaknesses of these approaches therefore suggest that, with respect to this market, the CMA should give serious consideration to undertaking additional research techniques. This would ultimately help the CMA to diagnose any behavioural issues, establish where intervention is genuinely needed to improve consumer outcomes, guide the design of any such interventions, and provide a framework for testing (and learning from) their impacts.

¹ "General insurance add-ons: Final Report – Confirmed Findings of the Market Study", FCA, July 2014.

² "Review of the personal current account market", OFT, January 2012.

³ "Beesley Lecture: Economics, technology and data – Redefining the future of conduct regulation", Martin Wheatley, FCA, November 2014.

⁴ "PCA Consumer Research Findings: Consumer attitudes to switching personal current accounts and response to a proposed new switching process", Quadrangle, August 2011.

2. The aspects of customer behaviour we think the CMA will need to explore

The CMA has not specified in detail the customer research questions it will seek to answer in this investigation. Based on the issues statement, regulatory history and our knowledge of the existing evidence, we expect the CMA will seek to look in depth at six main issues. These are outlined in **Table 1** below.

Table 1. Potential aspects of customer behaviour the CMA will need to explore

Customer behaviour	Relevance to investigation
Consumer satisfaction levels and drivers of customer satisfaction	Sector characteristics: “Market studies highlighted that those banks with relatively lower reported satisfaction levels have not significantly lost market share and those with higher reported satisfaction levels have not gained significant market share.” [Para 19(g), <i>Issues Statement</i>]
Consumer awareness and understanding of price, quality, service	Theory of harm 1, hypothesis 1a: “Faced with customers’ lack of knowledge and confusion, banks may have reduced incentives to compete on pricing, service and/or quality.” [Para 32, <i>Issues Statement</i>]
Activity drivers for events including switching and channel usage	Theory of Harm 1, hypothesis 1a: “We will also look at customer behaviour and how easy or difficult it is for customers to find and compare information and their reasons for considering (or not) switching.” [Para 35, <i>Issues Statement</i>]
Consumer views on the extent of provider and product differentiation	<p>Theory of harm 1, hypothesis 1b: “This may enable banks to exploit customer behavioural biases leading to higher prices or reduced quality and differentiation.” [Para 37, <i>Issues Statement</i>]</p> <p>Theory of harm 1: hypothesis 1c: “We will seek information on...customer-perceived costs and benefits (or lack thereof) of switching” [Para 41, <i>Issues Statement</i>]</p> <p>Sector characteristics: “Customers consider that there is little differentiation between providers.” [Para 19(d), <i>Issues Statement</i>]</p>
The importance of branches versus other channels	Theory of harm 3: “We will consider whether the physical presence of a bank through a network of branches is important for particular customers, and if so, why and how local and extensive the presence needs to be.” [Para 50, <i>Issues Statement</i>]
Factors affecting the choice of products such as the importance of relationships, and desire to hold multiple products with the same provider	<p>Theory of harm 3: “We also intend to gather evidence on the banks strategies regarding the use of PCAs and BCAs as gateway products and on product and customer profitability.” [Para 50, <i>Issues Statement</i>]</p> <p>Sector characteristics: “Customers generally prefer to use a single bank to meet the majority of their banking needs.” [Para 19(c), <i>Issues Statement</i>]</p>

3. The typical problems we envisage with using traditional methods to research these areas

There are a number of risks associated with relying on traditional market research methods to gain an understanding of the topics outlined above. Using these methods could lead to unhelpful, misleading or inaccurate insights.

‘Priming’ is highly relevant to this risk. It is undisputable that responses can be heavily influenced by the first point they reference. For example, an explanation that a survey is being conducted on behalf of the CMA may prime respondents to start their mental journey from a particular perspective. Similarly, when people are asked to select between pre-coded responses they are likely to be influenced to consider the options listed, and, in particular, the option they read first, potentially distorting the picture that emerges from the question. Such influences may be even more pronounced in a market characterised by low customer engagement and limited conscious attention.

We outline some other specific research problems below.

1. Consumer satisfaction levels and drivers of customer satisfaction

Previous studies into banking markets have commented on ‘customer satisfaction’ metrics, and looked at patterns across time, relative to different sectors and between different banks. The results are often difficult to interpret and highly volatile, but, despite this, they are often used to drive hypotheses about expected customer behaviour. For example, the CMA’s market investigation reference highlighted that those banks with relatively lower reported satisfaction levels have not significantly lost market share and those with higher reported satisfaction levels have not gained significant market share.⁵

The lack of a correlation between changes in claimed customer satisfaction and market share suggests that work needs to be done understanding the relevance of this particular survey metric. As with any research involving the use of direct questions, investigating customer satisfaction is subject to the influence of focalism. Specifically, the very act of asking a question makes a presumption that the response is a real consideration for the behaviour of the individual, when, in reality, it may not be. Even when the option is given not to answer (such as with ‘don’t know’ or ‘not applicable’) people will usually provide a response because they *can* call an answer to mind, even if this bears no resemblance to how they *did* make up their mind. However, because people can and do respond readily does not mean that the issue involved is part of their decision making in the consumer setting.

⁵ “Personal current accounts and banking services to small and medium-sized enterprises. Decision on market investigation reference”, CMA, November 2014.

More generally, if it is the case that some people are most content when not thinking about banking – which would be evidenced in their banking behaviour – they will be intrinsically negative in research because they are being required to think about a subject that they do not choose to engage with. Observing low ‘satisfaction’ and low engagement, coupled with a lack of switching, would then be entirely consistent with a customer who is satisfied when they are not thinking about their banking.

2. Consumer awareness and understanding of price, quality, service

In a market where consumers have not demonstrated engagement in behavioural terms there is an inherent risk in using surveys to gauge customer perceptions of product attributes. It is likely that responses will not be valid unless evidence exists to support one of the following hypotheses:

- customers have proactively made comparisons before deciding to continue their relationship with their current account provider – specifically, they have knowledge obtained in the context of the market, rather than being primed, or forced to focus on the information provided by the research; and/or
- differences measured in the context of a market research survey on these factors correlate with consumer choices in the real world.

More generally, asking customers for their views on specific parts of the customer offer often lends itself to over extrapolation of features which are easy to recall, or easy to comment on. PCAs and BCAs are a complex mixture of product features, automated transactions, customer service channels, service tools (e.g. apps) and brands. Understanding the extent to which, and how, customers think about different elements should be a precursor to any evaluation of what they think. However, the inherent risk in researching these questions with traditional techniques is that responses will be shaped by what is asked, how it is asked, what is easy to call to mind, and how customers prefer to see themselves, and their decision making.

In this case, concepts such as price and quality in the context of PCAs might be quite abstract, and can lead to customers honing in on recent experiences with, or specific recollections of, say, price and quality and extrapolating these.

Attitudinal questions should also be approached with caution. Frequently, stated attitudes have no link to behaviour, and merely reflect how people answer questions about their attitudes rather than the choices they make. Attitudinal questions should only be included if they have been proven to correlate with behaviour, i.e. where perceptions might be encouraging (or inhibiting) certain behaviours.

Moreover a repeated hypothesis in financial services markets is that customers ‘do not understand’ the information they receive. Whilst this would be one conceivable explanation for customers not acting on such information, it is not the only explanation and a lack of action does not in itself prove that customers do not understand information. It may be that customers believe that processing the information requires expensive cognitive effort and that (quite rationally) such effort is unlikely to be financially or psychologically rewarding. This is not the same as ‘not understanding’ and would suggest very different policy interventions. We note in passing that many customers who are typically described as ‘vulnerable’ frequently engage with information that can be considered more complex than many financial services, such as horserace betting, presumably because the expected psychological reward is higher. A simple test here could be to pose similar questions to customers without referencing banking. This would diagnose whether the issue is complexity, information disclosure, or because the consumer is psychologically withdrawn because they are dealing with banking.

3. Activity drivers for events including switching and channel usage

Attempts to understand reasons why customers have behaved in a certain way are open to many of the problems described above. An inability to describe complex or unconscious drivers will tend to result in ‘expected’ answers (i.e. answers which the respondents believe they are expected to give) which reveal little about true behaviour drivers. Humans rarely do what they say they will do, and rarely for the reasons they claim. Expected answers are much more likely to arise if prompting, framing or focalism is involved in the research method. This can often happen inadvertently when survey designers believe that what they are doing is exploring a particular hypothesis in a balanced way.

Moreover, attempts to understand why consumers have *not* chosen to do something in the past generate additional problems. Consumers often act habitually and can attribute psychological cost to anything that moves away from the status quo. Asking customers why they have not switched bank or not used a given channel often involves them answering a question they have never considered (or perhaps do not even know how to answer) but is likely to prompt them to post-rationalise their actions. Responses to these questions will often return negative responses to the alternatives as customers try to justify their own behaviour, when in reality habit prevailed, and other alternatives were not considered.

Finally, attempts to understand *future* changes in behaviour and/or to test potential remedies through traditional market research techniques are fraught with additional uncertainties. However well a future scenario is explained, consumers find it extremely difficult to imagine such a future and how the other demands of day-to-day life will be competing for their attention and cognitive

resources. As a result, conclusions derived from responses to such survey questions may be right only by chance.

4. Consumer views on the extent of provider and product differentiation

Researching product differentiation can be highly swayed by framing. As mentioned, responses are contextual and sensitive both to the information available at the time and the way that information is presented. For example, asking people how two banks are similar may produce a different perspective than asking how they differ. It is also possible that the answer to both questions asked independently would be generalised towards the negative (leading to the unhelpful conclusion that they are neither different nor similar). Where a customer has not actively considered alternative providers and products when making a decision, any research that asks a customer to evaluate alternative providers is inherently artificial and unlikely to elicit valid insights.

Another difficulty in researching provider and product differentiation separately arises because customer associations can be similar for each. For example, it is not clear that customers only consider ‘products’ in their most functional form – PCAs and BCAs, for example. Instead, customers might also associate a functional product with the quality of the app, relationship manager, other service tools, and the brand more generally. First Direct is often cited as having market leading satisfaction levels.⁶ However, it is not clear that their ‘products’ are different from others’ and whether that is driving satisfaction. More likely drivers are customers’ perceptions of service levels, good branding, different types of customers, and social proof. These drivers are significant, demonstrated by the fact that brands with identical mobile and internet platforms (e.g. Halifax, Lloyds and Bank of Scotland) have different levels of satisfaction and perceived levels of functionality.

Another area that should be considered in customer perceptions of provider and product differentiation is the impact of the regulatory component of any financial services communication. Such information could conceivably be misinterpreted by consumers as an implication of product similarity or used as a heuristic for ‘acceptable quality’. Either hypothesis would be likely to manifest itself at an unconscious level and would be unlikely to be acknowledged through direct questions.

5. The importance of branches versus other channels

Attempts to understand the preferences of one alternative over another can be biased easily by misattribution. People routinely misattribute the ease with which they can process information with its intrinsic attractiveness. For example, if

⁶ “Banking Service Index”, Money Saving Expert, 2014.

people are asked about a range of alternatives they may select one because its concept is the easiest to grasp cognitively given the way the information is presented in the research. Were the alternatives to have been presented similarly (i.e. with comparable complexity and degrees of abstraction) the preferences identified in the survey would be different.

Loss aversion and customers' preference for the status quo can also affect survey responses to alternative propositions. People generally prefer to avoid change, and are much more wary of the risks associated with doing something differently than they are attracted to the potential gains. As a result, they are more likely to indicate that they would prefer to maintain the current situation.

Technological developments in banking mean that the issue of channel usage and preference has an important future component, but again, this is very difficult to accurately capture in traditional research techniques because it is not real and the context cannot be replicated.

We also know that people's opinions and even beliefs are less fixed than most individuals would ever acknowledge. Once people experience themselves behaving differently they are quick to revise their opinions and beliefs to fit with how they have found themselves acting. The post-rationalised justifications for not acting differently may evaporate when people are nudged into a new behaviour.

When considering people's perspectives on change it is important to recognise that individuals very rarely acknowledge the significance of a number of factors that behavioural experiments clearly demonstrate have an important influence on their choices. These include social proof, **who** is communicating the message, changing the default option presented, triggering loss aversion, and even manipulating contextual factors like colour and light. However, participants in experiments where behaviour change occurs rarely if ever attribute their behaviour to the factor being tested by the study.

6. Factors affecting the choice of products such as the importance of relationships, and the desire to hold multiple products with the same provider

Both brand owners and consumers are inclined to underestimate the importance of cognitive ease in consumer decision making. Companies like to project notions of loyalty and brand affinity onto customers who buy repeatedly; consumers are generally unaware of their unconsciously-driven preference to use cognitive resources efficiently by keeping to what is familiar. In fact there is a multitude of reasons why the use of one provider might be primarily driven by unconscious factors that would not be identified through research methods that focus on the respondents' conscious minds.

- Going back to an existing provider may be the default option: consumers have learned that it generally works out adequately, delivering an acceptable ‘reward’ for minimal effort.
- There is low engagement with financial services in general, or more specifically, the day-to-day workings of their current account. For some customers a good current account is one they never have to think about.
- There is a greater return available, be it in terms of financial or psychological reward, from directing cognitive resources towards other elements of life.
- Customers prefer to maintain the status quo when it is not a source of harm or loss.
- There is an implicit value of familiarity and its benefits for cognitive effort.
- Customers have a tendency to see risk in terms of its negative consequences to them, rather than the statistical likelihood of its occurrence.

4. Some approaches to minimise the problems with traditional research

Having described some of the likely problems with applying traditional research methods to retail banking markets, we now discuss some of the approaches that can be used to minimise these risks. These are not hard and fast rules and need to be assessed within the specific context of the hypotheses being considered and the research method being used. Application of the following approaches can sometimes reduce risks but may not fully remove them. Alternative techniques, which tend to create less risk, are discussed in the final section of this note.

First, there are a number of ways in which a survey’s quality can be improved before it has been designed or written. The following suggestions are ways in which a researcher could help to focus the survey in the most productive areas, before its design.

- Clear hypotheses for the research should be made first, and it should be established in advance that results will prove or disprove these hypotheses. For example, researchers should ensure that the questions have a demonstrable link to behavioural outcomes.
- Market research should focus on the consumers who have recently had a particular experience. Surveys, in general, should not ask people to explain what they have not done (e.g. asking why customers have

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chosen *not to* bank online). People cannot answer these questions meaningfully.

- Surveys should focus on behaviour. This is because people can, to a certain degree, reliably report what they have done in the recent past. Their post-rationalisations about why they have acted in a particular way or what they will do in the future are generally inaccurate because they do not factor in context.
- Effort should be made to understand how people behave in relation to their banking (in particular their level of engagement with it) before asking them explicitly about it. This could include looking at banking behavioural data in the first instance to ensure the right customers are being included in the research.
- Questionnaires, discussion guides, surveys and methodologies could be evaluated by a psychologist who is independent of the market research company that designs the survey, and who understands questionnaire design and how it can influence responses.

When writing the specific questions, there are some additional rules of thumb that may help to remove the likelihood of eliciting biased responses that is often the case in traditional surveys.

- As a simple improvement, surveys could include options such as “Or do you not have an opinion?” and pre-questions that establish if the respondent has ever considered the issue.
- Great care should be taken to avoid priming respondents when explaining the purpose of the study in an introduction. For example, explaining that a review is being conducted by the CMA has the potential to be a powerful prime in itself.
- Surveys could avoid prompting with (pre-coded) answers, for example on online questionnaires. Seeing the range of answers both primes respondents and taps into their innate preference to make the process easy by selecting an answer from those suggested, rather than because it truly reflects their thinking. However, rotating the order of pre-coded responses is only a solution to the issue of priming if the magnitude of the priming effect is understood and that effect is consistent for each prime.
- When asking respondents to evaluate alternatives and express a preference, researchers should first test that the alternatives on offer can be understood as easily as each other, and do not mix abstract and concrete propositions.

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- When asking about issues such as complaints or issues with a bank, the time frame of relevance should be made specific and reasonably short. For example, “Have you had an issue with your bank in the last four weeks?”
- Questions on the same subject can be separated into different surveys, and the question order should be varied, instead of following the traditional approach of building a narrative through the questionnaire.

Finally, a researcher may want to test the reliability of a completed survey. There are two main ways in which this can be done.

- Researchers can create alternative questionnaires specifically designed to counter any potential unconscious influence. If the two questionnaires produce similar results it would increase confidence in the results. For example, pilot surveys can be used to test the sensitivity of results to different methodologies.
- Where possible, claimed behaviour should be reconciled with bank records. All survey evidence should be assessed in the context of the wider body of evidence allowing less weight to be placed on responses which are inconsistent with the weight of other evidence.

5. Alternatives to traditional methods

In some instances, surveys can be designed in a way that maintains psychological integrity. In other instances, alternative methods, or trials are needed to understand past and predict future customer behaviour. There are a number of techniques – beyond traditional qualitative and quantitative research – that may help build a more complete picture of consumer decision making. These techniques test for changes in behaviour by varying the proposed driver of behaviour. For example, by giving people unconscious prompts and observing choices and preferences, we can get closer to observing the true drivers of behaviour. We recommend that the CMA carefully considers these alternatives in its market research, when survey techniques cannot be improved.

Field experiments are particularly useful in demonstrating how different messages and propositions lead to different consumer outcomes. This is because, by their very nature, they do not interfere with the environment in which decisions happen.

They are also useful for evaluating different approaches to attracting attention, testing the impact of different levels of incentive and understanding the power of unconscious influencing strategies (such as those that use framing, social proof or loss aversion).

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However, we understand that field experiments can be expensive and time-consuming, or indeed impossible (if it involves, say, an expensive new product development process).

Implicit testing may also be useful to identify different associations that exist at an unconscious level. These tests are designed to detect the strength of a person's automatic association between concepts and their evaluations of them. They can help uncover customers' different associations with bank brands, which might account for their preferences.

For example, the CMA suggests that “despite customer satisfaction levels below 60% for the four largest banks, there is relatively little customer shopping around or switching”.⁷ A hypothesis might be that customers misattribute satisfaction with their negative associations of big banks, more generally, and that customers are more satisfied than they say they are. Typical research asks customers explicitly about their satisfaction levels, and for the reasons outlined above, responses can be biased. Using implicit testing can help to uncover whether customers' stated satisfaction levels are influenced by their unconscious associations with their bank, and other banks. It can also be used to understand the extent to which customers know about and trust CASS.

As an example of how these research techniques could complement traditional approaches, we may find that a customer has stated they have low satisfaction with their bank (through traditional research). We may also find, using implicit testing, that they have negative associations with banks and good awareness and confidence in CASS. Therefore, if we find they have not switched banks recently, we may conclude that this customer misattributes satisfaction with their negative associations of big banks. If, on the other hand, we find that customers have positive associations with their bank, and high trust and awareness of CASS, along with low stated satisfaction, it might suggest there is some other perceived cost associated with switching banks.

Laboratory experiments can also be used to understand customer motivations and emotions, as well as explore how changing one contextual variable results in different behaviour. This enables us to identify potentially significant influences on decision making. Such experiments can show us how different primes and frames influence choices. These experiments are feasible, and indeed, the FCA has undertaken this type of work within the 12-14 month market study timetable.

For example, the CMA suggests that “there is still confusion and a lack of understanding about overdrafts because overdraft charging structures are complex and difficult to understand. Indeed, the variety of new charging structures may well have made comparison of costs across providers more difficult”. It also states there is a “problem with consumers' ability to understand

⁷ “*Personal Current Accounts – Market Study Update*”, CMA, July 2014, paragraph 5.

the costs they incur from their PCAs”.⁸ A hypothesis might be that customers *do* understand the costs they incur, but they do not see the psychological pay-off to changing their spending behaviour, or finding a different account. To test this, a laboratory experiment might offer customers a sum of money if they can select the cheapest PCA from a list of features which are shown on a website. If customers succeed, it would suggest that they have the cognitive ability and information to compare offers, but lack the motivation. If, on the other hand, customers do not do well at this task, it might suggest the information currently available to customers is incomplete, that banking products are “inherently complex”, or that they have “cognitive limitations” to make comparisons based on this information.⁹ Other experiments could be conducted in light of the findings from the first to explore further or to test the impact of proposed solutions.

Furthermore, to test the degree of ‘customer engagement’ (or lack of), electroencephalography (“EEG”) can test the emotional response to certain stimuli. These tests track electrical activity along the scalp – or brain activity – and can measure sentiments such as excitement, engagement or even frustration. A simple test might be, similarly, to ask customers to find the best PCA to suit their needs. EEG could measure levels of customer engagement, compared to similar tests, which ask customers to find, for example, the best mobile phone deal to suit their needs.

To test the extent to which cognitive limitations are an issue, and why, tests involving eye-tracking equipment can also be used. Eye-tracking measures eye position, movement and gaze, and is useful for understanding what captures consumers’ attention, and what information feeds into their decision making process. For example, a test could show customers all the elements of a PCA offer and ask them to evaluate the best one for their needs. Watching their eye movements can show which parts of the offer are more relevant in a customers’ decision, and whether decisions are made incorrectly based on this. Insights taken from eye-tracking can be helpful for both understanding potential issues, as well as for designing remedies to fix them. For example, Ofcom used eye-tracking to explore how people assess online content and services.¹⁰ More widely, these techniques are commonly used in the neuro-marketing and advertising sectors to understand unconscious influences on customer behaviour.

⁸ “*Personal Current Accounts – Market Study Update*”, CMA, July 2014, paragraph 26.

⁹ “*Retail Banking Market Investigation. Statement of Issues*”, CMA, November 2014.

¹⁰ “*How people assess online content and services*”, Ofcom, November 2009.

In this note we have tried to provide a summary of our key insights from behavioural economics, and how they could apply to the CMA's customer research into retail banking. We have not provided a detailed and overly prescriptive methodology but we would be happy to discuss such a methodology, or anything else in this note with the CMA if that would be useful.