Bank Switching: Combating 'Silent Churn' to Maximize Primary FI Status

26 November 2015 By: Ian Benton

The digital revolution has become a double-edged sword for the financial industry, and the implications for bank switching and bank choice couldn't be more profound. While digital has made the banking system efficient and easy to use, it has also driven a rift between FIs and their customers, leading to commoditization of financial products. Many FIs, especially community banks and credit unions, have become primary in name only. These institutions often hold customers' checking accounts but are victims of "silent churn" when customers seek out secondary FI relationships of convenience for the most profitable products. FIs looking to recapture customers for those profitable products and maximize the value of having primary FI status must upgrade their digital capabilities to demonstrate the value of holding financial products under one roof.

Key questions discussed in this report:

- What does it mean to be a primary FI?
- What is silent churn, and what are its effects on the industry?
- How has commoditization disproportionately affected community banks and credit unions?
- Why do consumers switch FIs? What factors go into those decisions?
- How can FIs counter the threat of commoditization and silent churn to maximize their status as primary FI?

The consumer data in this report are based primarily on information collected from a random-sample panel of 8,525 consumers in an April-May 2015 online survey. The margin of sampling error is ±1.27% at the 95% confidence level.

The Moneyhawks segmentation

Javelin's retail banking customer segmentation incorporates scores of variables regarding demographics, banking behavior, and attitudes about relationships with FIs. Unlike approaches that use predetermined if/then rules regarding specific behaviors or demographic characteristics, Javelin employs sophisticated multivariate tools to develop a holistic segmentation based on multiple dimensions, resulting in homogeneous segments that differ from one another on such diverse criteria as how consumers prefer to interact with their FIs, what products and technologies they use, their needs and attitudes, and their financial value.

FI Size

Large bank: Top 20 FIs that provide retail banking services, by assets

Small Bank or Credit Union: Banks and credit unions outside of top 20, by assets

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