

## **The consumer and the conglomerate – Consumers perceptions of retailers’ and insurance companies’ banks**

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### **Abstract**

This paper deals with consumers’ perceptions of new retail banks owned by retailers and insurance companies in Sweden. We present the first results from an exploratory consumer study within a research project on consumers’ relationships to companies that expand to other markets.

### **1. Introduction**

The phenomenon that awakened our interest is the recent trend in Sweden where two major retailers (Ikea and Ica) and two main insurance companies’ (Länsförsäkringar and Skandia) have extended their core business to also offer retail banking services by *opening an own internet based bank*. In markets with keen competition or in markets where the Swedish Competition Authority prevent the dominant actors from growing bigger, the companies can expand to other markets and thereby form a conglomerate<sup>1</sup>.

Behind such a move is the increased competition for consumers’ spending power. One could expect that the retail companies Ikea and Ica aim to establish stronger long term relationships with their customers who return to the same store only if they please or if they are tied to the companies’ via membership in customer clubs. Ikea offers its customers a Family Card and Ica offers Ica card with multiple benefits for the card

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<sup>1</sup> A conglomerate is defined as a group of companies that operate in different markets. Compared to the conglomerates of the 60:ies and 70:ies the companies in our study are much less diversified.

owner. Insurance companies on the other hand have more complete customer registers but the sales are difficult to increase by selling more insurance products to same clientele. Retail banking services make sense to combine with both retailing and insurance businesses.

Due to the financial deregulation it is easier nowadays to obtain a banking license from the Financial Supervisory Authority. Although the Swedish financial regulation currently provides banking licenses to new actors, there are still extensive procedures and steps to take before the allowance is obtained and there are regulations of what a bank is allowed or required to provide<sup>2</sup>. The new niche banks are small in relation to the existing main retail banks and the competition authority welcomes the newcomers to increase competition in that market. The authority has concerns if the new niche banks are treated fair by the existing main banks when entering the payment network (Swedish Competition Authority, 2006). At the same time, the competition authority is concerned about the consumers and urges the need to improve consumer mobility in the retail banking market, which is necessary if the competition is going to have an effect. These kinds of issues are in the pipeline in many European countries today.

To date, consumers' yearly bank switching rate lies around 5 percent (ECA, 2006). It is good to have several alternatives banks to choose among, but the consumers also needs to be active. In order to improve consumers' activity, Consumers' Bank and Finance Office<sup>3</sup> in Sweden provides information for the consumers how to switch banks and other types of information of bank services or financial issues. An important issue is whether consumers really are interested in switching banks, and in particular, if they would be interested in switching to the new entrants. According to recent empirical evidence, consumers in Sweden have a high confidence towards banks compared to other business sectors. They are also satisfied with the service banks provide (Synovate Temo, 2007). Would it in this kind of situation be likely that bank switching is desirable for a consumer? Do the consumers know about the new entrants to start with and what are their perceptions of these companies and their banks?

Our concern is the consumers and how they are affected by the fact that companies grow and want obtain a larger share of their wallets. Consumers are inferior to the company concerning the knowledge and information about the products and services they buy and hence it can be unpleasant to use only one company. At the same time, it can be convenient for the consumer and save both time and money to concentrate one's affairs. Can the companies be trusted not to misuse the situation? Are the consumers able to choose freely if they establish relationships with large conglomerates? Do the consumers have influence on the relationships and how these develop in the future? These questions have economic as well as social and ethical dimensions.

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<sup>2</sup> A new law on banking and financing companies state that a bank has to offer both payment services through the general payment system as well as offer savings opportunities for a customer that are available for the creditor within at most 30 days (Finansinspektionen, 2004).

<sup>3</sup> The consumers' bank and finance office is an organ led by the Swedish Financial authority, consumer office, Swedish Bankers' Association and a couple other main financial associations.

The aim of this paper is to explore how consumers perceive conglomerates and discuss economic, social, and ethical aspects of being customers to them. We also aim to explore how knowledgeable the consumers are of the new niche banks and how much confidence they have for the newcomers. In addition we aim to get some indication about the contact preferences as the niche banks mainly offer Internet banking and personal telephone service without branch offices.

A short description of the methodological considerations is presented in section 2. The “phenomenon” of niche banks as part of a conglomerate is described in section 3, including international and Swedish examples and a presentation of reasons for retailers and insurance companies to offer retail banking services. The consumer perspective in Section 4 starts by a review of the theories on financial services consumer behaviour and it shows some empirical evidence about consumers’ bank switching and split-banking behaviour. The last part of Section 4 is about reasons for consumers to be customers to the conglomerates. Our own study about consumers’ perceptions of the conglomerates and relationships with them is presented in Section 5. The paper ends with a concluding discussion in Section 6.

## **2. Method**

We started our research project with a literature review of conglomerates within retailing, banking, and insurance and of the financial consumer behaviour literature. Then, we collected empirical material of the Swedish retailers and insurance companies who have established their own banks. Based on this understanding, we developed a questionnaire for consumers in order to explore their perceptions of the conglomerates and especially of their new banks. We conducted 8 interviews with consumers late May 2007 in Göteborg. It was a convenience sample of consumers in our vicinity that we anticipated would give us a variation in perceptions and experiences. While the original aim of these interviews was test questions for our coming survey during the fall 2007, we found the results to be interesting enough to be presented by them selves. The consumer perspective is seldom examined and the area is topical.

## **3. Description of the “phenomena” in Sweden and internationally**

An international comparison shows that the phenomenon of combining retailing or insurance with banking is not only a Swedish occurrence or totally new for that matter. In fact, a combination of both retailing or insurance and retail banking has a reasonably long record.

### **3.1 Combining banking with retailing and insurance**

The U.K market offers one of the first examples to combine retailing and banking. There retailing companies have started by launching a store card/loyalty card/club card as the first step into the financial services markets (Worthington & Welch, 2006). Marks and Spencer, the leading clothing, food and household retailer, was the first and it introduced their card in 1985. Ten years later in 1995, another large retailer, Tesco,

launched its first Club card. Subsequently, in 1997 Tesco made a joint venture with Royal Bank of Scotland and opened an own Tesco bank. Sainsbury supermarket group opened Sainsbury's Bank in 1997.

In the U.S., supermarkets and banks have co-operated since the 1990's. To date Supermarket banking is a common praxis (Flur, Ledet, & McCoy, 1996). By supermarket banking is meant that a local or community bank establishes an in-store branch and in so doing gets an access to a larger customer base. In return the supermarket earns rental income but it does not offer financial services of its own. In the U.S., financial regulation imposes legal separation between banking and commerce and so closer co-operation or mergers are beyond question.

Other banking ventures combined with retail companies can be observed in Canada, New Zealand, and Australia or are currently being planned in Japan. It appears as the phenomenon offer interesting prospects for the companies.

Concerning a combination of insurance and banking, the phenomenon first appeared in early 1980's in France and it is called bancassurance. It is the provision of financial- and insurance-related products through a single corporate provider (Staikouras, 2006). It can also be called assurance bank or Allfinanz. Bank assurance is traditionally a European phenomenon but later during the 90's and in the beginning of the 20<sup>th</sup> century it has spread out to different parts of the world. It can be found in emerging markets such as Brazil, Mexico, Singapore, Malaysia, Thailand, and Korea. Financial conglomerates are also found in Japan and Australia. In the U.S., the phenomenon appeared after 1999 when the regulations were modernized and cross-ownership of banks and insurance companies became possible. Nowadays these financial conglomerates are common in The U.S.

### **3.2 Swedish examples - Presentation of case companies**

In this study, we focus on four rather new banks that are branches of other companies. They are the four largest niche banks in Sweden. Two of them, Icabanken and Ikanobanken, belong to two major retailers (Ica, grocery stores and Ikea, furniture- and furnishing stores). The other two, Länsförsäkringar bank and Skandiabanken, belong to two main insurance companies' (Länsförsäkringar and Skandia). Ikanobanken is more loosely coupled to Ikea compared to the close relationships between the other banks and their mother companies, both in terms of ownership and in their presentation to the public. For example, when entering the homepages of Ica, Länsförsäkringar, and Skandia, their banks are presented as businesses of equal merit with the original businesses. In Ikea's homepage, you must go through several pages to see that their customer card is connected to Ikanobanken. The relationship between Ikea and Ikanobanken is also hard to find at Ikanobanken's homepage<sup>4</sup>.

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<sup>4</sup> Ingvar Kamprad owns Ikea and Ikanobanken via different foundations. Besides being an internet bank, Ikanobanken administers the IKEA customer card and offer banking services to other companies as well.

Ikea was the first in line and started Ikanobanken in 1996. Länsförsäkringar and Skandia, opened their banks in 1996 and 1998 respectively. Ica, followed in 2002 and established Icabanken. Länsförsäkringar bank and Skandiabanken are the two largest niche banks, both in terms of assets and deposits and loans to the public sector – i.e. primarily households and companies in Sweden and abroad (table 1).

**Table 1 The case companies in figures**

| Bank          | No. of branches | No. of employees | Lending to the public | Deposits from the public | Shareholders' equity | Assets | Est. |
|---------------|-----------------|------------------|-----------------------|--------------------------|----------------------|--------|------|
| Länsförs.bank | 96              | 651              | 9 264                 | 24 035                   | 3 248                | 61 471 | 1996 |
| Skandiabanken | 1               | 164              | 41 566                | 51 124                   | 1 948                | 56 164 | 1998 |
| Icabanken     | 2               | 174              | 4 489                 | 6 393                    | 632                  | 7 367  | 2002 |
| Ikanobanken   | 1               | 171              | 5 168                 | 5 442                    | 1 074                | 6 837  | 1995 |

Source: Swedish Bankers' Association, 2007: Bank- and finance statistics 2006

The four niche banks all have a wide assortment offering complete banking services, but the market shares are small on the household market. Together they have 8 % of Swedish households' deposits (table 2). Their shares of bank loans to Swedish households via banks are also 8%. Only Länsförsäkringar bank has a mortgage institute. The others offer housing loans within their banks.

**Table 2 The case companies' market shares of household markets.**

| Share %               | Deposits | Lending (Mortgage inst.) | Lending (Banks) |
|-----------------------|----------|--------------------------|-----------------|
| SkandiaBanken         | 4        | -                        | 5               |
| Länsförsäkringar Bank | 3        | 3                        | 2               |
| ICA-banken            | 1        | -                        | 0,5             |
| IKANO-banken          | 1        | -                        | 0,5             |

Source: Svenska Bankföreningen/ECON. Konkurrensen på bankmarknaden.

Länsförsäkringar bank is very closely connected to the insurance business, the name of the company is in fact Länsförsäkringar bank and insurance. They offer a full range of banking and insurance services (table 3). The situation is almost the same in Skandia. Icabanken and Ikanobanken have narrower product lines.

**Table 3 Assortment of banking and insurance services in the case companies.**

|                     | Länsförsäkringar<br>Bank & insurance | Skandia<br>Insurance & bank | Icabanken | Ikanobanken |
|---------------------|--------------------------------------|-----------------------------|-----------|-------------|
| Bank                |                                      |                             |           |             |
| Current account     | Yes                                  | Yes                         | Yes       | No          |
| Debit card          | Yes                                  | Yes                         | Yes       | No          |
| Savings account     | Yes                                  | Yes                         | Yes       | Yes         |
| Mutual funds        | Yes                                  | Yes                         | No        | Yes         |
| Shares              | Yes                                  | Yes                         | No        | No          |
| Mortgages           | Yes                                  | Yes                         | Yes       | Yes         |
| Loans               | Yes                                  | Yes                         | Yes       | Yes         |
| Credit card/account | Yes                                  | Yes                         | Yes       | Yes         |
| Insurance           |                                      |                             |           |             |
| Non-life products   | Yes                                  | No                          | A few     | No          |
| Pension insurance   | Yes                                  | Yes                         | No        | No          |
| Life insurance      | Yes                                  | Yes                         | No        | No          |
| Capital insurance   | Yes                                  | Yes                         | No        | No          |

Sources: [www.lansforsakringar.se](http://www.lansforsakringar.se); [www.skandia.se](http://www.skandia.se); [www.ica.se](http://www.ica.se); [www.icanobanken.se](http://www.icanobanken.se)

### **3.3 Reasons for retailers' and insurance companies to offer retail banking services**

Increased competition is the main explanation why retailer/insurance conglomerates have come about. Companies cannot within their original business grow further due to the law governing the restrictive practices and hence they expand to other businesses. See appendix for an overview of the dominant companies among grocery stores, insurance companies, and bank in Sweden.

According to a recent report on competition in the retail banking the explanations why niche banks have been started in Sweden are mainly four-fold: 1) companies have large customer bases, 2) they have a good knowledge of the markets, 3) they are financially strong and 4) they have strong trade marks (ECON, 2007).

Theoretically, the main reasons behind the conglomerate phenomenon lie in the synergies that can be found when companies merge, co-operate, or start an own additional business (Staikouras, 2006; Singhal & Vij, 2006). Growing bigger is motivated by economies of scale and scope that follow when synergies across the different business activities and service lines are combined. The cost of producing and selling the services jointly implies better utilisation of the resources. Especially, an important factor behind the phenomenon is the better utilisation of the customer base when the conglomerates cross-sell additional services to their existing consumers. The conglomerate position changes the competitive position in form of a stronger market power. Thereby they might be able to affect the price level. At the same time, a conglomerate is an innovation in terms of a new combination of product- and service lines that might appeal to the new larger customer base. So, the negative effects, from the society's point of view, of a stronger market power can be offset by the positive innovations to meet consumers' needs.

The “One stop benefit” is one of the most significant reasons why both retailers and insurance companies have extended their business to retail banking services in the U.K. (Worthington & Welch, 2006). By offering multiple services in one place, they hope to get a larger share of their customers’ spending power. Also, research evidence from U.S. proposes the same one stop idea as the main rationale why banking and retailing suit together (Flur, Ledet, and McCoy, 1996). It is beneficial to all. However, some concern is raised whether consumers prefer to combine grocery shopping and retail banking together (Flynn, 1997; Quinn, 2001).

However, as retail companies manage large amounts of transactions daily, the idea of starting a bank is not far away. In the U.K. it has been found that retailers’ main motivation to offer financial services originate from the retailers attempt to reduce the cost of accepting payments (Worthington & Welch, 2006). Retail companies also enjoy a strong reputation and these have tried to take advantage of the dissatisfaction towards the traditional retail banks.

Insurance products and banking products are in many ways complementary services. A mortgage needs to be insured and it makes sense from a company perspective to combine banking and insurance. From the demand side the same is true. However, the companies are commercial corporations and so they are entitled to maximise their own profits whereby the concern whether consumers are exploited remains.

#### **4. The consumer perspective**

As shown above, there are several reasons for retailers and insurance companies to offer retail banking services. In this section we introduce the consumer perspective. The section starts with a review of theories on financial services consumer behaviour, continues with empirical evidence of consumers bank switching and split-banking behaviour, and ends with reasons for consumers to become customer to the new banks.

##### **4.1 Financial services consumer behaviour**

The literature on consumer behaviour in the financial service sector has parallels to traditional consumer behaviour theory and services marketing literature, but there are also examples of concepts used in a different way. Classification of the financial service attributes and labelling various behavioural patterns are common. The managerial perspective is strong. There is an urgent need for more research that pays attention the consumers’ situation, e.g. the role of financial services in consumers’ everyday lives.

One of the studies with clear parallels to the general characteristics of services that e.g. Berry (1980) discuss is Ennew and Mc Kechnie (1998). They put forward a list of characteristics of financial services:

- Intangibility
- Lack of intrinsic value
- Inseparability of consumption and production
- Heterogeneity
- Long-term nature

- Fiduciary responsibility (the banks cannot always provide the service to the consumer even if he/she had made the decision to buy)

Financial services are comparatively necessary services for all inhabitants in modern societies. Having a normal life all people need a current account to receive an income and make payments. However, financial services are not always interesting as themselves but they are usually used in order to obtain the actual demand, for example, a house or a car. Depending on the customer's time preference the actual demand is obtained through a loan or savings/investments. Therefore, it is said that the financial services lack of intrinsic value, which is why it is not likely that when a customer has acquired a well functioning service, he/she would be interested in other similar services or to switch supplier. This kind of behaviour is additionally reinforced by the long-term nature of financial services, which does not necessitate the consumer to be very active during the product's lifetime. Both of these qualities counteract the customer's interest for financial services from the start. On the other hand, the characteristics intangibility, inseparability, heterogeneity and long-term nature of the financial services make financial services very complex to understand and evaluate. The complexity consecutively means that the information search of financial services and evaluation of alternatives is cumbersome for the consumers. These problems correspond to an important concept, namely switching costs, which express the costs for time and effort that a customer incurs when switching suppliers (e.g. Porter, 1985).

Beckett et al (2000), propose that financial consumer behaviour is determined by the strength of two main dimensions: consumer confidence and involvement. The consumer confidence dimension corresponds to uncertainty, which is due to complexity of the product and certainty of the outcome associated with that product. Involvement in turn is consistent with customer control, participation and level of contact. A matrix of consumer behaviour divides the consumers into four ideal types:

- Consumer confidence high – involvement low: Repeat-passive consumers
- Consumer confidence high – involvement high: Rational-active consumers
- Consumer confidence low – involvement high: Relational-dependent consumers
- Consumer confidence low – involvement low: No purchase

Beckett connects the matrix with a third dimension that is proposed to have a great impact on customer behaviour: the choice of preferred delivery channel.

*Repeat-passive* behaviour is described as once customers have made their original decision about the service provider they tend to continue the relationship although they were not satisfied or loyal. The reason is that they perceive little differentiation between financial providers, they seek convenience and are inert, and they associate high switching costs with changing banks. These customers mainly use relatively simple banking services such as current account, deposits and loans. In the increased competition and information flow, and due to the new delivery channels, switching costs will be diminished. These tendencies make it increasingly difficult for the banks to "keep" their customers in this category.

*Rational-active* customers experience high levels of confidence in the purchase process and consequently they focus on price as the main decision variable. This type of

consumer is likely to use modern delivery channels extensively and the types of service they seek are, for example, insurance products.

*Relational-dependent* category of consumers uses complex financial services, such as investment and pension products, and they prefer face-to-face contact with the bank personal adviser. To have trust is of utmost importance for this group of bank customers. They value relationships but at the same time demand a high level of service.

The consumers that belong to the quadrant '*no purchase*' represent an important source of potential new business. The main obstacle to overcome is to increase these customers' level of involvement and confidence, i.e. to make them more active/informed/interested in financial services and diminish their uncertainty.

Recent theories on financial services consumer behaviour propose a shift from relationships to experiences in retail financial services (O'Loughlin, Szmigin, & Turnbull, 2004). While personal relationships have become weaker due to the technical development and internet banking, relationships continue to be an important factor in attaching, maintaining and enhancing customer relationships. Consumers form relationships with brands and the brand relationship incorporate notions such as reciprocity, mutual exchange and fulfilment of promises in consumers' minds. At the same time the findings suggest that the consumer power has increased. Despite the fact that financial services are complex and multi faceted services, it is difficult for a bank to create unique offerings. However, if a bank succeeds to create relevant brand values and experiences for the consumer it should affect the customer satisfaction and increases the consumers' likelihood to stay with the existing bank. The relationship management paradigm is found to be highly relevant in the financial services context where the main challenge is to find an optimum balance between relationship, brand and transactional experience benefits (ibid). On the other hand it is to be acknowledged that not all consumers desire relationships but want to seek variety.

To sum up, the prevalence of high switching costs, as a result of information and evaluation problems, makes the customer's buying process risky since the customer needs to trust the service provider not to misuse the exposed situation. In the long run, concerning the relationship continuation, switching costs are weighed against customers' degree of trust and confidence in the bank. The degree of trust, confidence and reliability can be interpreted as prerequisites for customer to be satisfied and also to develop loyalty.

#### **4.2. Bank switching and split-banking behaviour**

Concerning the customers' bank attitudes and behaviour it has been found that a) customers are increasingly seeking the best value for money, b) customers are increasingly demanding service and convenience, and c) customers are increasingly comfortable with using technology (van den Bosch and van Wauwe, 1995; Kimball et al, 1997). Consequently, although customers were satisfied with the bank pricing (which they currently are not) they are more alert to find alternatives and to take the best offer. Van den Bosch and van Wauwe (1995, pp. 370) have argued: "All change is ultimately decided by the customer and banks can no longer rely on the total loyalty of the

customer as they once could.” A totally loyal customer from the bank point of view would only use one single bank for the whole of his/her lifetime. The lack of the total loyalty for the bank means a situation where customers are “shopping around” and/or “switching” banks. For example, in the UK in 1986, 15 percent of the consumers had accounts at more than one bank, which was an increase of 40 percent on the previous 12 months (Burton, 1994). According to a report concerning the development in the UK, the share of the population having more than one current account in different banks in 1999 had increased to 35 percent (Mintel, 1999).

At the same time there is also evidence that 50 percent of the UK population has never changed their current account provider and those who have done so, did so more than five years ago (Mintel, 1999). These numbers indicate that split banking and/or bank switching is not very common, but this trend of customer disloyalty is likely to continue in the future.

Another study about student retail banking customers in Gothenburg, Sweden in 2001, it was found that 68.7 percent of the students used only one bank, 63.7 percent had never changed banks and 51.5 percent had no future switching intentions (Mankila 2001). On the other hand, approximately 25% of the students had a relationship with two banks and as many had changed banks once. Concerning the future switching intentions 39.1 percent were uncertain what to do while 9 percent were sure about switching. The numbers confirm the picture that the mobility in the retail banking market is not very high but these figures also suggest that the mobility is increasing.

A report from the Nordic competition authorities (2006) concerning the Nordic retail banking market put forth that bank switching rates are approximately 5 percent per year. Unfortunately some figures concerning split banking were not present but the report clearly made a point that consumers increasingly use more than one bank for their banking needs and such split banking is another current trend. What is not known however is for what reasons consumers do it: 1) how many consumers switch banks completely and end their previous relationship, 2) when do they want to keep the existing relationship and use it actively but need add something specific from a complementary bank; or 3) how many consumers leave the exiting relationship alive but don't use anymore.

The latest results from Synovate Temo institute show a significant improvement concerning the confidence that the public experiences for banks in Sweden (Synovate Temo, 2007). It had increased from 69 percent 2006 to 76 percent in 2007. 58 percent of the public is relatively or very satisfied with the service that banks provide and that is an increase by 3 percent. 62 percent of the public perceives that the number of banks for private customers in Sweden is enough. The share that uses only one bank is unchanged: 55 percent both in 2007 and 2006. There is no statistical significant difference concerning the share of consumers that use two or three banks. However, a significant share of the public has several bank relations. Most of the (51 percent) with a bank is done via the Internet and the share has not changed since 2006. However, the share of public that has never used the internet service has diminished from 36 percent to 28 percent compared to the last year. The share of contacts via the branch office has remained on the same level.

#### **4.3. Reasons for consumers to become customers to the new banks**

In the light of literature and the cases presented above, there are three main arguments that are possible reasons for consumers to become customers to the new banks.

*One-stop benefit:* To be able to satisfy the basic financial (banking and insurance) –and in Ica’s case basic grocery- needs from a same source can sound appealing and convenient for a consumer. To have only one relationship to satisfy such needs saves time and simplifies life.

*Price:* The new niche banks are mostly internet based and hence they do not have traditional branches. However, the Ica stores offer deposit and withdrawal services for customers to Icabanken and Länsförsäkringars’ insurance offices offers personal advice to their bank customers. On the other hand, the niche banks offer noteworthy better interest rate on the current account compared to the existing banks which may turn into opening an account in some of these.

*Bonus program* would be another important motivator to start a relationship with the new banks. We have reported about Ica’s customer card that offers bonus checks the more groceries the customer buys with the card. At times the card offers also special prices for these customers. While we have not seen any price advantages combined with the banking products the Ica-card may be a sufficient reason to start the banking relationship. Länsförsäkringar bank has also developed a bonus program for the customers who concentrate their affairs to the bank and offer some price reductions for such bonus customers.

### **5. Results from the consumer interviews**

We interviewed 5 women and 3 men between 28 and 56 years of age. Some of them are singles others cohabiters or married. 3 of them have children and 4 of them have a car.

In the interviews we talked about their: 1. current customer relationships with companies’ in retailing, insurance, and banking; 2. ideal number of relations within different business areas; 3. perceptions of loyalty; 4. importance of image, price, convenience, product line, quality, and loyalty programs; 5. knowledge, use and perception of the companies’ new banks; 6. trust and confidence in the mother companies and their banks.

#### **5.1 Customer relationships and loyalty in retailing, insurance and banking**

The interviewees are more loyal in terms of continuity than exclusivity in the retailing and insurance sectors. Their bank relationships tend to be both exclusive and continuous. Our consumers mostly<sup>5</sup> stay for a long period of time. We find many of the

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<sup>5</sup> Throughout the account of the interview results we mention if none, few, some, many, most, or all of the interviewees agree – to get a feeling for the variation in our empirical material. These quantities should not be generalised to other consumers.

long customer relationships in the sectors of banking and insurance, but there are also examples of being customer to retail chains for 20 years or more. Among the interviewed consumers, comparing companies and complete switching from one to another is rather uncommon in all the investigated sectors, i.e. the mobility is low. Most of the comparisons are simple using easily accessible information. The consumers compare the grocery stores they use to purchase in, they only compare insurance companies when they need a new insurance, and they mostly look at interest rates when comparing banks. There are just two examples of frequent and detailed comparisons in our interviews – both regard banks and these consumers happen to be customer to niche banks.

Exclusive customer relationships, i.e. being customer to just one company, is most frequent in banking (5 of 8), followed by insurance (3 of 8) among the consumers we talked to. When buying groceries and furniture, all of them visit more than one retail chain. Loyalty as continuity rather than exclusivity is in line with the interviewees own definitions of loyalty to companies. Long-term relationships and being able to trust agreements is important part of their definitions. No one mentions that you shall keep to one company. Instead, some of them points out that you can be loyal to many companies at the same time; the important thing is no switching. The consumers want to be loyal if the company care for the customers own good and is sensitive to what type of relationship the customer wants.

The preferred number of relationships differs somewhat from the actual numbers mention above. More consumers want two or more banks in their portfolio compared to the number of consumers who want more than one insurance company. Most of the interviewees (6 of 8) want just one insurance company, due to convenience and because it is a better deal for them. Half of the consumers prefer one bank, some of which have more than one today. The interviewees are mostly satisfied with the number of relationships they have today in retailing. They prefer to buy groceries in two or more stores because they can't find everything in just one or because it is more fun. The interviewees all want to buy furniture and furnishings in more than one retail chain, as they already do. It would be boring to just have one alternative.

In-store self service is the obvious choice for our consumers when buying groceries, but occasionally some of them want personal service, e.g. advice in delicatessen counters or -shops. When buying furniture and furnishings the interest in personal service is much greater, but most of them want to be able to look around in the store without being disturbed. In insurance and banking most of the consumers want a combination of self service via internet and personal service via telephone. One of the consumers wants to have personal service most of the time, but the others are content with personal service when buying a new service or if they have complicated questions. Only one of the consumers prefers to meet the bank personnel face-to-face for expert advice.

## **5.2 Importance of attributes**

We measured the importance of six different attributes for grocery stores, furniture/furnishing stores, insurance companies and banks. The attributes were: the image/reputation of the company; price; convenience; assortment; quality; discount/

loyalty program. They were measured on a 5-point scale from unimportant to very important.

Convenience, assortment and quality came out as the most important attributes of grocery stores. 6 of 8 respondents gave top priority to each of them. Price wasn't unimportant, but only one of the consumers marked "very important". Discounts/loyalty program is the least important attribute. The opinions about importance of image/reputation vary a lot among the respondents – this pattern is the same in the following sectors too.

The consumers preferred nearly the same attributes of furniture/furnishing stores, but convenience was much less important to them in this sector. Price was slightly more important compared to grocery stores and discount/loyalty programs were less important.

Price and quality were the most important attributes for the respondents when evaluating insurance companies. Interestingly, assortment of insurances is rather unimportant for most of our consumers. Convenience is fairly important and discount/loyalty programs, again, is not very important to them.

The respondents graded quality and convenience as the two most important attributes of banks. Price and assortment are important to some of them and rather unimportant to others. Again, discount/loyalty program is the least important attribute, but compared to the case of furniture/furnishing stores it is much more important.

### **5.3 Knowledge, experience, and perceptions of nischbanks**

The consumers in our study have very different levels of knowledge about the four nischbanks; ICA-banken, Ikanobanken, Länsförsäkringar bank, and Skandiabanken. For each company, there is at least one consumer who knows nothing about it and at least one consumer who is very well informed about its business.

Three consumers have experience of being a customer to a nischbank. The first has Skandiabanken as his main bank. The second has Länsförsäkringar bank as a supplementary bank for savings and the third have had a loan at Ikanobanken.

Three interviewees are totally uninterested in nischbanks. One of them because they are not banks primarily and he does not want to be bound to the mother company. Another wants ordinary bank branches and the third wants only one bank and the nischbanks lack overall solutions for him.

Only one of the interview consumers is positive to all four nischbanks. He believes they improve the competition. Three consumers are positive to one of the nischbanks. Two of them like the company they are customers to and the third appreciates ICA-banken for the possibility to make deposits and withdrawals when visiting the ICA-store.

One of the consumers in our study is sceptical to nischbanks, but could accept a nischbank as a complement if there are economic benefits and no obligations to be customer to the mother company.

#### **5.4 Trust and confidence in the nischbanks and their mother companies**

Most of the interviewees trust the companies as a whole – they are large companies who have been on the market for a long time. However, three consumers mention that they don't trust Skandia because of the recent scandals<sup>6</sup> and one consumer is uncertain about ICA's price worthiness.

The level of trust the consumers have in the nischbanks is lower than their confidence in the mother companies. They often question the companies' competence as a banks, especially the ability to offer a full assortment of bank services.

The consumers all have their own demands on the companies in order to feel confidence in them. Some of the demands are: convenience, freedom to move, easy accessible, long history, good products, high moral and ethics, keeping promises, respectful treatment of customers, personal contact, high customer integrity, good reputation, good handling of problems, and follow the consumer purchases act.

### **6. Concluding discussion**

The aim of our paper is to ponder consumers' perceptions about having a customer relationship with conglomerates and to consider possible economic, social and ethical aspects/consequences for them if an increased relationship is established. In this first consumer study we have listened to consumers' viewpoints and reasoning around the areas of: 1. Current customer relationships with companies' in retailing, insurance, and banking; 2. Ideal number of relations within different business areas; 3. Perceptions of loyalty; 4. Importance of image, price, convenience, product line, quality, and loyalty programs; 5. Knowledge, use and perception of the companies' new banks; 6. Trust and confidence in the mother companies and their banks.

The *economic* dimension is probably the most tangible consequence for consumers and easiest to observe in consumers wallets. We witnessed that some consumers, if interested and knowledgeable of financial services, took the chance to switch to or complement with a niche bank, because it is perceived valuable. However, these consumers have to spend time on being updated and to contact the new bank. For them the switching costs were not a hinder and these consumers most likely earns from the increased relationship with the conglomerate. What can then be said of those consumers that for some reason or other have remained passive? One of the "passive" consumers said it would not be worth to switch since she had so little money. Another person could not even think of having a relationship with any of the niche banks although they were cheaper. The one-stop benefit of the niche banks was only mentioned once. At the same time, another respondent wanted the new niche banks to be separated from their mother

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<sup>6</sup> Unlimited bonusprograms and illegal fringe benefits among the top managers.

companies – otherwise they would not consider becoming customers. The economic dimension is just one of the valuable dimensions for the consumers but not the most important. This conclusion is also supported by the fact that when the respondents evaluated the importance of different attributes, price came on the fourth place in the banking business. Convenience, company image, and quality were evaluated higher. Additionally our results showed that only a few consumers' used discounts or loyalty cards and this attribute category got a low importance score irrespective of the branch in question.

If a consumer chooses to establish a relationship with any of the niche banks s/he can be sure that most of the contacts with that bank will be via the Internet or the Telephone. The general impression was that it was totally accepted by the consumers. The use of Internet banking increases constantly as the Synovate Temo 2007 figures showed earlier. Still, without the personal banking service via telephone the niche banks would probably not survive. Some *social* relations are always needed although these would be remote. The consumers need personal telephone service for sorting out difficulties or when they have a question about a complex service. Otherwise the consumers seemed to want to “mind their own transactions”. This result confirms the findings that we presented of the latest theory of financial consumer behaviour in Section 4.1 where it was proposed that consumers create relationships with brands and experience transactional benefits rather than long for face-to-face personal relationships. Still, the social communication and the feeling of being a valued customer should not be dismissed. Social relationships with personnel are important for consumers to feel loyal (Holmberg, 2004). In retailing, there is a positive relationship between frequent contacts and perceived loyalty (ibid). A reason why frequency is more important than exclusivity is that frequent visits encourage personal contacts and socialization with the store personnel, which in turn encourage consumers to come more often. Consumers who know the personnel well receive extra service and thereby they feel special. We believe that the social dimension is a real challenge for the niche banks. Being someone for the consumer, and not merely a technical solution with better prices, is necessary to grow from a marginal phenomenon to respected actors.

In the introduction chapter we raised some possible concerns with regard to *ethical* issues if a consumer decides to have a relationship with a conglomerate company and its niche bank. We could sense from some of the consumer reflections that the concerns were true for them to some extent. Not all of the consumers expressed their concern, but many enough. It emerged as a noteworthy issue. Consumers did not want to feel “locked in” and many of the consumers talked warmly about having several relationships instead of only one and embraced competition between the companies. Even if they do not practice switching very often, they want the possibility to switch. Consumers also indicated that mutuality and continuity in the relationships is appreciated, while exclusivity is not, when they were probed on what loyalty meant for them and what they expect company loyalty to be towards the consumers. This is in line with the current theory on financial services behaviour where brand relationships build on reciprocity, mutual exchange and fulfilment of promises in consumers' mind's (O'Loughlin et al, 2004). An important factor in this respect would be to improve consumers' perceptions of conglomerates' images in order to appear unique and caring.

This paper presented the first findings from our research project on consumers' relationships to companies that expand their business to other markets. Within this project we also participate with questions about switching behaviour and number of relationships to grocery stores, insurance companies, and banks in a national survey of 3000 Swedish citizens. We will receive the data in February 2008. The next step is to plan a structured questionnaire based on the findings from the exploratory interviews. The questionnaire will be sent to 1000-1500 consumers in Sweden and the results are expected to be ready in the Mid Spring 2008. After the survey, we plan to make a round of in-depth interviews with consumers who are or have been customers to nischbanks to gain insight of their experiences.

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## Appendix

### Market structure and competition

The concentration within the sectors grocery retailing, insurance, and retail banking is high in Sweden. The four largest companies have market shares around 80% in their largest consumer markets in each sector. In grocery retailing, the largest company's market share is rather close to 50%.

#### Grocery retailing

In Sweden, there are four large retail companies for groceries, who own or cooperate with 16 larger store brands. Together they have 84% of the grocery sales in grocery stores, approximately 190 000 million Swedish crowns in 2006<sup>7</sup>. ICA's market share is 43%, the Cooperation 19%, the Axfood-sphere 16%, and the Bergendahl-sphere 7%. In addition, there are a number of companies operating one or two store brands, most of them local concepts.

#### Insurance

There are 135 national insurance companies in Sweden. 12 of them are unit linked companies and 33 are other life insurance companies. 90 are non-life insurance companies.<sup>8</sup> The four largest non-life insurance companies are Länsförsäkringar, If Skadeförsäkring, Trygg-Hansa, and Folksam. Their total market share of premium income is 83%, including both the consumer and business markets (table A.1). In insurance categories where private consumers dominate; "householder & homeowner" and "accident & health", their market share is 80% and 92%.

**Table A.1 Market shares of premium income in some insurance branches. Non-life insurance companies.**

| Share of premium income, %    | Total | Householder & homeowner | Accident & Health |
|-------------------------------|-------|-------------------------|-------------------|
| Länsförsäkringar              | 30    | 29                      | 14                |
| If                            | 20    | 12                      | 7                 |
| Trygg-Hansa                   | 18    | 13                      | 40                |
| Folksam                       | 15    | 26                      | 32                |
|                               |       |                         |                   |
| Others                        | 17    | 20                      | 8                 |
| Total                         | 100   | 100                     | 100               |
|                               |       |                         |                   |
| Total in 1000 mill. SEK, 2006 | 56    | 11                      | 5                 |

Source: Association of Swedish Insurers, 2007. Swedish insurance in figures 2006.

<sup>7</sup> Market magasin, 2-3 2007.

<sup>8</sup> There are also 226 local non-life insurance companies, 81 friendly societies and 31 Non-Swedish companies.

**Retail banking**

There are 129 banks in Sweden of which 31 are limited companies, 26 branches of foreign banks, 2 membership banks, and 70 local savings banks (ECON 2007). The four largest banks are Swedbank, Nordea, Handelsbanken, and SEB. The companies' share of Swedish households' deposits are 72% (table A.2). They all have their own mortgage institutions. Their market share of mortgage loans to Swedish households via institutes are 88%. Their share of loans to Swedish households via banks are 42%.

**Table A.2 Market shares of household markets.**

| Share %                       | Deposits | Lending<br>(Mortgage inst.) | Lending<br>(Banks) |
|-------------------------------|----------|-----------------------------|--------------------|
| Swedbank                      | 26       | 31                          | 15                 |
| Nordea                        | 18       | 15                          | 9                  |
| Handelsbanken                 | 16       | 27                          | 12                 |
| SEB                           | 12       | 14                          | 6                  |
|                               |          |                             |                    |
| Others                        | 28       | 12                          | 58                 |
| Total                         | 100      | 100                         | 100                |
|                               |          |                             |                    |
| Total in 1000 mill. SEK, 2006 | 676      | 1241                        | 392                |

Source: ECON 2007.