

Building Societies vs Banks: What differences do customers identify?

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Executive summary

Savings and mortgage products are now among the most searched for product categories on Smart Money People. In an increasingly competitive environment, it's little surprise that customers are shopping around like never before.

This report sets out to identify the key differences between banks and building societies when it comes to customer experience.

To help ensure a direct comparison this report focuses on what savings and mortgage customers across 31 banks and 22 building societies told us about their experiences.¹

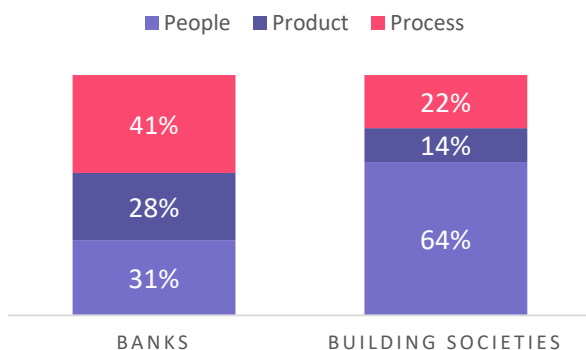
Throughout 2018 over 62,000 UK customers left a review of their financial services experience on Smart Money People, the UK's leading financial services review website and research company.

Overall findings

1 Building society customers are more satisfied than those of banks, across both savings and mortgages. They also feel more fairly treated.

2 Banks perform well when it comes to product and process related themes, with building societies particularly strong around people themes.²

What themes do customers talk about?



Savings findings

3 Face-to-face customer service remains a vital part of the building society customer experience. Customers value **high quality engagement**.

4 Channel preferences are changing fast, and limited digital offerings have started to impact the ease of managing accounts for building society customers. Addressing the digital challenge while retaining the high quality engagement customers have come to expect is a key challenge.

Mortgage findings

5 Customers like the skills and knowledge, and overall service delivered by building society staff. Manual underwriting, and the ability to cater for niche cases are also valued. If this approach is slower, it's not feeding into our customer feedback.

6 Across our bank and building society feedback, the three key themes that drive mortgage customer loyalty are:

1. Clear information & meeting expectations
2. Skilled & knowledgeable staff
3. Speed of completion

About Smart Money People

Launched in 2014, Smart Money People delivers customer and intermediary insight for a range of financial firms, including banks and building societies.

^{*1} 4,128 customers shared savings and mortgage feedback in 2018

^{*2} Smart Money People has developed a theme structure to analyse customer feedback. This is explored further on p.3

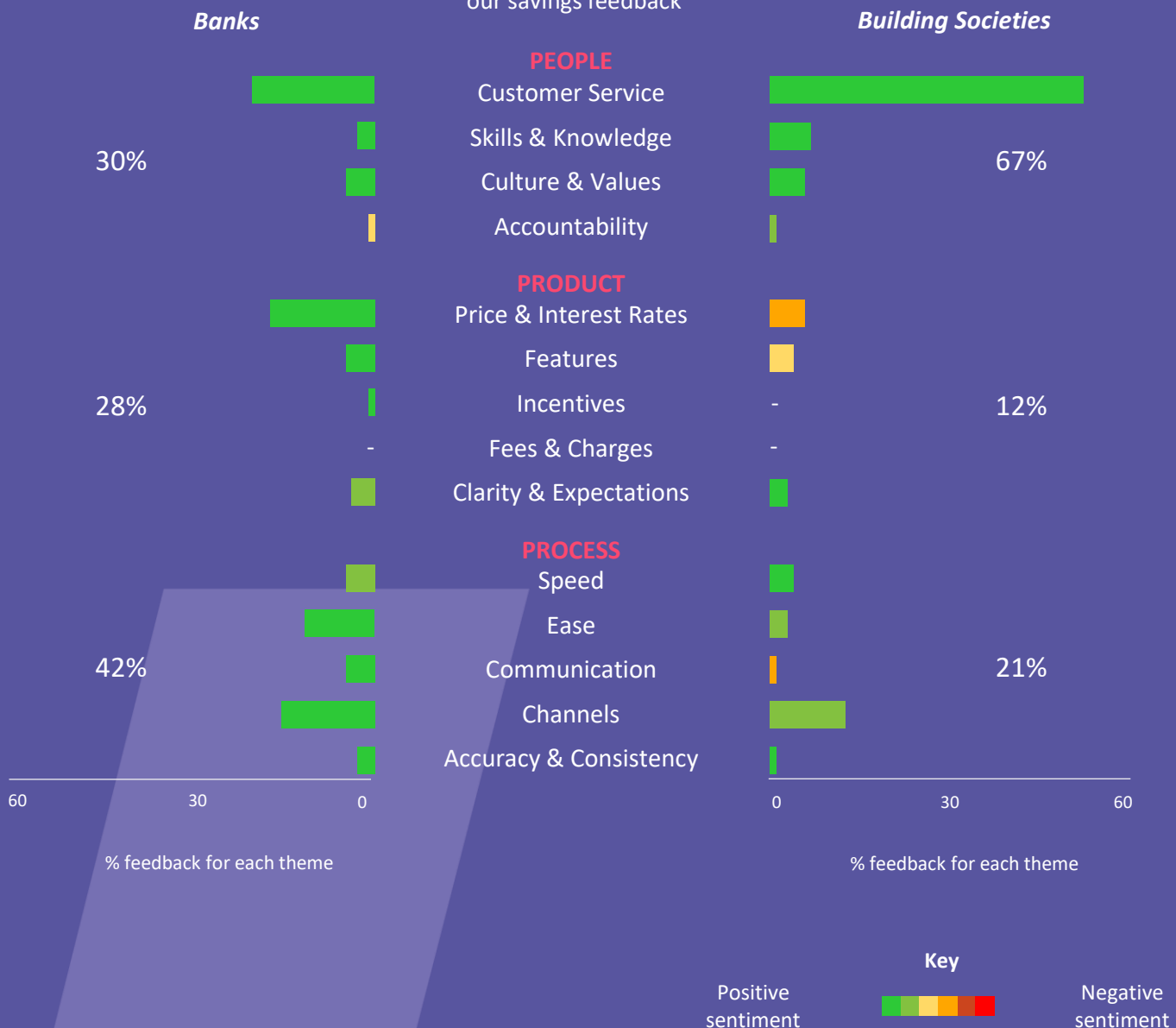


Savings feedback analysis

Some 67% of all building society feedback focuses on people themes, with customer service the dominant theme. Channels are also front of mind, and a top three theme across both banks and building societies.

When it comes to interest rates, customers of banks talk a lot more about 'good interest rates'. However, building society customers believe they are receiving better value for money (93% vs 87% for banks). We explore this further on the next page.

The themes and sentiment behind our savings feedback



2,902 pieces of feedback mentioned 5,787 themes which have been mapped to the above theme structure.



What's behind our savings feedback?

Customer satisfaction across building society savings customers is **7% higher** than banking customers (95% vs 88%).

When it comes to savings, it's easy to assume that high interest rates leads to high customer satisfaction. Our analysis shows that there's more at play.

Building societies are recognised for their knowledgeable and face-to-face service. With news about branch closures a near constant theme, building society customers are increasingly attaching more importance to their local branches.



The savings customers of banks rave about the interest rates on offer (interest rates is their second most discussed theme).

Interest rates is the fourth most discussed theme for building society customers. This group of savers have higher satisfaction with the overall value for money on offer, 93% vs 87% for banks.

So why is this? Our analysis suggests that building society customers are increasingly valuing the wider building society proposition, which also includes things like face-to-face service. A minority have come to view high interest rates like a cherry on a cake. So long as the rate is 'ok' they're very happy to continue to do business with a firm, as they're valuing other service-focused factors. But higher interest rates would of course be better.

What makes savings customers more likely to promote a provider?

- 1 **Communication**
- 2 **Skills & Knowledge**
- 3 **Culture & Values**

A satisfied customer is not always the same as a customer that's willing to recommend their savings provider to a friend or family member.

We've analysed the drivers behind promoters (customers that are willing to recommend a provider), and the above themes are what we've found to be critical to whether a firm is recommended or not. Skills and knowledge is the only top three theme that both savings and mortgage promoters have in common.

Perhaps surprisingly when it comes to savings, price and interest rates does not feature as a top three theme that promoters talk about. That's not to say that interest rates don't matter, just that more is required to turn a customer into an advocate.

Who's leaving savings feedback?

	Banks	Building Societies
18-34	34%	13%
35-54	25%	23%
55+	41%	64%



Channels: Does digital matter?

Feedback about channels attracted the second highest volume of feedback from savings customers, pushing price and interest rates into third spot.

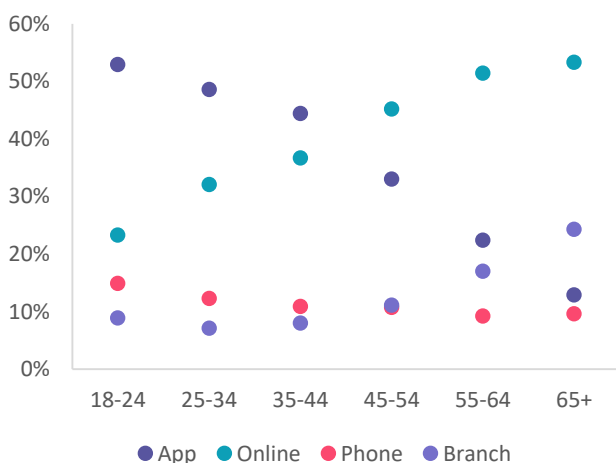
Bank customers value an easy online application process and reliable digital services, and when it comes to digital, banks clearly have an edge.

Building society customers are increasingly seeking more flexible options to manage their accounts, with more, and better digital options featuring in this wish list.





In 2018, and across all products on Smart Money People, banking apps became the most preferred channel for day to day banking. 66% of customers aged 65+ and over now prefer digital channels, with 13% of these preferring banking apps (up from 7% in 2017).

And while preference for digital is a trend, there's clearly still an important role for branch and telephone banking. For example customers aged 18-24 are the biggest fans of telephone banking, with 15% preferring this channel.

2018 channel preference by age group



Shifts in channel preference

	2018	2017
	39.0%	30.2%
	38.6%	45.2%
	11.4%	12.4%
	11.0%	12.2%

Building society savings customers in particular continue to value transacting face-to-face, leading to high praise around customer service and skills and knowledge. Although at times, a lack of digital channels impacts the ease of managing accounts.

Our channel preference data also shows that 24% of customers aged 65+ still prefer branch-based banking. Building societies often provide an important lifeline for these customers.

Takeaway

High quality face-to-face engagement has long been the hallmark of great building societies. Maintaining this while delivering against customers' desire for digital channels is a key challenge for most firms.

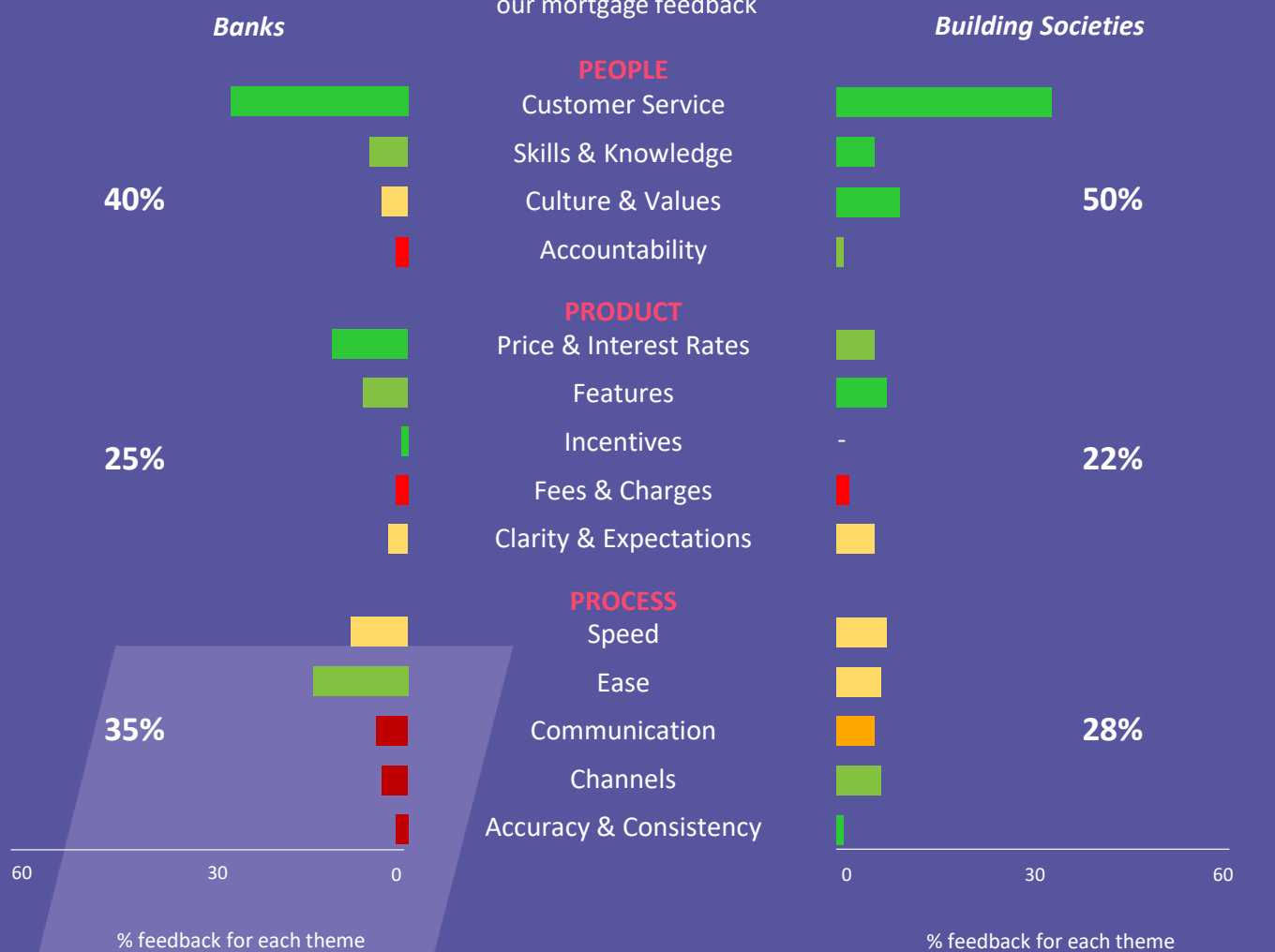


Mortgage feedback analysis

Across both banks and building societies, customers focus the majority of their feedback on people, then product, and then process. Process is often the source of most negative feedback, particularly among banks.

Our feedback identifies a number of key themes where banks and building societies materially differ. The next page explores these themes in more detail.

The themes and sentiment behind our mortgage feedback



1,226 pieces of feedback mentioned 1,921 items which have been mapped to the above theme structure.



What's behind our mortgage feedback?

Customer satisfaction across building society mortgage customers is **13% higher** than banking customers (93% vs 80%). Below we explore the themes behind this.

Two distinctly different propositions?

Most banks and building societies sell mortgages. And while there are areas where the product range and target customer overlap, our feedback demonstrates that banks and building societies have different strengths when it comes to their mortgage propositions.

Banks tend to offer lower cost straightforward mortgages and this contributes towards the positive sentiment seen around ease and price and interest rates specifically.

Building societies perform particularly well around the people-focused experience, including the skill, knowledge and overall customer service delivered by staff. Flexible lending, and the ability to cater to niche cases is also a part of the proposition that customers value.

Both banks and building societies are performing well around customer service. **In juxtaposition to our savings feedback, building society customers are talking more positively about channels than bank customers.**

This is because mortgage customers in particular value the face-to-face contact, and high quality engagement that building societies have placed at their heart of their propositions. This could mean discussing a case directly with an underwriter or face-to-face in branch.

What makes mortgage customers more likely to promote a provider?

In a market set to become increasingly competitive, with a number of lenders reporting a difficult start to 2019, developing brand advocates (i.e. happy customers that are willing to promote a lender) will become increasingly important.

Below are the three key themes promoters talk about:

- 1 Clarity & Expectations
- 2 Skills & Knowledge
- 3 Speed

Takeaway

Clear explanations, delivering promises, knowledgeable staff and a speedy mortgage application process drive the highest NPS (Net Promotor Scores). Lenders delivering on this front will be best placed to weather a challenging market.

Who's leaving mortgage feedback?

	Banks	Building Societies
18-34	29%	24%
35-54	61%	41%
55+	10%	35%



How does this compare with broker feedback?

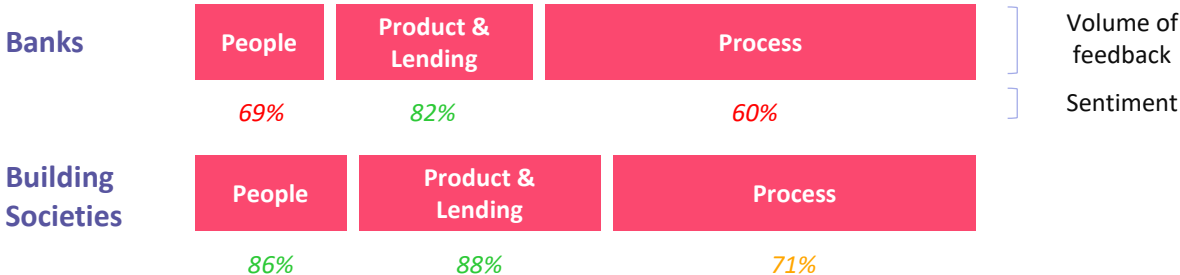
As mortgage intermediaries are now responsible for over 70% of mortgage completions, they play a vital role in the distribution strategies of most lenders.

Process themes inspire the most negative feedback. Brokers focus a lot more on these process themes such as speed to completion and the ease of doing business, than customers, who tend to focus more on people themes.

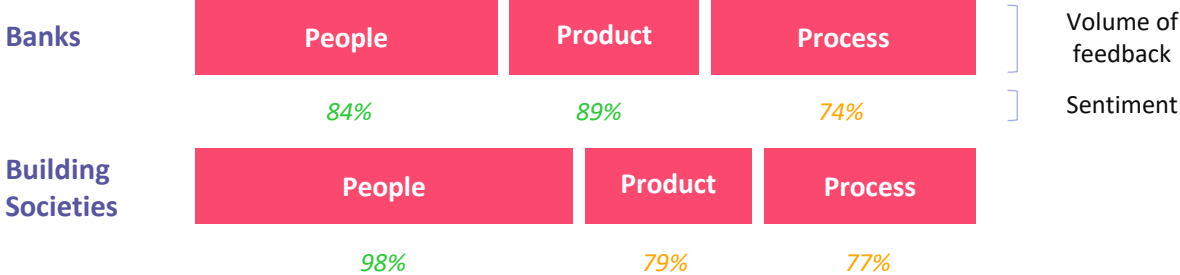
Smart Money People carried out the Mortgage Lender Benchmark across H2 2018 to find out what brokers thought about the lenders they deal with.

When it comes to what makes brokers happy, they're particularly happy with the product ranges on offer and the flexibility offered by lenders.

Feedback from brokers



Feedback from mortgage customers



Across both customer and broker feedback, building societies outperform banks, with one exception; banks perform better around product when customer feedback is taken into account. Satisfaction with low interest rates is largely behind this.

Banks performed poorest around communication.

About the Mortgage Lender Benchmark

- H2 2018 report released in December
- 391 brokers left feedback for the last 3 lenders they've attempted to place cases with
- A mix of qualitative and quantitative insight was captured
- The full report includes SWOT analysis pages about 32 UK lenders
- H1 2019 report will be released in June 2019



Conclusion

Our feedback has helped to highlight how the customers of banks and building societies think about the firms they choose to do business with.

While at a high level, this report has highlighted differences between the two sectors, in practice, there are of course very significant differences between firms in the same sector.

Key takeaways

- 1 Customers do identify differences between banks and building societies.
- 2 Building society customers are more satisfied than those of banks. Savings customers are 7% more satisfied, and mortgage customers are 13% more satisfied.
- 3 Digital is an important theme for most building societies. Customer feedback demonstrates that building societies have slipped behind banks when it comes to satisfaction with channels for savings – largely focused in the availability of digital channels. It's also impacting the ease of managing accounts. But when it comes to mortgages, the ability to engage face-to-face and easy access via telephone ensures that building societies perform better.
- 4 Face-to-face service remains an important part of the building society customer experience. Our channel preference data shows that 24% of customers aged 65+ still prefer branch-based banking, and building societies often provide an important lifeline for these customers.
- 5 Channel preferences are changing fast. How building societies blend the high quality engagement that helps to deliver a customer satisfaction edge while meeting the demand for 24/7 channels remains an important challenge.
- 6 Interest rates matter. They always have, and they always will, but our analysis suggests that building society customers are increasingly valuing the wider building society proposition. A minority have come to view high interest rates like a cherry on a cake. So long as the rate is 'ok' they're very happy to continue to do business with a firm, but higher interest rates would of course be better.
- 7 Challenger banks, with lower cost-to-income ratios, are in an enviable position and will provide increasingly effective competition for the sector. They're also best placed to offer digital-first experiences. How the sector responds to this challenge over the next five years will prove critical.

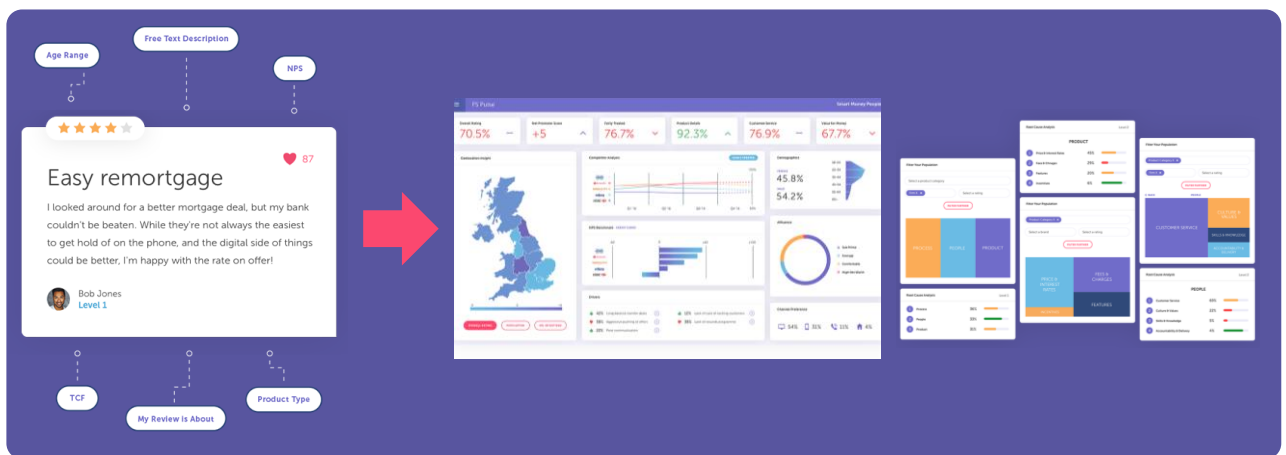


About Smart Money People

Smart Money People is a review and research platform focused on financial services. We collect unique customer insight across thousands of financial firms.

We work with a number of banks and building societies.

When it comes to what makes consumers satisfied and prepared to wholeheartedly recommend their providers, the answer isn't always as clear cut as might be first assumed, which is why we deliver benchmarking to help firms better understand their strengths and weaknesses and to deliver conduct and culture insight.



On an ongoing basis, Smart Money People collects a range of performance, regulatory and culture aligned insight. This include:

- The strengths and weaknesses of firms and products
- Net Promotor Score (NPS)
- Customer service ratings
- Value for money ratings
- Whether consumers feel fairly treated, and why
- Whether consumers understand the product details, and why
- Whether consumers feel that their information is safe with firms

Please contact the research team at Smart Money People to discuss this report further.

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