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Consumer Appetite for Cross-border Shopping in Financial Services

A Report Prepared for the FSA

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The interpretations and opinions contained in it are solely those of the authors.

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Executive Summary

- The aim of European Union policy in the area of retail financial services is to enable consumers to shop around all over Europe for the best savings plans, mortgages, insurance and pensions with clear information available to compare products
- Key interventions in EU policy to date have largely focused on addressing supply side constraints that restrict trade in financial services.
- While increasing numbers of consumers in the UK are looking outside their domestic market for low cost, low risk products there is a very limited and undeveloped market for financial services.
- Current levels of cross border transactions for financial services remain modest with less than 1% of consumers having bought a financial product at a distance from a company situated in another member state[1].
- General consumer motivations for cross border transactions centre on the search for greater value and enhanced consumer choice while not sacrificing consumer protection should something go wrong. In financial services consumers will be looking for reduced transaction costs, superior returns and tax efficiency and in certain circumstances convenience and local specialist knowledge
- Consumers are currently motivated to consider and engage in cross border purchase when there is an underlying need. Connections with other EU countries are a key driver in influencing the decision to purchase cross border, suggesting that many purchases are made out of necessity rather than because of any perceived inherent benefits.
- The EU area is not perceived as being homogenous, and cultural perceptions of member states vary. The domicile of the product or firm plays a key role in consumer consideration of cross border product offers.
- There exists a very high level of loyalty to UK providers, and where switching might occur it is at a price/return differential that is unlikely to be commercially attainable.
- Removing perceived hard barriers to cross border shopping, for example by working towards common regulatory frameworks and dispute resolution procedures, is seen as a necessary pre-condition that consumers expect

[1] YouGov survey 2008

policy makers to address. However, such actions are by no means sufficient to change consumer attitudes.

- Cross border purchase of financial products is seen to carry a degree of risk over and above that involved in buying products from UK-based providers and these risks outweigh any potential benefit to be gained from buying cross border.
- In addition there exist powerful underlying attitudinal barriers which play a critical role in shaping the mindset of consumers. These cannot be overcome through regulatory policy intervention.
- Financial advisors (including Independent Financial Advisors or IFAs) play a key role in influencing the decisions and choices consumers make, and are an important distribution channel in the UK. Consumers are willing to follow the advice of a trusted advisor and would purchase from a non UK provider if they were advised to do so. However, few IFAs would offer such advice.
- The evidence shows that there exists a complex set of inter-locking factors which mean that there is unlikely to be a single policy measure that would by itself significantly contribute to the growth in a single market for financial services. Policy intervention to address supply side contraints and establish a level playing field for regulation and protection is likely to have only a very limited impact on consumer behaviour
- There is a strong argument that policy intervention should work with the grain of existing consumer behaviour where this delivers the broader aims of increasing competition and consumer choice.
- Given the lack of consumer appetite toward buying in a true cross border situation and the much stronger acceptance of financial product purchase from a provider not based in the UK but with local distribution, policy should be directed to supporting this form of product purchase.
- The evidence suggests that the vast majority of UK consumers are in practice currently unlikely to take up the 'benefits' of a more open market in financial services even if that market can be created.

Introduction and Background

The European Commission's White Paper on Financial Services[2] published in 2005 set out an ambitious strategy to achieve a single European market for financial services, with a particular focus on barriers which inhibit the smooth functioning of a single market for retail financial services:

> *"...while the FSAP focused mainly on the wholesale market, retail integration will become more important over the next period. Barriers associated with the use of bank accounts will be examined, with a view to enabling consumers to shop around all over Europe for the best savings plans, mortgages, insurance and pensions, with clear information so that products can be compared."* [3]

Building on this White Paper, the Commission published a Green Paper in 2007 specifically addressing retail financial services[4]. This Green Paper noted a number of indicators which demonstrated that integration in retail financial services had not reached its potential. These included:

- modest cross-border activity (in research carried out for the Commission, 85% of respondents spontaneously indicated that they had never purchased financial services from firms situated in another Member State and 75% said they would not seek to obtain financial services put to them from a firm located in another EU member state)[5]. Moreover, less than 1% claim to have bought a financial services product at distance from a company situated in another member state;

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[2] *WHITE PAPER Financial Services Policy 2005-2010*, European Commission, 2005.
http://ec.europa.eu/internal_market/finances/docs/white_paper/white_paper_en.pdf

[3] *EU financial services policy for the next five years* EC Press Release 05/12/2005
http://europa.eu/rapid/pressReleasesAction.do?reference=IP/05/1529&format=HTML&aged=0&language=EN&guiLanguage=en

[4] *GREEN PAPER on Retail Financial Services in the Single Market* European Commission 30 April 2007

[5] *Public Opinion in Europe on Financial Services*. EuroBarometer special report. August 2005
http://ec.europa.eu/consumers/cons_int/fina_serv/cons_experiences/report_eurobarometer63-2_en.pdf

- wide variations in prices;
- restricted product diversity and choice;
- large variations in market performance.

Although the Green Paper recognises that consumer behaviour and preferences may be a factor in limiting market integration, the Commission considers that further reforms may be necessary to make markets work better for consumers. Industry responses tend to favour approaches where the benefits of integration for consumers are best achieved by promoting market-led initiatives that free up competition between retail financial product providers, rather than pursuing opportunities for consumers to actively purchase retail financial products cross-border[6].

While some work has been undertaken to help stimulate greater demand from consumers, the key interventions to date have largely focused on addressing supply side constraints that restrict cross-border trade in financial services. There seems to be an implicit assumption that once these barriers are removed, the volume of real cross-border transactions (i.e. where consumers buy products and services at a distance from a provider or intermediary based in another EU member state) will rise as consumers become aware of a greater range of product offerings from providers operating outside national boundaries and exercise choice in their search to obtain quality at the best possible price.

This assumption may underestimate the strength of consumer resistance to a cross-border offering for financial services purchases, and overestimate the level of trust and confidence that consumers have in offerings from firms based outside of domestic borders. Research undertaken by the European Commission has shown that the main barriers appear to be lack of information and language problems. However, this research does not dig deep enough to understand the real motivations and drivers affecting resistance and acceptance of cross-border financial services shopping, comparisons between financial services and other goods and services, and the magnitude of price differences required to persuade consumers to switch to a product available from a provider or intermediary based in another EU member state.

In order to address this information gap, the FSA appointed YouGov Financial Services Consulting to establish a benchmark report which measures the extent to

[6] See for example response from Council of Mortgage Lenders. www.cml.org.uk/cml/filegrab/EC-retailfinancialservicesgreenpaperresponseJuly07.pdf

which UK consumers would consider shopping cross-border with regards to different financial services products. This study additionally investigates what factors tend to drive consumer appetite for cross-border shopping (e.g. cultural familiarity vs. value for money vs. product choice).

At the outset, we agreed a working definition of a cross-border financial transaction with the FSA which satisfied one of the following scenarios. A consumer living or working in country A buys a financial product/service:

- From a firm in neighbouring country B;
- At a distance (phone or internet etc) from a firm in country B;
- From a firm owned and operating in country A via an intermediary owned and operating in country B
- From a firm owned and operating in country B via an intermediary owned and operating in country A
- Consumer buys product/service from firm owned and operating in country B via an intermediary owned and operating in country B

These definitions were used primarily to ensure there was an agreed working understanding of the types of transactions that could be reasonably classified as cross-border. However, it was important that we did not position these definitions in the minds of survey respondents as we felt it was important to establish how consumers themselves perceive, define and experience a cross-border transaction and assess how well these perceptions and experiences matched up against our definitions.

This research sought to address the following key questions:

1. How open are UK consumers to the prospect of buying financial services products cross-border and from different EU member states?
2. What types of cross-border transactions would UK consumers be most likely to consider?
3. What types of experiences have consumers had of cross-border shopping (both financial services and other markets)?
4. How do consumers think cross-border transactions in financial services markets compare with other markets?
5. What are the main factors driving positive and negative views towards cross-border shopping (both financial services and other markets)?
6. To what extent are familiarity and personal connections factors driving underlying attitudes and behaviours?
7. What are the perceived benefits from cross-border shopping in financial services?

8. What pre-conditions need to be in place before consumers would consider shopping cross-border?
9. To what extent are consumers familiar with leading European financial services brands that are based outside of the UK and to what extent do they trust these brands?
10. To what extent does brand familiarity and attitudes towards different countries of origin shape consideration of cross-border offerings and underlying levels of trust?
11. What factors would be likely to lead to a change in consideration of shopping cross-border and what kind of trade-offs would consumers need to make in order to make cross-border shopping a more likely consideration?

Scope and Methodology

The study focuses on the following groups of consumers:

- Those who have recently purchased or are in the market for the range of products in scope
- Those who currently hold the range of products in scope and would either definitely consider or definitely not consider a cross-border purchase.
- Those who have a "significant relationship" with another EU country.

The following products were considered:

- Long Term Savings (incl. Pensions)
- Investment Products
- First Charge Mortgages on Main Residence (and any second homes owned abroad)
- Insurance Products (Complex and Simple)
- Personal Loans (incl. Secured Loans and Credit Cards)
- Retail Deposit Savings Accounts

We consciously decided to limit the research with consumers to those regarded as "being in the market"[7] for the target range of products, rather than a survey design based around a nationally representative cross-section of the population as a whole. A survey that focused on the views of the population as a whole would include many people who have no experience or understanding of the products in question, potentially have no underlying needs for which they would seek advice, and consequently would not be able to offer an informed opinion about choices they might make or providers they might choose. Conversely, a sample based around actual or probable consumers should provide more robust evidence about likely adoption of a cross-border product offering and a richer understanding of the barriers that need to be overcome.

A frequent limitation of many research designs which seek to focus on market participants is the difficulty involved in identifying and recruiting target groups due to low incidence in the population as a whole. The recruitment process can add

[7] By this we mean consumers who have taken out a qualifying product within the last two years or are planning to take a product out in the next six months.

significant costs and extend project timescales which is exacerbated when looking to recruit across a range of product types. We overcame this problem by running two large scale screener surveys gathering information about a range of financial product holdings and attitudes to cross-border transactions that were sent to all 220,000 active YouGov panellists in January and May 2008, each yielding around 70,000 respondents.

We designed a three stage methodology that sought initially to understand consumer views, concerns and experiences of cross-border transactions through qualitative research, provide more quantitative assessments of consumer opinion and finally incorporate the views of retail intermediaries who play a key role in product distribution and delivery of advice to consumers

1.1 Stage 1 Qualitative Research

An initial qualitative exploration of the key issues was conducted amongst four different groups to understand the main concerns among consumers and provide insight into their cross-border experiences. These groups were made up of the following type of respondents:

- Group 1 held selected financial product(s) or were in the market for one in the next 12 months. They would consider cross-border purchasing for all the financial products they hold.
- Group 2 held selected financial product(s) or were in the market for one in the next 12 months. They would NOT consider cross-border for any financial products they hold.
- Group 3 held selected financial product(s) or were in the market for one in the next 12 months. They would consider cross-border for SOME of the products they hold but would NOT consider for others.
- Group 4 consisted of consumers who have a SIGNIFICANT RELATIONSHIP with another EU country and who have either bought, or tried to buy, a financial product cross-border.

1.2 Stage 2: A quantitative survey

Our main programme of quantitative research was based on interviews with 3,507 people who were "in the market" for a range of financial services products. This covered a cross section of consumers who are either recent or prospective purchasers of the financial products within the scope of the study. A minimum of 500 interviews for each of the six main product categories were conducted. In order to measure the extent to which a hierarchy of countries exists within the EU in relation to the provision of financial services and to quantify the extent to which UK consumers were prepared to change their supplier to another country for a cheaper price or better return, a series of trade off scenarios were constructed and run.

1.3 Stage 3: A supplementary quantitative survey

In addition to our main survey, we also interviewed 1,026 consumers who said they would definitely consider buying different types of products cross-border. The main purpose of this supplementary survey was to understand better the motivations and circumstances of those who on the face of it appear more open to buying financial services products cross-border.

1.4 Stage 4: Intermediaries qualitative research

An online forum was conducted with a selected group of retail intermediaries who were shown the findings from the earlier waves of consumer research to gain their views more generally on cross-border transactions.

1.5 Interpretation and timing

Where relevant, findings from the quantatative research has been used to evidence qualitative findings.

The timing of the fieldwork is an important consideration when interpreting the research findings. We undertook all the primary research with consumers before the events relating to the current crisis in financial markets and banking began to unfold.

One of the direct effects of the crisis on retail banking was to undermine consumer confidence in leading retail banks based in the UK, in particular those that had moved away from their traditional core retail markets into markets carrying a higher level of risk. At the time, this led to concerns about another run on retail banks, similar to the problems that quickly enveloped Northern Rock in 2007, and steps were put in place to shore up the consumer deposit protection scheme. The Irish Government took steps to guarantee all customer deposits and took this action prior to any intervention by the UK. As the systemic nature of the crisis unfolded, structural weaknesses in the Icelandic banking system were exposed resulting in the collapse of all the leading Icelandic banks which were offering retail deposit accounts in the UK.

Many UK consumers were concerned about whether their savings were protected and sought to withdraw their funds, but were initially unable to do so. While ultimately all retail savers were compensated, this episode has significantly damaged consumer confidence in overseas financial services brands particularly those operating in the savings market. Hence it is essential to understand that the evidence presented here represents consumer opinion and behaviour prior to the global crisis that affected the banking system. However, we have been able to draw on other evidence based on other research undertaken by YouGov which helps to highlight some of the impacts of these events on consumer attitudes towards a number of key financial services brands.

While this research has been restricted to UK consumers, the methodology of the survey can be extended to other EU member states to identify and understand differences within countries and attitudes to retail finance providers in other member states.

Cross-border Transactions: Adoption and Barrier Dynamics

1.6 Cross-border: benefits, barriers and disadvantages

Before presenting the detail of the research evidence, we initially need to set out a conceptual framework for cross-border transactions, which takes into account the factors that might cause consumers to consider and begin to adopt a cross-border offering including the benefits, barriers and disadvantages. A fundamental question that needs to be addressed is why consumers might be motivated to shop cross-border in the first instance, in markets generally and in retail financial services in particular. Our starting assumption is that factors which influence consumer consideration will be the search for greater value and a better deal which can be achieved through enhanced consumer choice. In financial services markets, we expect that reduced transaction costs, better returns and tax efficiency would be important factors. In addition, we expect that in some circumstances, a cross-border transaction might offer greater convenience and local specialist knowledge when products are purchased from a provider based in a country other than the UK. And finally, cross-border transactions might offer access to unique products and services not available in domestic markets. Negative factors or barriers include the perceived risk of loss of capital; concerns about consumer protection, compensation, regulation and dispute resolution; financial stability and brand reputation; and issues around language and knowledge. These can be grouped into soft versus harder barriers and needs as illustrated below.

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Soft Barriers & Needs ⟷ **Hard Barriers & Needs**

Soft Barriers & Needs		Hard Barriers & Needs
Familiarity	Control	Regulation
Consumer understanding	Accountability to authorities	Consumer protection
Sense of risk	Problem resolution	Market confidence
Need for physical presence	Language	Guarantees
Culture	Governance	Real value

Emotional barriers and needs for reassurance tend to outweigh potential (rational) benefits of a better deal and modest convenience

Qualitative evidence showed that while consumers accepted that purchasing from providers outside the UK may provide a cheaper offering or a better product they would not proceed as their concerns over emotional issues such as dispute resolution and language outweighted the potential benefits.

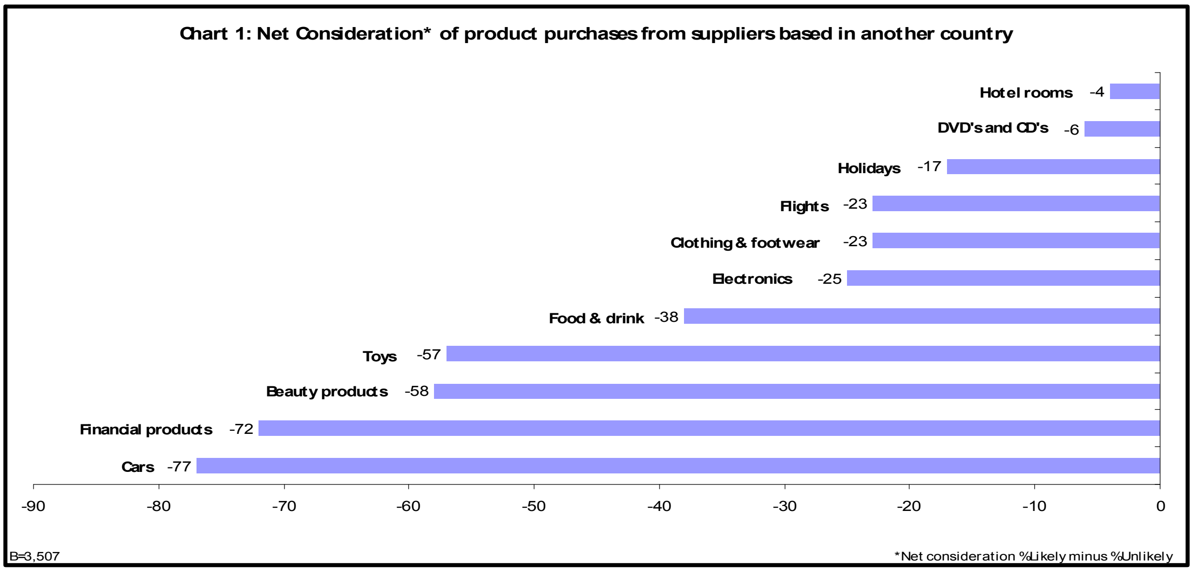
We also need to compare the adoption and barrier dynamics for retail financial services and products against other markets. The expansion of the internet, combined with reliable payment mechanisms and low-cost and quick distribution channels have been the critical factor in giving consumers the opportunity to buy a wide range of goods and services from providers based around the globe. An increasing number of UK consumers look outside their domestic boundaries particularly when searching for lower cost/ lower risk products. In some markets, this has been a consumer led move with people going to places like the Far East or USA to purchase electronic goods or computer hardware/software that is unavailable in the UK. Conversely, in other markets providers have taken the initiative where the cross-border aspect of the transaction is not explicitly disclosed, for example some CD/DVD providers source their products offshore in order to provide them at a lower cost to consumers. The evidence is that non-financial products have fundamentally different attributes to financial products and services. Moreover, there is a complex set of inter-locking factors which mean that there is unlikely to be a silver bullet which would kick-start a more integrated single market for financial services.

Products	**Financial**
Tangible	Intangible
Immediate performance	Deferred performance
Low involvement	High involvement
Commodity categories	Specialist categories
Easy to understand	Hard to understand
No relationship necessary	Relationship desirable
Simple dispute resolution	Complex dispute resolution
Simple consumer protection	Fragmented protection framework
Payment protection in place	Payment protection ambiguous
High consumer confidence, tangible products	**Low consumer confidence, intangible services**

At the EU level, it is estimated only 25% of consumers have shopped cross-border and this proportion has remained stable since 2006[8]. Moreover, only 9% of consumers have made at least one distance purchase cross-border in the EU in the last 12 months, compared with 47% who have made one distance purchase domestically.

Consumers have a much more positive consideration of purchasing goods and service cross-border which are relatively low costs and/or where the risks are lowest. As chart one (p.16) illustrates, net consideration (net consideration is the likely percentage minus the unlikely percentage) was highest for hotel rooms, DVDs and CDs. To some extent, these are also goods where providers have taken the lead through websites which enable consumers to transact at distance with confidence. At the bottom end of the scale are items which carry the highest risk in the event that things go wrong: motor vehicles and financial services.

[8] *Consumer protection in the Internal Market* EuroBarometer special report, October 2008 http://ec.europa.eu/public_opinion/archives/ebs/ebs_298_sum_en.pdf



The qualitative research reinforced this view and confirmed a much greater level of acceptance of shopping cross-border particularly where the transaction is "underwritten" by brands such as E-Bay or Amazon. This evidence additionally suggests that when buying low risk items, consumers may be unaware of the nationality of providers when using web-based distributors with a global brand and global reach.

"I bought some DVDs from the States" and *"Plenty of DVD's from play.com which is mostly abroad I think"*

"I don't know whether I could trust buying a larger product like a car"

The group discussions also identified the main reasons why people shop cross-border. These can be grouped into[9]:

- Primary benefits surrounding cost (i.e. buying goods that are cheaper than in UK) which suggests evidence of a "smart shopper" mentality at work;
- Secondary benefits associated with convenience (related to buying online wherever the provider is located – *"easy to do", "you can (now) do it and so I do"*) and a wider choice of products that might not be available in the UK/on high street; and

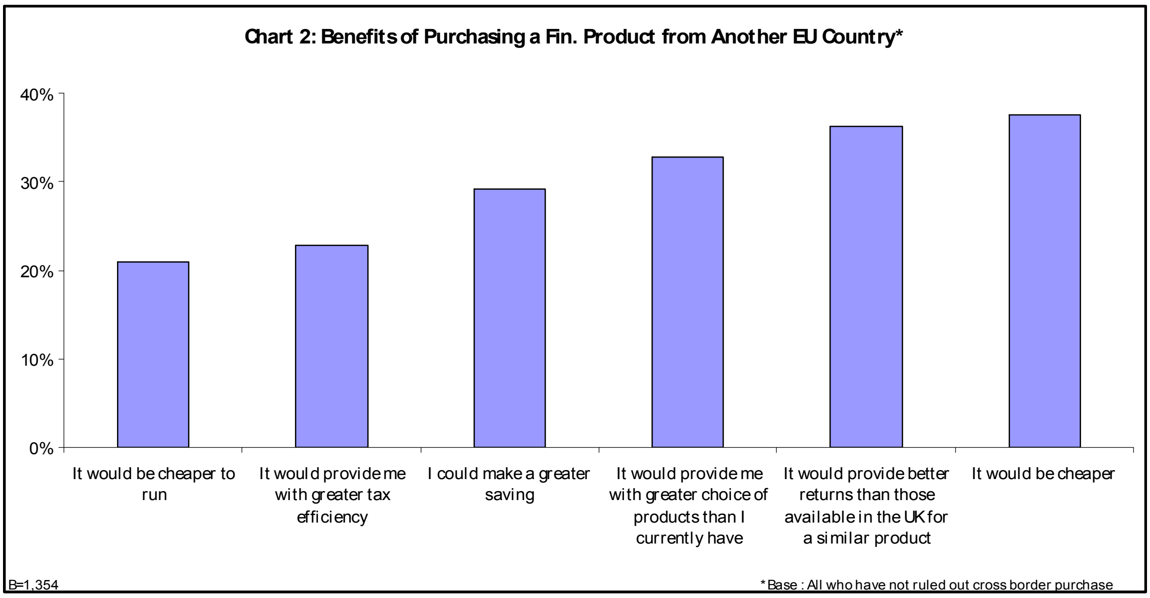
[9] Primary, secondary and tertiary benefits were determined from interpreting the way in which participants discussed issues and the importance/weight they placed on these topics/areas.

- Tertiary benefits mainly related to a novel, new and fun experience and standing out from the crowd.

Conversely reasons for consumer reluctance to purchase from abroad centered around

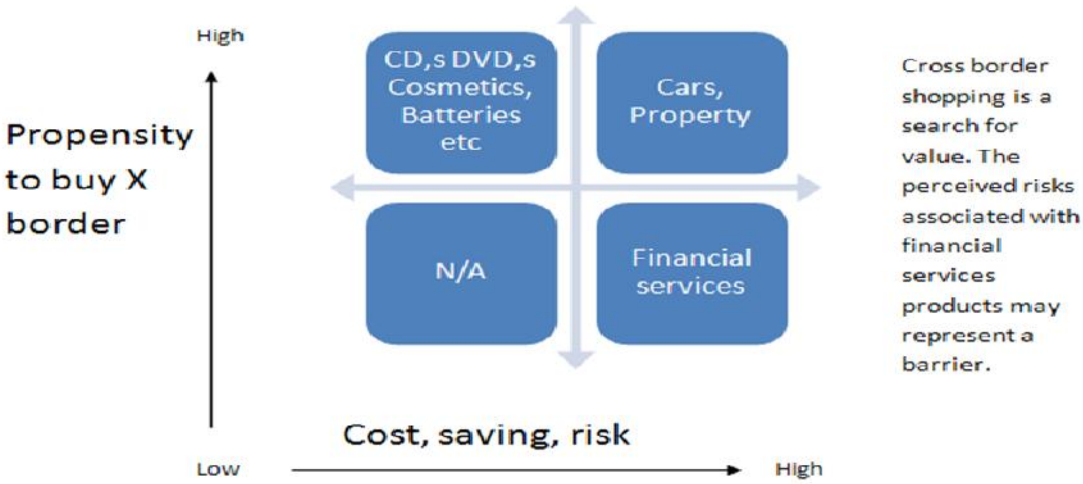
- Dispute resolution
- Availability of products within the UK
- Safety of home product purchase

The survey findings provide some harder numbers to support these views (chart 2). Around 70% said that it is easier to return an item if dissatisfied and two thirds just feel safer buying from a UK retailer. Well over half also felt that the UK market gave them the choice they needed.



The survey findings clearly indicate that a search for value drives much of the behaviour among the consumers that we interviewed. The vast majority said that generally, they shop around to avoid paying more for goods and services as well as looking for alternatives before buying an item. However, in relation to online transactions, which are the mainstay of distance purchases, around a third have concerns about the risks involved in buying on-line.

Our initial analysis supports the hypothesis that consumers have a low propensity to buy financial services products cross-border due to their complexity, relative cost, potential losses and risks, and relative savings.



Drivers and benefits of cross-border shopping

This section of the report looks at the factors influencing cross-border shopping for financial services and the potential benefits. The evidence is based on the experiences of consumers who claim to have made some form of cross-border transaction (as understood by the consumers we interviewed rather than the strict definitions of cross-border which we described earlier in this report) as well as the benefits of cross-border financial services as perceived by consumers generally (i.e. including the majority who have not transacted cross-border). Throughout this section, we make it clear whether we are talking about the direct experience of consumers who have transacted or more general perceptions.

Focusing initially on the consumer experience of shopping cross-border in financial services markets, nearly one in 10 (9%) claim to have done so. This figure is higher than the average of 1% reported across the 27 EU member states by the European Commission's research. The reason for this difference is likely to be related to question wording and sample differences. This research is drawn from a cross-section of consumers who are "in the market" for different financial products, whereas the EuroBarometer research is based on a cross-section of the population including large numbers of people who are not recent purchasers or are not looking to take a financial product out in the near future. In addition, the questions in the two surveys have been drafted differently and it is quite likely that some respondents in this research regarded savings accounts provided by firms such as ING Direct and IceSave through their UK bases/branches as cross-border transactions. Of those who had taken a product cross-border, the two most common products purchased were savings and current accounts. 80% of those who bought a product cross-border said they would definitely do it again.

We initially hypothesised that the factors motivating consumers to buy financial services products cross-border would include the following

Connections :

Convenience (financial arrangements related to property or work in local market)

Local knowledge/specialism (e.g. property or business related)

The Deal :

Cost (reduced costs of transactions, reduced interest rate on loan)

Return (better return/interest rate on savings/investments)

Tax efficiency (beneficial tax arrangements on balance/investment)

Service :

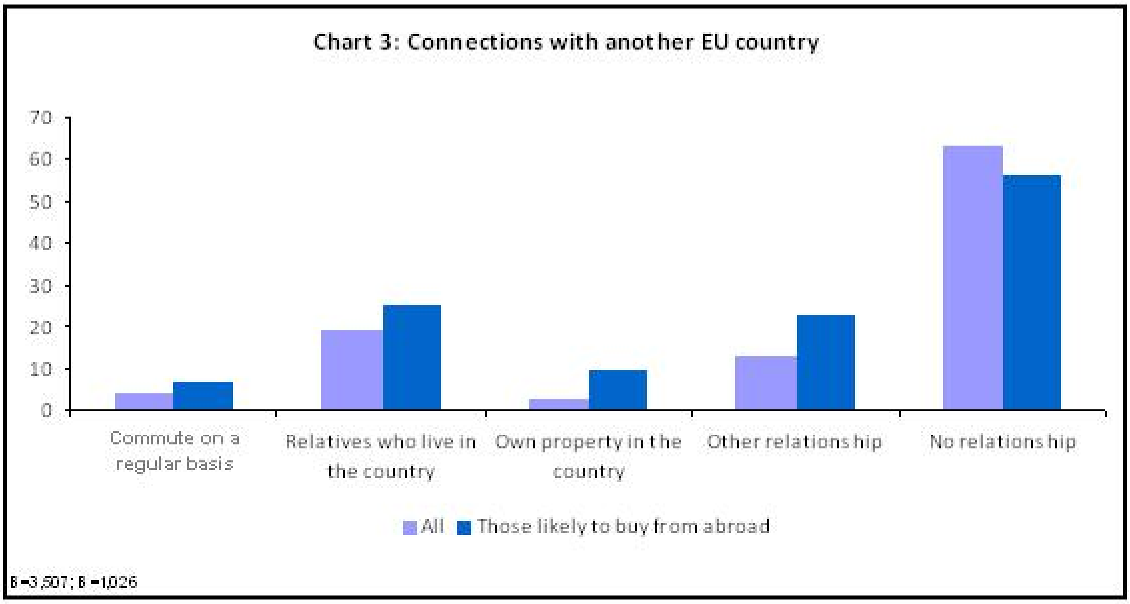
Might get a better service (especially as service expectations for UK are poor)

Might get unique product/service

1.7 Connections

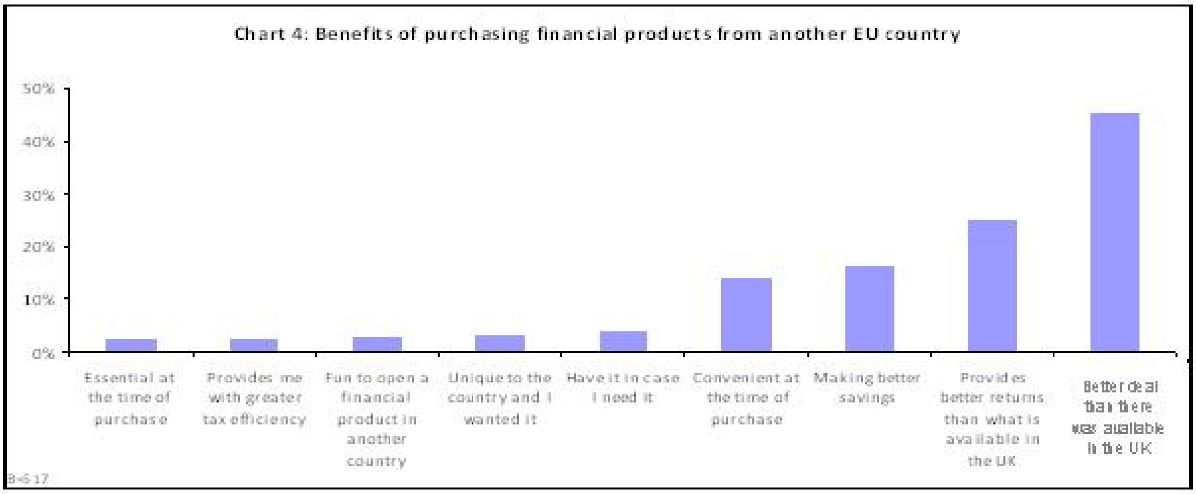
We were interested to see whether connections could be an important driver helping to shape attitudes through increased familiarity as well as being an underlying reason though necessity. Looking at the main sample of consumers who were in the market for financial services products generally, about a third of respondents had a connection with another EU country, family ties being the most common link (23% of those with a connection) – see chart 3. Connections with another EU country appear to have an influence on attitudes. Those who are more pre-disposed to cross-border transactions are more likely to have connections to other EU countries. We can only speculate on whether increased familiarity helps to allay any concerns about the perceived downsides associated with cross-border transactions, but the evidence suggests that consumers are motivated to consider and engage in some form of cross-border activity when there is an underlying reason and need, rather than any perceived inherent benefits.

We also interviewed a separate sample of consumers who had previously indicated that they had a positive consideration of cross-border transactions in financial services markets. Their views further reinforce the importance of connections. Nearly a half stated that they had a connection with another EU member state. Moreover, nearly a quarter of this group (24%) said that they would happily buy any financial product from any other EU country compared with just over one in 10 (11%) for our main sample of financial services consumers.



1.8 The benefits of cross-border shopping

Focusing on the sample of consumers who say they have bought financial services from another EU country, the main benefits which are mentioned relate to value and the potential returns (chart 4). Around two fifths said that they got a better deal by shopping abroad. Secondary reasons such as convenience, uniqueness and service delivery are some way behind. Benefits associated with increased product choice and greater diversity do not stand out as key drivers influencing consumer decisions to look for cross-border alternatives. This might suggest that the UK market is sufficiently diverse to cater for existing consumer requirements.



1.9 Switching points and product pricing

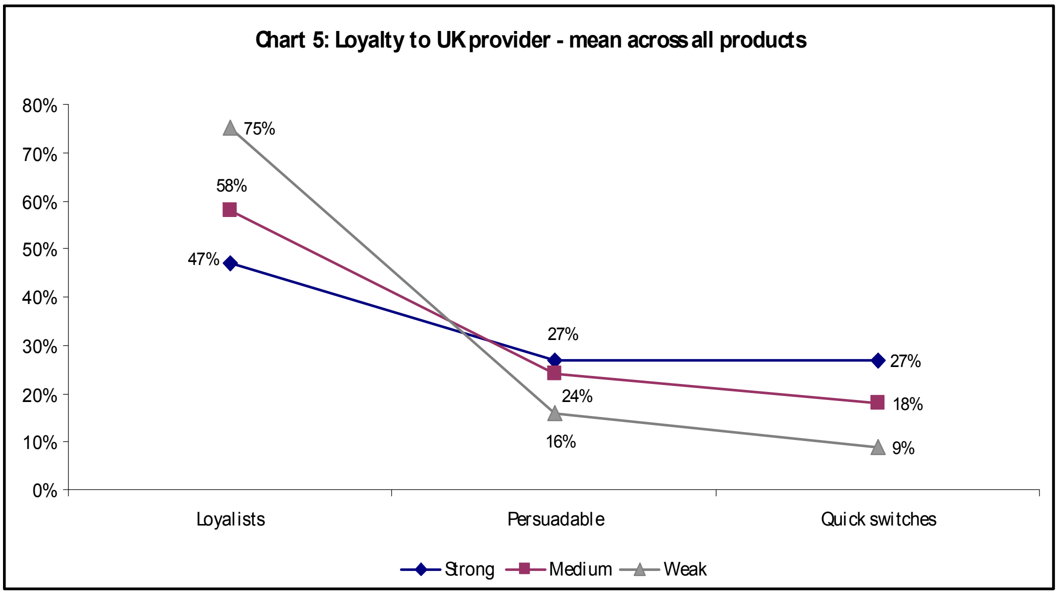
Given that price and value appears to be a key benefit realised for consumers who claim to have transacted cross-border, we also sought to establish a model to measure the size of the price differential required to encourage consumers to switch from a UK provider to a provider based in another EU country. Respondents were given a number of price scenarios across a range of products in which they were asked to assess their likelihood to switch from a UK provider to an alternative offering from another EU country. They were also asked to make an assessment of their likelihood to switch between offerings from two EU countries neither of which was the UK. A key point to note about the evidence on switching points is that it assumes that consumers have perfect knowledge about the range of products available to them from all the markets under consideration. The reality is clearly different and hence the results should be interpreted as a best case scenario.

During the qualitative research, participants' responses demonstrated that the EU is not perceived as being homogenous and that cultural perceptions of member states vary. Our analysis of the survey data showed that consumers clearly differentiate between countries in terms of their willingness to purchase financial products. The country that consumers had the most appetite to purchase from was Ireland. Western European countries such as Switzerland, Germany, France, Luxembourg, Sweden and Holland made up the rest of the *strong* country group. Consumers have a *medium* appetite for financial products from the countries of Italy, Spain and Portugal. *Weak* included Greece and a number of eastern European countries such as Bulgaria, Hungry, Poland, and the Czech Republic. The categories strong, medium and weak reflect the distribution of scores in the data analysis.

The analysis of the responses to the trade-off scenarios resulted in respondents being allocated into one of three groups:

- Loyalists: those who would not switch from a UK provider at any price/return differential.
- Persuadables: those who might switch if the price/return differential was big enough.
- Quick switchers: those who would switch at the first price/return point shown

Taking the switching data from all the retail product categories, when considering product offers from countries regarded as strong, nearly a half of respondents (47%) fell into the 'loyalist category', that is they would not switch at any of the alternative price/return levels offered and always choose a product from a UK based provider. This loyal figure rises to nearly six in ten (58%) for medium countries and three quarters (75%) for the weak countries (see chart 5). Just over a quarter of consumers (27%) would switch at the first price point for strong countries. However, to understand this evidence fully, we need to look at each product category in turn and also consider whether the price differentials are realistic given the prevailing market dynamics.



1.9.1 Switching points for individual product categories

Appendix 2 provides a detailed analysis of price switching for each product category. Here, we have focused on the evidence for price switching at the first price point, which is likely to be the more realistic gap between UK and non-UK providers. Table 1 shows the price/return differential presented at the first alternative scenarios for a number of products. These were considered to be a realistic differential that might be offered and for this reason we are focusing on the proportion who fall into the "quick switcher" group for strong, medium and weak countries.

As shown in table 1, there are some noticeable differences by product category and by country type.

Table 1. Extent of consumer switching to non-UK provider at first price point

Product category	Price differential	% Switching by country type		
		Strong	Medium	Weak
Investment bonds	Return 0.5% better than UK	27	18	5
Variable rate mortgage	Rate 0.5% lower than UK	22	16	10
Ordinary savings account	Rate 1.0% better than UK	22	16	8
Annual travel insurance	Price £6 cheaper than UK (£49 vs £54)	12	9	4

Consumers seem to be slightly less loyal to UK providers when considering investment bonds compared with other products and most loyal when considering travel insurance. The option least likely to lead to price switching was travel insurance bought from a weak country. In general, the evidence strongly indicates that country of origin plays a key role in consumer consideration of a cross-border product offer.

To summarise, the evidence on drivers and benefits for shopping cross-border indicates that connections are a key driver influencing the initial decision to transact cross-border suggesting that many consumers do so out of necessity. However, price and value are also critical factors and better deals, better savings and better value stand out as the main benefits based on those with experience of shopping cross-border. In addition, if we assume complete market knowledge and full product availability, somewhere between two and three in 10 consumers claim they would switch to a product from a provider based in a strong country. This could be interpreted as strong evidence supporting the case for allowing greater competition and increased choice by making cross-border transactions simpler and more accessible for consumers. However, as previously stated, this presents the best case scenario and assumes that firms are able to compete at the price differentials that we have used here for illustrative purposes.

Conversely a significant majority would not switch to a non-UK provider even from a country perceived as 'strong'. Any intervention in markets to promote cross border transactions would need to consider potential costs associated with such intervention to all consumers, the majority of whom would gain no benefit.

Moreover, we need to examine the range of barriers which work against the development of a full-fledged cross-border market in financial services.

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Barriers to Financial Services Cross-Border Shopping

In this section of the report, we examine how both soft and hard barriers influence consumer attitudes to cross-border shopping in financial services markets and their propensity to consider a cross-border offering.

Hard barriers relate to the broader regulatory framework and hence can be more easily addressed through policy measures, whereas softer barriers are less tangible and reflect underlying cultural attitudes and local preferences.

The research evidence indicates that removing the hard barriers is a necessary pre-condition that consumers expect policy makers to address. However, this is by no means a sufficient condition to change consumer attitudes and even if all hard barriers were removed, a wide range of soft barriers are likely to remain for the foreseeable future. In addition, there are soft barriers embedded within the harder barriers. For example, the vast majority of consumers believe that consumer protection law should be harmonised – a clear example of a hard barrier. Yet, even if harmonisation was achieved, many simply do not trust that this would result in a truly level playing field. Hence, building up consumer trust in consumer protection law is arguably intrinsically more complex than simply introducing identical laws in every Member State. The remainder of this section looks at hard and soft barriers in more detail.

1.10 Hard barriers

Concerns about consumer protection featured prominently in the qualitative research. Several quotes serve to illustrate the concerns that consumers have:

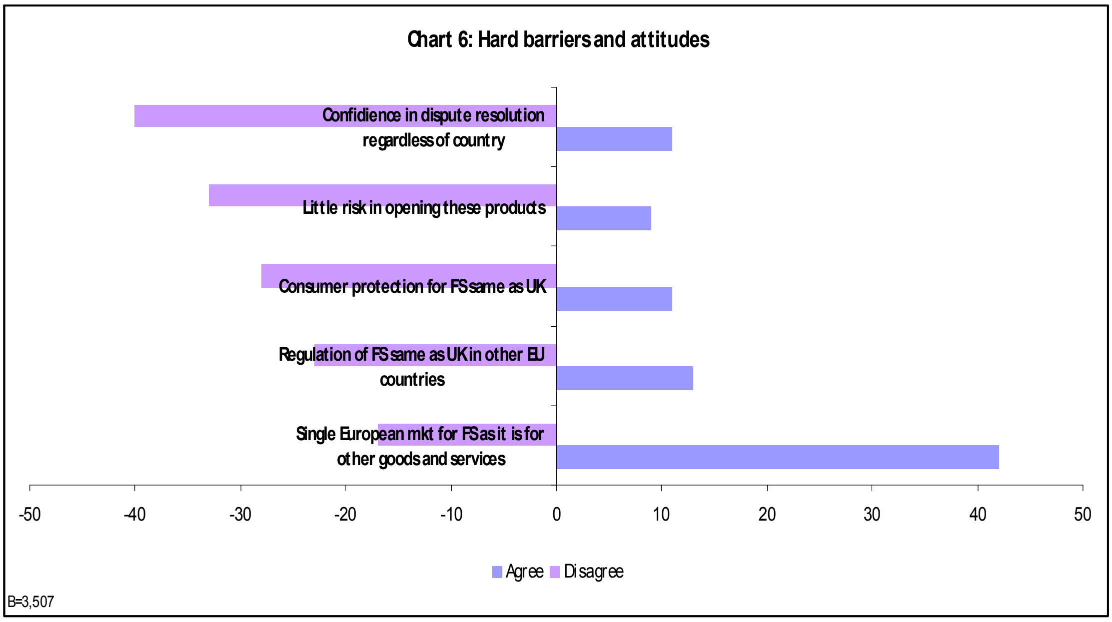
"The only advantage to buying from within the UK is the protection …"

"I'd feel uncomfortable personally speaking. I'd not know for example about the protections (if any) that would apply abroad or the safeguards"

"I'd have to research it quite well first I think. For example - I'd want to know who has jurisdiction if something went wrong. And I'd want to be assured that regulations to protect consumers were as good as or better than I'd get in the UK"

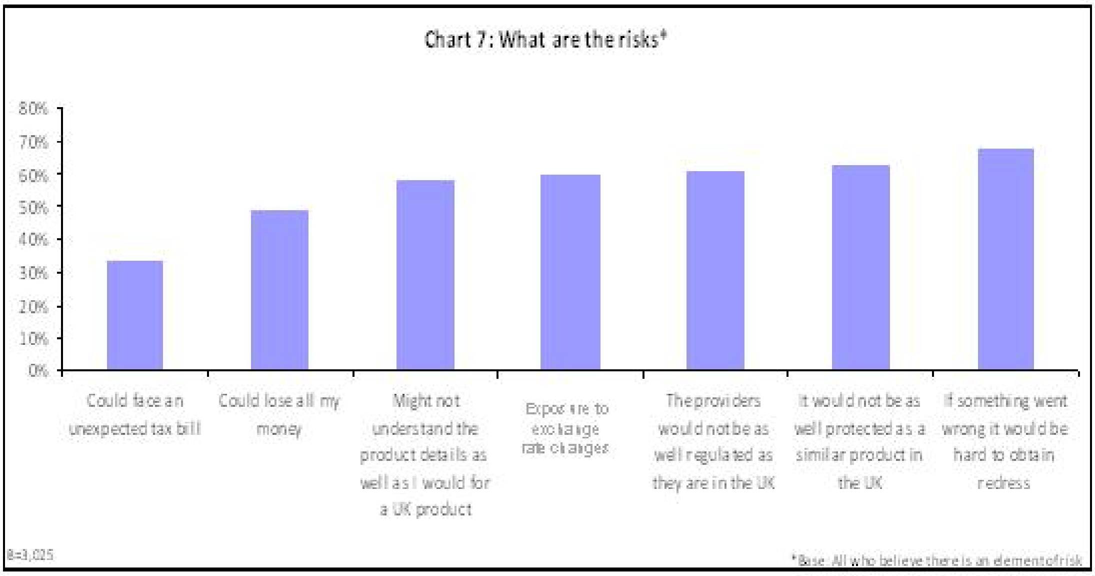
These concerns illustrate a consumer mind set where the UK framework is perceived to be the benchmark for consumer protection standards when shopping for products outside of UK borders. The survey research bears this out.

Nearly 3 in 10 (28%) disagreed with the statement that consumer protection for financial products bought from other EU countries was the same as in the UK, (even though current EU regulatory interventions mean that there is a standard framework for some products). Many had little confidence in dispute resolution mechanisms generally (40% disagreed with the statement that they had confidence is dispute resolutions regardless of EU country) In terms of a way forward, 42% agree there should be a single market compared with 18% disagreeing, and 44% thought it should be possible for consumers to buy financial products from a trusted brand regardless of the country of origin with 18% disagreeing (see Chart 6). The impact of brand is looked at in more depth when we consider softer barriers.



General attitudes to cross-border transactions appear to influence views about hard barriers. When asked about dispute resolution, our sample of consumers who had a positive consideration of cross border transactions were much more likely to agree that any dispute would be resolved efficiently and effectively (a net -16% agreeing compared where -29% for our main sample of consumers). Despite these differences, it is clear that even consumers who are the most open to cross-border transactions have significant reservations about the effectiveness of dispute resolution. A quarter of the group who had a positive consideration of cross border transactions felt that dispute resolution mechanisms were a barrier compared with a third of respondents in our main sample.

The vast majority of respondents (86%) in the main survey felt that cross-border transactions carried some form of risk with them above and beyond the risks involved in buying UK based financial services and products. Hard barriers featured strongly when consumers were asked about what they thought would be the main risks involved in shopping cross-border. Over two-thirds (68%) thought that if something went wrong that it would be difficult to obtain redress, 63% felt that the product would not be as well protected as a similar product in the UK and 61% said the providers would not be as well regulated as they are in the UK. In addition, exchange rate fluctuations and the ability to understand product details were also prominent concerns (see Chart 7). Clearly, the question of monetary union is outside the scope of financial services regulatory policy yet over half of consumers who believe that there are risks involved in cross border transaction think that exchange rate changes are a risk. The issue of understanding product details relates to translation of the small print and general product disclosure information as well as concerns about language barriers – this theme is picked up further under the discussion about soft barriers below.



1.11 Soft barriers

As noted above, soft barriers also play a critical role in shaping the mindset of consumers. These are barriers which cannot be overcome through regulatory policy interventions. Many relate to underlying consumer beliefs, attitudes and cultural preferences and are difficult to shift and for policy makers to influence. A number of factors influence these barriers, such as word of mouth, reputation, the media, significant events affecting the financial services industry and market developments.

This research has revealed that a key barrier to overcome is brand positioning and brand familiarity. Consumers have an inherent mistrust of brands that are unfamiliar to them. Those companies that do not have an established track record as a brand that can be trusted with regard to fair treatment and financial stability or which do not have a sense of proximity, which for some consumers means having a visible and physical presence in the UK, will not be considered. These concerns featured quite prominently in the qualitative phase of the research. When speaking about trusting EU Financial Brands, participants in the focus groups commented on the need for a physical presence and familiarity:

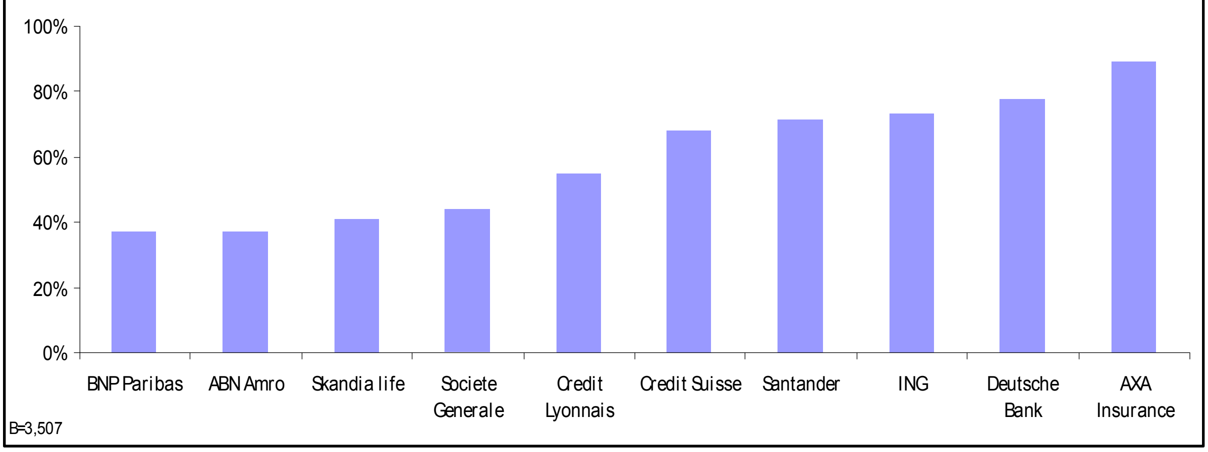
"They would need to have products established in UK for a while before I would consider them"

"It would probably be because the banks/companies over there are not known to me and I don't know if I would trust them especially with my pension, with a lifetime of savings going abroad"

"As long as they have a UK base it feels more comfortable for some reason even though it is probably unfounded"

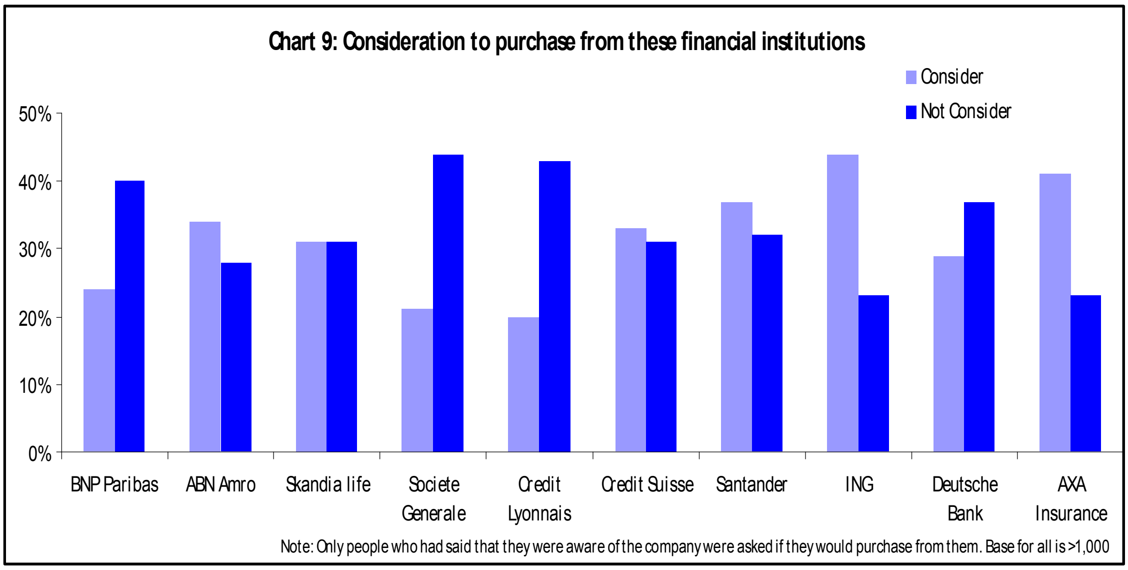
In order to fully understand the impact of brand, we used the quantitative research to gauge consumer familiarity with a number of prominent European financial services companies. It should be noted that those selected were not chosen through a systematic process but rather the list sought to represent a range of commercial and retail financial services firms.

Chart 8: Recognition of financial institutions (Top 10 answers)



When presented with a list of financial institutions, AXA insurance was the most recognised with almost 9 out of 10 people saying they were aware of this company (chart 8). Santander, which at the time of the survey had acquired Abbey and was in the process of acquiring Alliance and Leicester ranked only fourth. While Santander is not currently offering cross-border products it represents an interesting case study as to how new market entrants seek to establish brand equity and positioning in a market where the parent company has little recognition among the retail customer base.

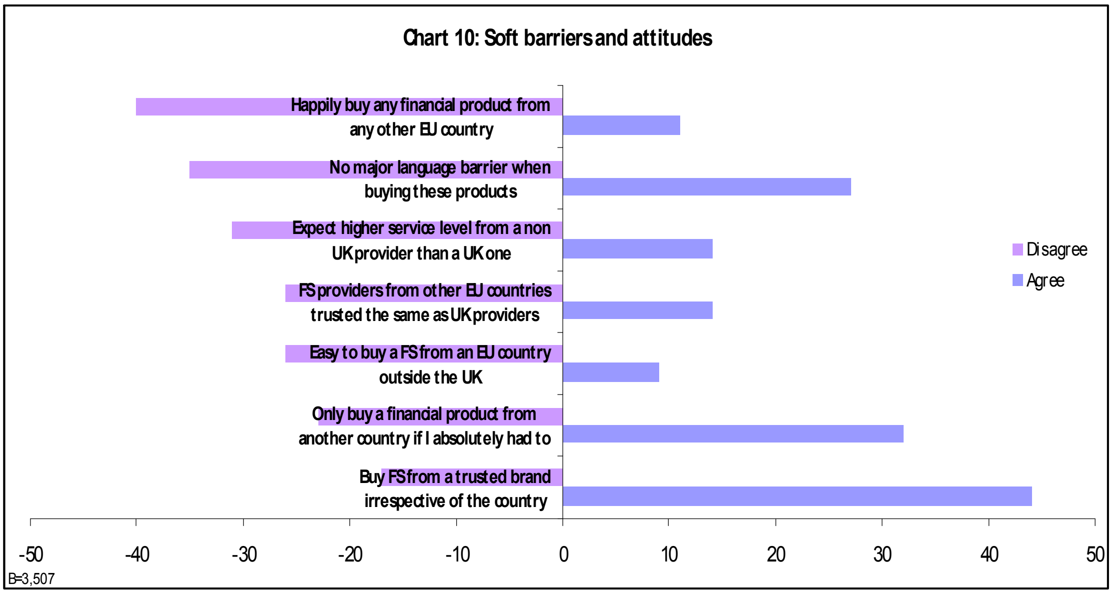
The Santander strategy is a gradual familiarisation process, seeking to gain confidence in the strength of the parent brand while retaining the cores attributes of the acquired brands. This demonstrates how commercial firms approach some of the softer barriers that need to be overcome in order to become an accepted and trusted provider of financial services and products, recognising that raising awareness and changing perception are critical dimensions of a successful adoption strategy. Moreover, despite making inroads into consumer perceptions of a foreign owned bank, the distribution model for Santander remains one rooted in having a bricks and mortar presence in the UK rather than through a cross-border distance selling model.



Despite the reasonably high level of brand recognition, consumers were generally reluctant to purchase financial products from recognised firms (see chart 9). ING and AXA Insurance were the only two companies that seemed to have a significantly larger proportion of people that would consider buying from them as opposed to not. These companies have made significant inroads into the UK through strong advertising branding campaigns consistently over a number of years.

AXA, in particular, has managed to carve a solid business in both the retail and commercial space. Supporting the point of consumers not being aware of the primary owner of financial institutions, 37% of people said they would consider buying from Santander, whilst 32% said they would not.

Although the companies listed have long histories and are generally well respected brand names amongst financial institutions, consumers are less likely to consider them if they do not have solid, bricks and mortar, ties in the UK. This suggests entrenched consumer resistance to the distance-selling model.



We also examined a range of other softer barriers that influence consumer attitudes (see Chart 10). These included language, perceptions of levels of service and willingness and need to purchase a financial product or service cross-border. A third of all respondents noted that language was a barrier with regard to purchasing financial products cross-border. Even our sample of consumers who would actively consider a cross-border transaction had concerns about language – a quarter of the most positive group noted this as a barrier. Turning back to our main sample of consumers, of those who noted that language was a barrier, almost half of these thought that this barrier would make dispute resolution more difficult. The majority of consumers also disagreed with the statement that there is "no major language barrier when buying products cross-border". Most agreed with the statement that they would only buy a product cross-border if they absolutely had to and the vast majority also disagreed with a statement they "expect a higher service level from a non-UK provider than one based in the UK". Clearly these are powerful underlying attitudinal barriers which work in tandem with one another and reflect the underlying concerns of UK financial services consumers.

1.12 Country Hierarchy

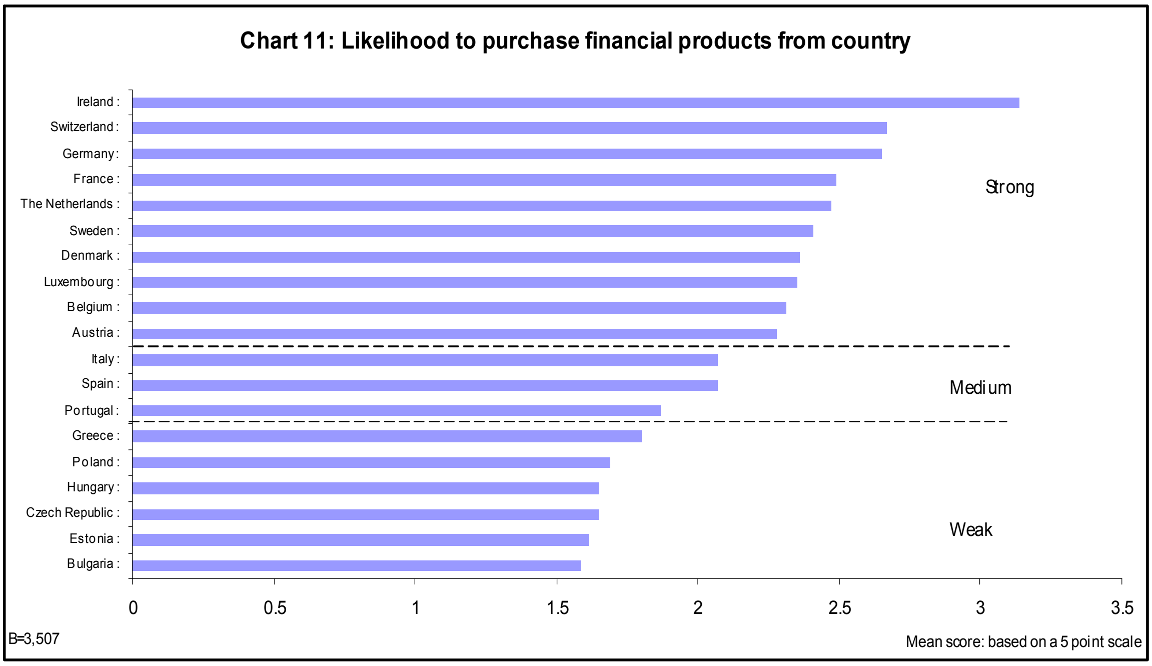
We discussed the impact of country hierarchy in the section of the report that deals with price considerations. This clearly demonstrates that there is a distinct hierarchy that operates in the mindset of UK consumers which reflects underlying concerns about trust and financial stability. When these sentiments were expressed in the qualitative research they revealed that Western Europe and North American countries were perceived to be more reliable.

"To be honest I would only buy from Western Europe or North America unless it's not much money (i.e. don't care if I lose it)"

"But investing directly in an Eastern EU state, don't know about that frankly but you can always get into an "Emerging Market" investment fund right here."

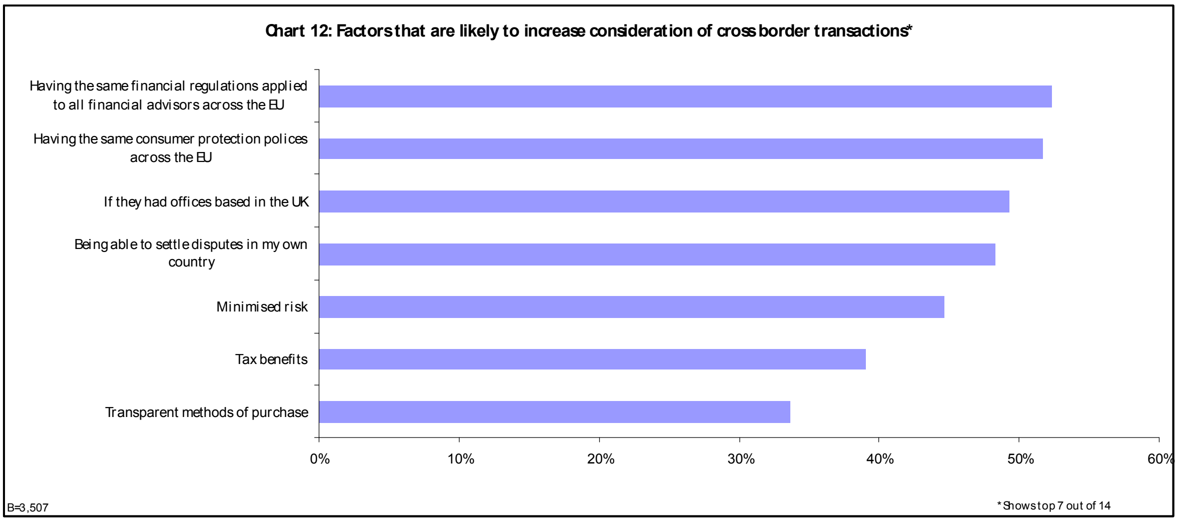
The survey research not surprisingly revealed that the most popular country for potential cross trade was Ireland. This is likely to be due to the absence of language barriers and historic links between the UK and Ireland has lead to consumers being more familiar with Irish financial institutions in comparison to other EU countries.

As previously identified, there is definitely an order of preference with regard to countries that consumers would buy financial products from. The least likely countries are those that are usually East European countries that are new to the EU and are often thought to be high risk both politically and economically such as Poland, Hungry and the Czech Republic. Conversely, countries such as Germany, France, the Netherlands and Sweden hold more appeal to consumers should they buy a financial product cross-border. This may be due to the perceived established nature of these countries and the functioning of their economic infrastructure (see Chart 11)



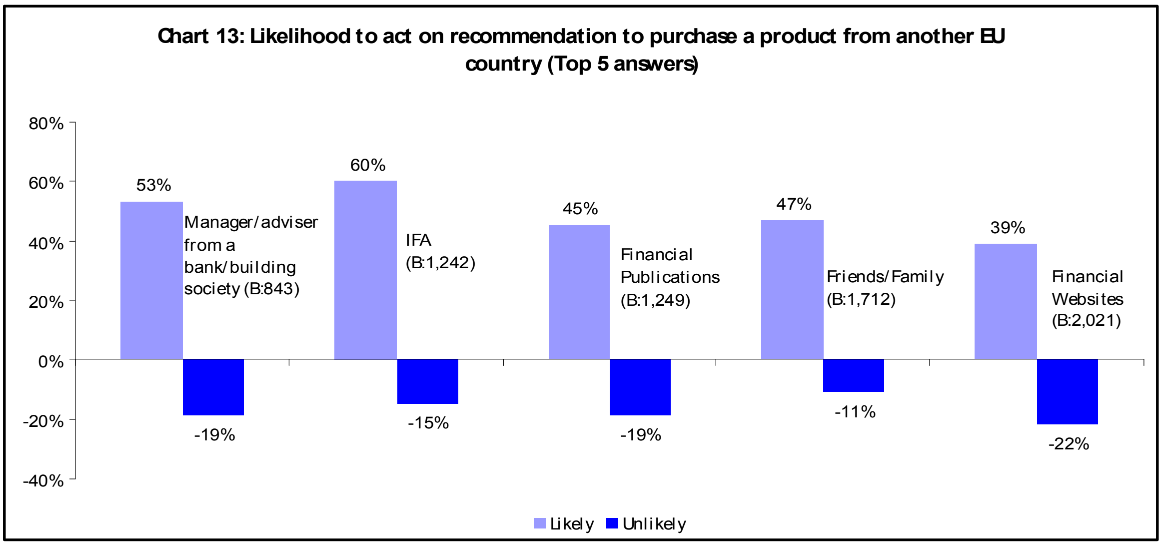
1.13 Overcoming barriers

When looking at the main factors which consumers feel would be most likely to increase consideration of shopping for financial services products cross-border, a mix of issues relating to the hard and soft barriers are mentioned (see chart 12). Consumer protection and the convenience of being able to deal directly with a branch in the UK, rather than a distance selling arrangement, stand out as key factors that would encourage greater consumer engagement and adoption of products and service offerings from non-UK providers.



1.14 Impact of Financial Intermediaries on Decision Making

Financial advisers play a key role in influencing the decisions and choices consumers make and are an important distribution channel in the UK. While some consumers may choose to make their own decisions when transacting cross-border, particularly in a distance selling context, it is reasonable to assume that IFAs will play an important role. Hence, if IFAs recognise the potential benefits of a cross-border offer and are able to act as an effective distribution channel, this may have the effect of increasing the level of genuine cross-border trade in the UK market. When we asked consumers how they would respond to a recommendation to purchase a product cross-border from various information sources, the impact of the IFA stood out quite clearly. The net likelihood of acting on that recommendation was +45% (see Chart 13).



In order to further understand the impact of IFAs on decision making, we undertook qualitative research with a panel of IFAs.

The key concerns that emerged from our discussion with IFAs related to a lack of demand from clients and a perception that much more work was involved in researching offers from providers based outside the UK, the costs of which would outweigh any benefits. However, if the company has a UK presence, IFAs become slightly more open to the idea.

"I would be very sceptical about buying from a foreign provider, as I am not confident on the market trading conditions they have, nor do I know if they are or will be regulated"

"Personally, I feel unhappy about purchasing products from overseas. I do not have enough experience to confidently advise my clients to do this"

While consumers would be willing to follow the advice of trusted financial advisors, including IFAs if they were to recommend purchasing from a non-UK supplier, few IFAs would offer such advice. They themselves do not have sufficient market knowledge, are unwilling to purchase from non-UK providers themselves and so are very reluctant to make such a recommendation.

Without the recommendation from an IFA, consumers are far less likely to buy financial products cross-border. Consumers require far more guidance when it comes to buying financial products that are out of the norm and look to financial service professionals to give them the required steer.

IFAs seemed more open to the idea of cross-border shopping if the financial institution had a UK based office. This sentiment echoes consumer thought whereby people are looking for familiarity and most importantly the convenience and reassurance of geographical proximity. In addition, some IFAs were unaware as to how to access products from non-UK providers, demonstrating a low level of awareness of distance selling as a channel:

"There just isn't any other option available. Foreign banks aren't trying to sell into the UK other than through their UK operations"

The final concern that some IFAs remarked upon was the level of commitment that non-UK providers have to the UK in the long run, suggesting that these providers may be more likely to withdraw from the UK should market conditions deteriorate. The implications of this are that non-UK firms need to gain a significant level of traction in order to gain a trusted level of engagement with IFAs.

"I looked at a German bank for some mortgage lending last year – who then sold out when the market got tough! It is this sort of thing that concerns me, and how committed these overseas companies would be to the UK marketplace"

Of those that did have experience, the reasons that they used non UK based companies included flexible rules on a pension product; high level of investor protection and a low tax environment.

Conclusions and Policy Implications

At the outset of this research project, we aimed to create a benchmark that measured the appetite that UK consumers have to buy financial services products cross-border from providers based in other EU member states. The main purpose of the research is to provide independent evidence that is relevant to policy development concerning an integrated market for financial services in the EU.

Existing research evidence undertaken on behalf of the European Commission shows that there is very little cross-border activity across Europe where consumers transact at distance across-borders with financial services providers. The Commission also clearly accepts that changing underlying consumer attitudes and cultures will take a considerable length of time. Nevertheless, one of the key aims of the Commission's policy agenda has been to focus on ways in which cross-border transactions based on distance-selling can be encouraged to grow.

The research findings presented here reinforce some of the Commission's own evidence, namely that genuine cross-border activity in the UK is low and that there are significant cultural and attitudinal barriers to overcome. However, a much richer understanding of the UK consumer also emerges from this research which has implications for policy.

Growth of the cross-border market is likely to be slow – and the impact of policy measures will be limited

There is a very limited and undeveloped market for cross-border transactions in the UK. The reasons for this are varied, with cultural and deeply ingrained attitudes forming significant barriers that suggest wider market adoption may take a significant period of time to materialise.

Around one in ten (9%) of consumers in our main sample who are in the market for a financial services product say they have taken out a product from a provider based in another EU country. On close inspection, the evidence suggests only a small proportion of this is based on distance selling. In addition, there is no simple panacea or silver bullet which will help stimulate demand. Policy intervention to address supply side constraints and establish a level playing field for regulation and consumer protection law is likely to have only a very limited impact on consumer behaviour.

Consumer appetite for cross-border purchasing varies with the form it takes

On the basis of the evidence presented in this report, there is a strong argument that policy interventions should aim to work with the grain of existing consumer behaviour, provided this delivers the broader consumer focused outcomes of increasing competition and consumer choice.

Given the lack of consumer appetite toward buying a pure cross-border product and the much stronger acceptance of financial product purchase from a provider not based in the UK but with local distribution, policy should be directed to supporting this form of product purchase. There is a danger that the current policy is narrowly focused on process and the means by which those outcomes are achieved rather than allowing market led solutions to work out how best to develop an integrated market.

The research suggests that consumers are not prepared to take a quantum leap towards a distance selling approach for cross-border shopping and that these forms of transactions are only likely to thrive once more accepted alternatives have begun to fully bed-in.

There are significant 'soft' barriers to the development of a more integrated market

There is a general consumer perception that there is an uneven regulatory playing field. While consumers may not understand financial services regulation in detail, the main concerns are that there is a greater risk of being mis-sold a financial product when it is bought at distance and there is less chance of any disputes being resolved satisfactorily. This is because consumers believe that overseas regulatory authorities do not apply the same standards when authorising firms and individuals who are able to conduct business in retail financial markets.

Additionally, consumers express real concerns about how they might have to obtain compensation in the event of being mis-sold a financial services product when it is sold at distance across-borders. These concerns are present when consumers undertake similar transactions in other markets, but the costs of a failed transaction are perceived as being much lower relative to the benefits of greater choice and the resulting savings that accrue.

The prospect of having to deal with disputes in a foreign language and at distance is a real concern to many consumers, particularly dealing with the consequences of a mis-sold financial services product. While FIN-NET (a financial dispute resolution network of national out-of-court complaint schemes in the European Economic Area) has been in operation since 2001 as the main vehicle through which consumers can settle cross-border financial services disputes out of Court, it seems clear that most UK consumers are unaware of this and are likely to have limited trust in its effectiveness.

Price can stimulate cross-border shopping – but the differential may need to be significant

The role of price and the competitive positioning of cross-border products are likely to play a key role in adoption dynamics. The research clearly indicates that the level of price difference between a domestic product offering and one from a provider based in another EU member state which would lead consumers to switch would in many cases have to be at a level that is likely to be commercially unsustainable for many firms. Consumer loyalty to domestic providers remains high in most markets and the trade off between price and trust, familiarity and uncertainty remains significant.

Mortgage markets appear to be one of the markets most open to consumers switching to an overseas provider on the basis of a more competitive interest rate and travel insurance appears most closed to the idea of a cross-border offer. However, the ability of overseas mortgage providers to be able to offer products at the levels indicated in the hypothetical scenarios presented in the research is questionable. Given the global nature of the market for wholesale funding of mortgages it is unlikely that other EU providers would be able to offer the price differential required to persuade consumers to switch. In addition, the research design assumed that a level playing field exists in all other aspects of the mortgage packages presented to respondents. In reality that is unlikely to be the case.

The final point to observe in relation to the trade-off analysis is that this presents the best case scenario in terms of how many consumers would switch on the basis of price. The model assumes consumers have perfect knowledge of all possible products available to them and that all products are available across all EU countries. In reality this is never the case and hence lack of knowledge and awareness of alternatives will reduce the real level of likely switching behaviour.

Retail intermediaries are largely closed to cross-border offerings

Retail intermediaries play a key role in the distribution of financial products in the UK. This justifies the qualitative research we undertook with financial advisers, which provides some valuable insights into the impact that this channel is likely to have on the future shape of cross-border transactions in the UK. Many of the IFAs felt that the concept of EU cross-border shopping held no real appeal as there was little interest in investing abroad amongst their clients. Evidence from the research shows that while consumers would be willing to follow the advice of trusted financial advisors, including IFAs, if they did recommend purchasing from a non-UK supplier, very few IFAs said they would offer such advice. Without the recommendation from an IFA, consumers are far less likely to buy intermediated financial products cross-border.

IFAs seemed more open to the idea of purchasing from a non-UK supplier if the supplier institution had a UK based office. Several barriers to cross-border purchasing expressed by the IFAs echoed consumer sentiment: lack of consumer (and IFA) protection; lack of market knowledge and expertise; and communication barriers.

With IFAs being a key distribution channel, their lack of appetite for cross-border products will undoubtedly be reflected in what is presented to their client base. Without the buy-in of intermediaries, cross-border purchases of products such as investment vehicles or life and pension products are unlikely to develop significantly amongst UK consumers.

Conclusion

In conclusion, our research demonstrates that while the majority of UK financial services consumers welcome greater competition in retail financial markets and believe that many of the supply side barriers to competition should be removed, less tangible factors are likely to be a more difficult obstacle to overcome. Moreover, some consumers have diverse experiences of cross-border transactions in financial services, but very little of this has been purchasing products at a distance. This suggests more attention should be concentrated upon policies which work with the existing grain of consumer behaviour. The evidence suggests that the vast majority of UK consumers are in practice unlikely to take up the 'benefits' of a more open market, even if that market can be created.

Appendix 1 Methodological Note about FSA Cross-border Transactions Study

When designing the research, YouGov and the FSA together considered whether the results should seek to represent the preferences of the population as a whole or those who are in the market for each product group. It was agreed that it would not be sensible to design a project based around the views of the population as a whole as we felt that this would include the views of many who will find it hard to express their preferences relating to many product purchases as they would not have gone through the thought and decision making processes related to the purchase of the financial products under consideration. This would be the case in particular for a cross-border offer. The methodology employed therefore reflects this thinking.

In the light of this YouGov drew a sample of 500 of their online panel members who, in a previous screening survey, had said they were in the market for each of the products in the 6 categories chosen. In addition a further sample of 500 was drawn from within the YouGov panel who, in an earlier screening questionnaire had expressed the view that they would not consider any form of cross border financial services purchase

The table below gives the achieved sample size for each of the product categories

Home & Motor Insurance	501	Investments	501
Life Assurance & Critical Illness	502	Mortgages	501
Pensions	501	Retail Savings	501
Unsecured Credit	500	Total Sample	3507

A second question sought to address the issue of whether representative samples for each of the product groups could be drawn. Through sampling we looked at our original wider screening sample which helps identify whether people are in the market for relevant products and from this created the largest possible nationally representative sample of the whole adult population (15,000 respondents) Our samples of 500 per product group were drawn randomly from the wider sample to help ensure that each group was representative of those in the market.

The development and application of corrective weights using industry or other data sources about who is in the market for each product was also considered. For some of the products groups reference to the FSA's product sales data (PSD) could be made. The PSD returns cover a range of mortgage, investment and protection products. The mortgage data set is the most comprehensive. Aggregated sales for the previous 12 months ideally broken down by region, age and gender would be required. Region and age being the two most important variables. Consideration was also given to the use of other large research surveys that could be accessed that would help provide some reasonable estimates of those in the market for products, such as GfK's Financial Research Survey (FRS).

Having considered all the options available it was felt that while using corrective weights would, in an ideal scenario, be desirable, using a weighting schema built from a number of different sources could potentially introduce new bias to the results. For this reason it was decided that the results of the data would be presented in an unweighted form.

The same methodology has also been used in other projects including projects for the European Commission and thus the Commission will be familiar with the methodological considerations behind its use.

Appendix 2 Significance of Loyalty and Price on the Potential for non UK Provider Purchase (Trade Off Analysis)

2.1 Understanding Trade Offs

In order to understand the tipping point in terms of price switching from a UK provider to a provider based in another EU country, consumers were given price options for a range of products comparing providers in different parts of the EU.

As seen in Chart 8, there was a clear preference in terms of EU countries that consumers were prepared to buy from. The country that consumers had the most appetite to purchase from was Ireland. Western European countries such as Switzerland, Germany, France, Luxembourg, Sweden and Holland made up the rest of the *strong* countries. Consumers have a *medium* appetite for the countries of Italy, Spain and Portugal. It was somewhat surprising that there was not a greater appetite for Spain as they have links to the UK through Santander. *Weak* countries mainly consisted of Eastern Europe such as Bulgaria, Hungry, Poland and the Czech Republic. Interestingly, Greece fell into this category. This could be because consumers in the UK do not feel that the banking system is as well developed as in other countries within Western Europe.

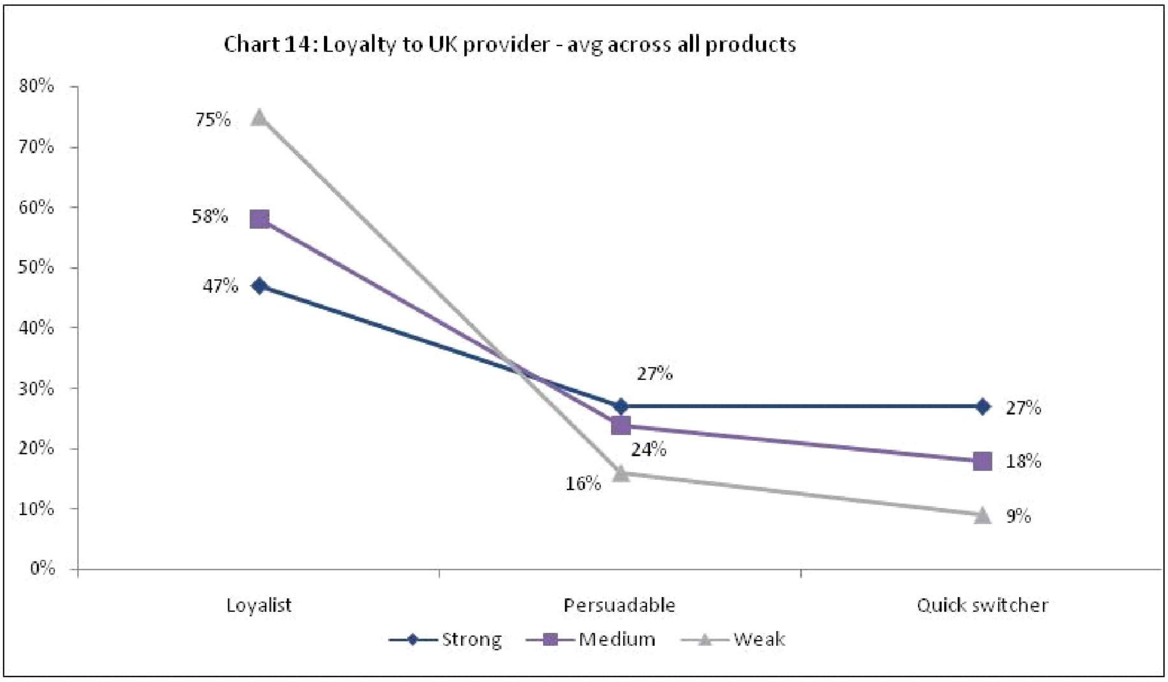
Using a technique known as Variant Gabor Grainger the data from the trade off scenarios was examined to allocate respondents into one of three groups:

- Loyalists: Those who would not switch from a UK provider at any price/return differential.
- Persuadables: Those who might switch if the price/return differential was big enough.
- Quick Switchers: Those who would switch at the first price/return point shown

In addition a proprietary database of over 5,000 projects was used to adjust the likelihood of switching data to allow for over-claiming. The likelihood to switch data are adjusted to take into account actual consumer behaviour.

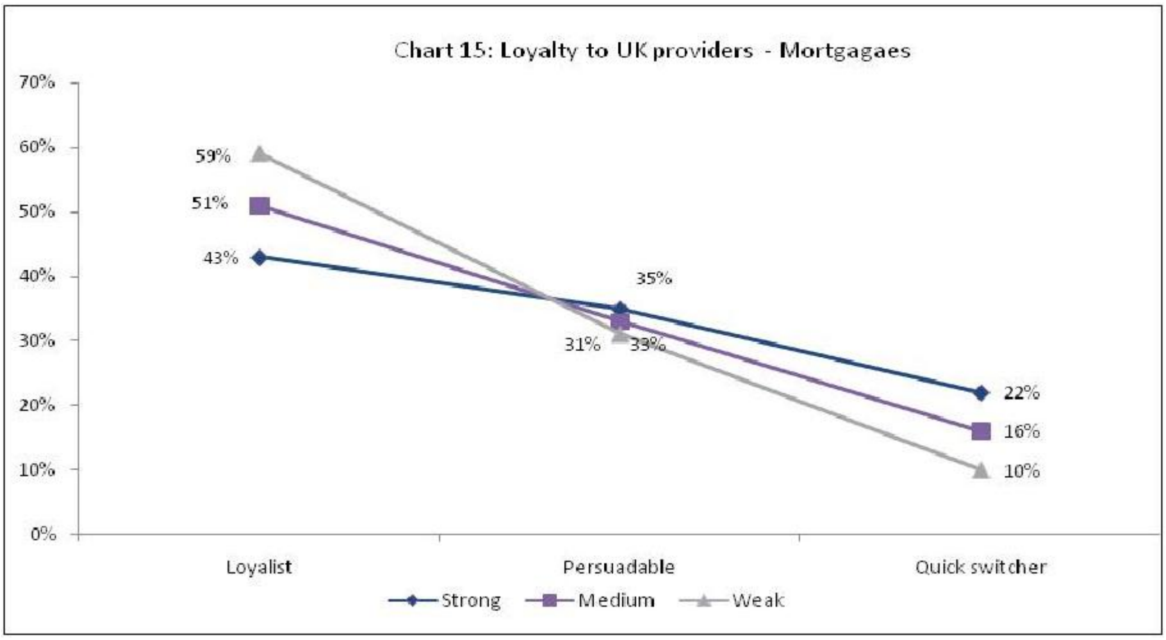
2.2 The Trade Offs

When UK consumers are presented with product offers from countries regarded as strong, 47% would not switch at all at any of the alternative price/return levels offered. The reason that over half of these consumers were prepared to switch at all was that the alternative countries fell into the strong category and were therefore seen to have strong, solid foundations in terms of their financial systems. This loyalty figure rises to 75% when product offerings from the weak countries are considered. Prospective UK purchasers of financial products are predominately loyal to the UK (see Chart 14).

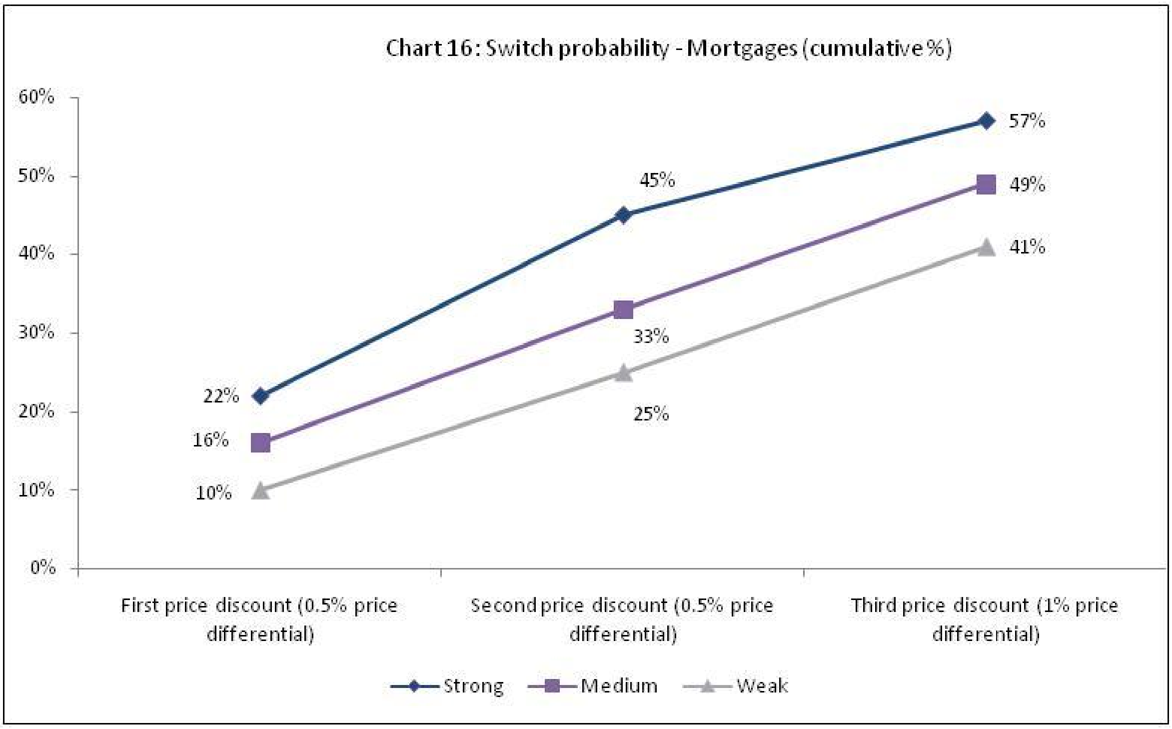


2.3 Mortgages

Consumers seem to be slightly less loyal to UK providers when it comes to their mortgages - however, there are still a substantial number of loyalists. The increase of persuadables may be explained by the potential for savings on monthly mortgage repayments. It is notable that strong countries still have the most pulling power. Even if the saving is substantially better when comparing a weak and a strong country, consumers want to feel protected (see Chart 15). The difference in the level of loyalists between weak and strong countries was closer for mortgages than when looking at other financial products. This may indicate that for mortgages, price may have the ability to overcome the country issue. One would think that people would be more conservative in their choice of mortgage provider, however potential for tangible savings may drive riskier behaviour.

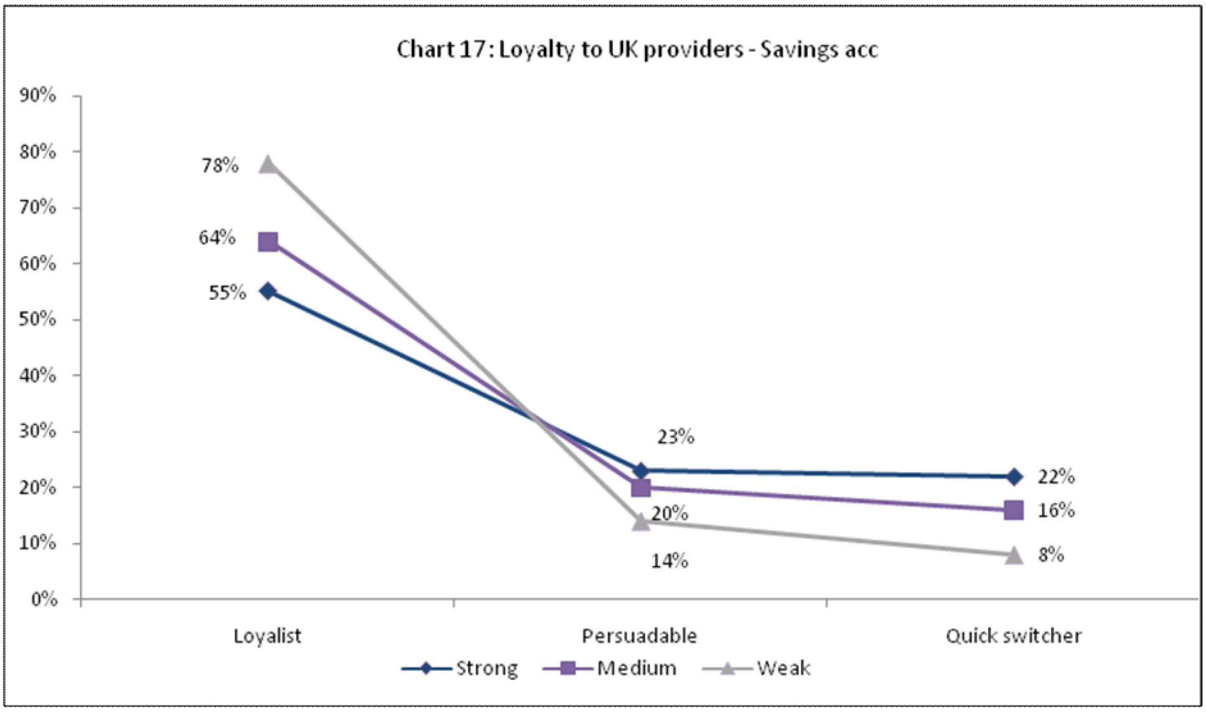


Consumers seem more likely to switch after the second price discount. Even though mortgage buyers have a greater number of persuadables – these consumers do not jump at the first offer. There appears to be thought involved in considering the country and the price before a decision is reached. Therefore, price in this product does seem to have a substantial influence but the country of origin still plays a role (see Chart 16).

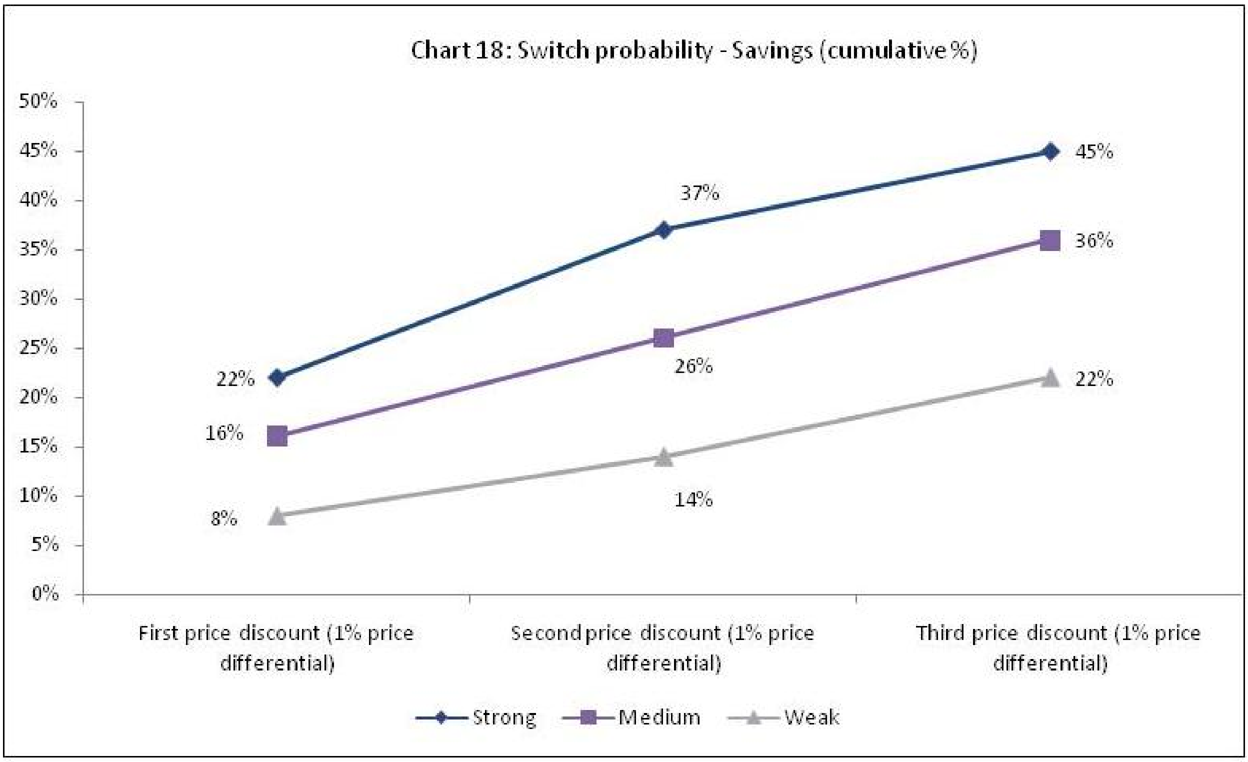


2.4 Savings Accounts

There is a strong tendency for consumers to be loyalists with regard to savings accounts. Even when looking at strong countries, over half of consumers would remain loyal to the UK. Consumers want to ensure that their savings are protected and secure. There is therefore no real incentive for them to venture beyond the UK as many of these consumers will not know how foreign financial institutions and markets operate and would not take the risk of losing their savings (see Chart 17). This becomes further evident with almost 8 out of 10 respondents staying loyal to the UK when presented with a savings account in a weak country. It is somewhat surprising how risk averse consumers are with their savings but yet appear to have a slightly higher risk appetite with regard to their mortgages.

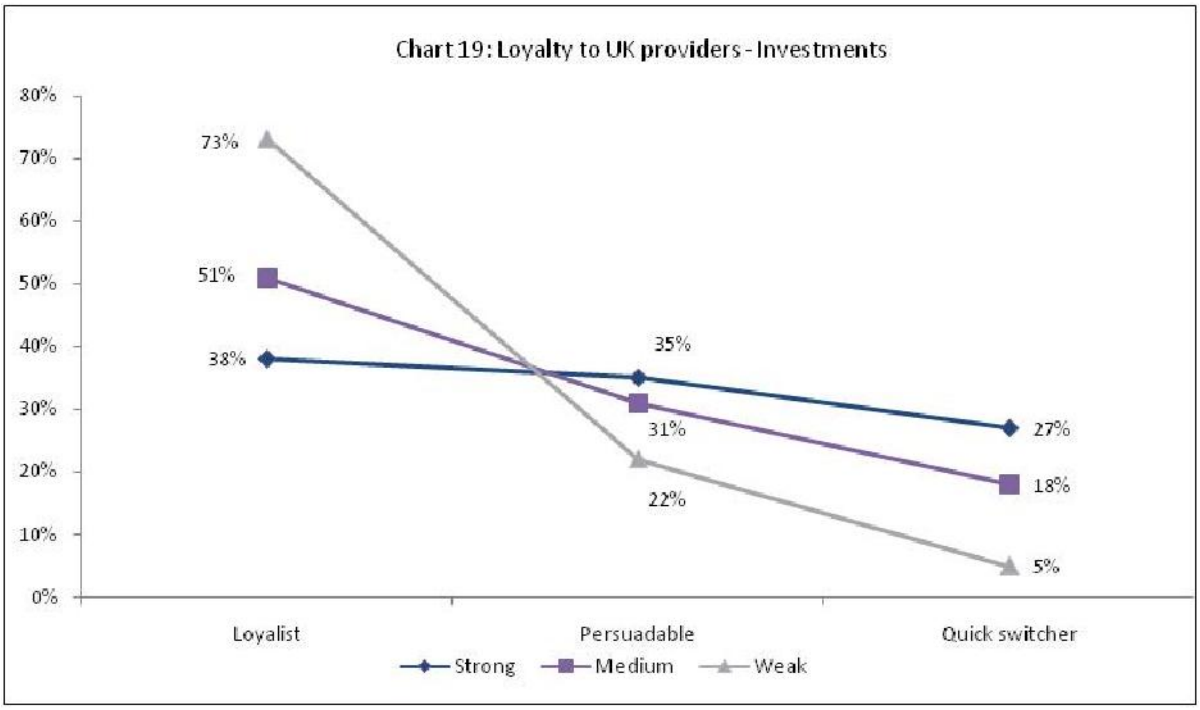


When it comes to switching savings accounts, slightly over 1 in 5 would switch at the first price point. After this, there is a slow down in the amount of consumers that would be converted to another country based on price. It would appear that regardless of price, the country plays a major role in terms of where consumers would be prepared to deposit their savings (see Chart 18).

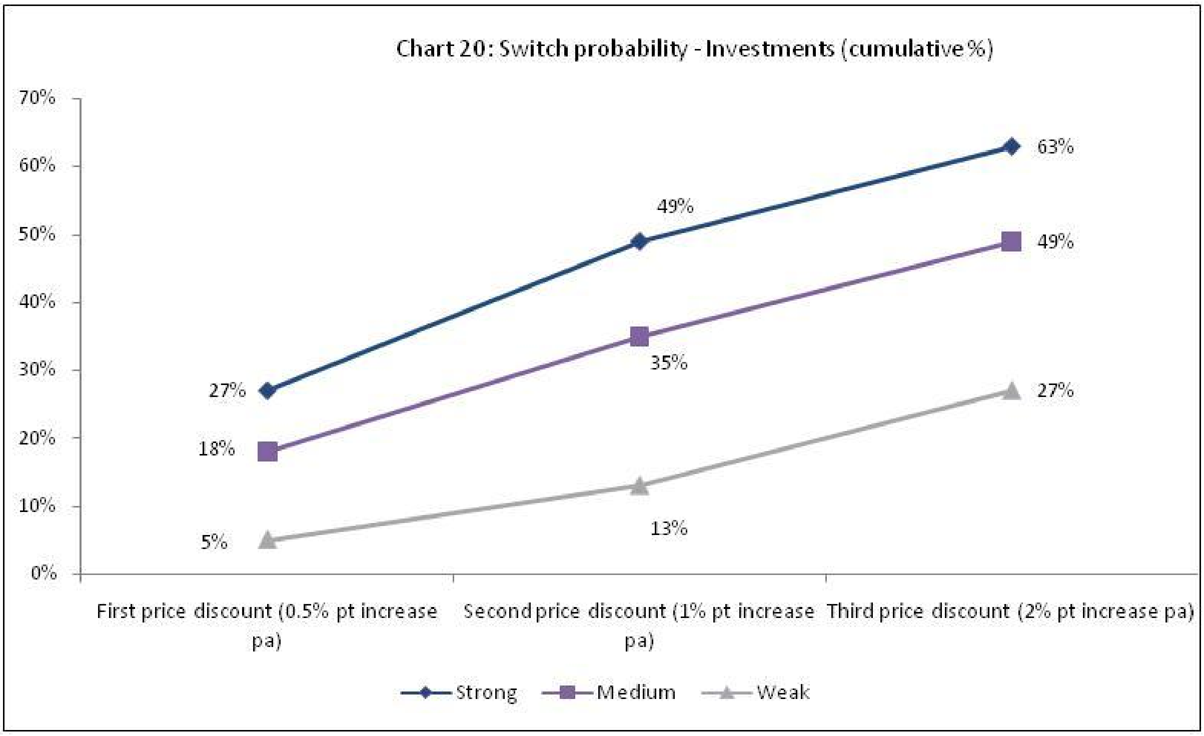


2.5 Investment Accounts

Those in the market for bonds show a weaker level of loyalty than average with only 4 in 10 saying they would remain with a UK provider at whatever discount were offered by a strong county provider. Loyalty rises sharply when products from 'weak' countries are considered. Although there are not many loyalists to the UK when they are presented with the opportunity to invest in other strong countries, this does not necessarily mean that these consumers would switch at the first opportunity. This particular product produces a substantial amount of people that can be persuaded. This may be due to the notion that consumers are prepared to invest small amounts in foreign markets in order to gauge what their return rates are like. Unlike savings, investments often carry a degree of risk as people invest in areas that can fluctuate and thus have an impact on the amount of money in their pot (see Chart 19).

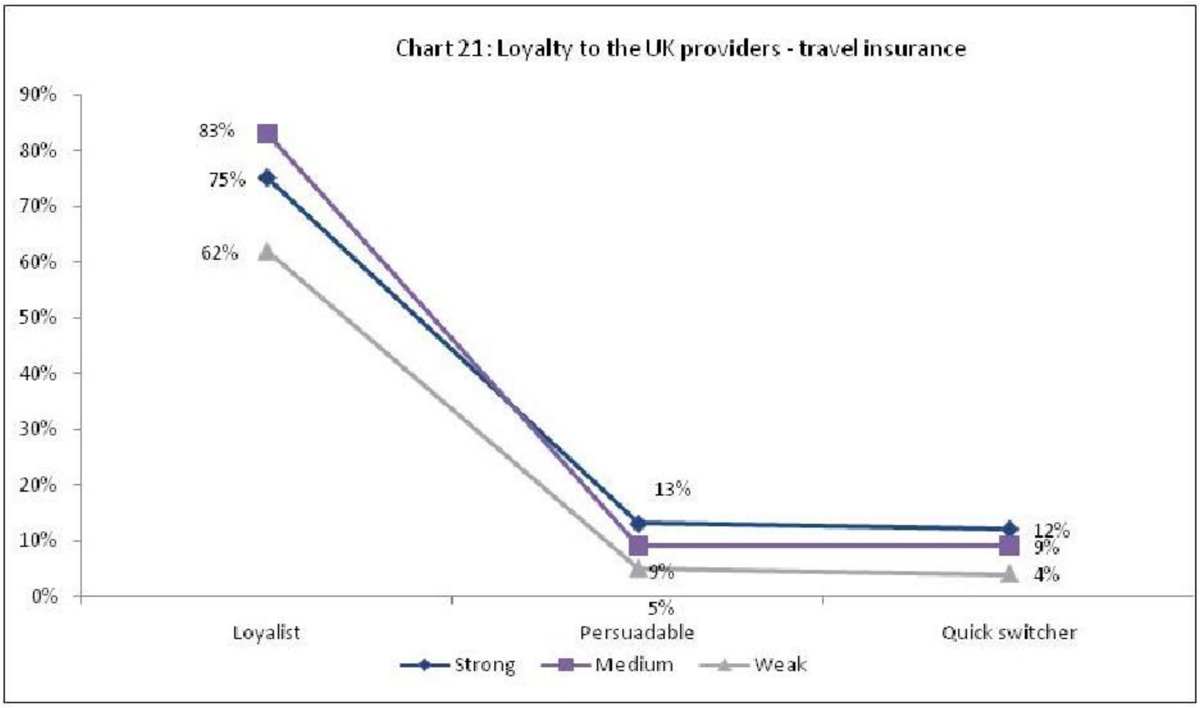


When it comes to investments, consumers appear to be driven by return on investment RoI. 27% of prospective bond purchasers would switch from a UK provider at the first price point offered, when offered by a provider from a strong country. At the maximum, with an increase in return of 40% (A 2% point increase on an interest rate of 5%) some 63% of those in the market for a bond would switch from a UK provider to an alternative provider from a strong country (see Chart 20).



2.6 Travel Insurance

At the other end of the spectrum are those seeking travel insurance who show the highest level of loyalty of all product seekers. When offered an alternative product at a discount from a 'strong' country provider 75% would not switch. This loyalty rises to 9 in 10 when an offer is made from a 'weak' country. With regard to travel insurance, this is often a financial product that people struggle with in terms of getting results. The risk of a consumer having to go through what is potentially a time consuming process in a different country and potentially in another language may be seen as sufficient to put buyers off and thus loyalty is not based on price but rather on convenience and effectiveness (see Chart 21).



Switching levels, even at very high discounted price points, remain very small. When comparing a UK offering with one from a strong country, at best 25% of people would switch from the UK provider and even then it would require a 30% price differential to make them do so. When the offer was from a weak country, under 1 in 10 would change – even with a 30% price differential.