

## **Banks must aim for top spots on price comparison websites to survive**

### ***Behavioural science research reveals top three spots on price comparison websites account for 80% of sales***

Banks looking to maintain or increase their market share need pricing strategies that focus on staying in the top three rankings on price comparison websites (PCWs), according to a new report from management consultancy and behavioural science experts Decision Technology. The report reveals that the top three positions on PCWs account for 80% of total sales, and recommends banks create low-cost, online-only brands to increase their competitiveness.

The report, *Pulling Rank: How to win the pricing game*, highlights the impact of PCWs on the retail banking sector – increasing competition, reducing revenue and encouraging customer churn. It reveals the latest behavioural science insights explaining how PCWs appeal to customers' inbuilt biases, and calls on banks to conduct randomised controlled experiments to inform product design and upskill staff to ensure all teams understand the behavioural science behind customer decisions.

Henry Stott, Director at Decision Technology, comments: "The rise of price comparison websites is changing the competitive landscape in the retail banking sector in a dramatic way. Record numbers of people have been switching current accounts over the past few years, due in large part to the deals they can find online.

"This presents an opportunity as well as a challenge for retail banks. If you understand how people think and take decisions, you can make your products more attractive. But this means banks need to move beyond traditional pricing models based on outdated economic theory and inaccurate market research, and instead use behavioural science to understand how and why customers use price comparison websites the way they do."

Decision Technology's report outlines the unconscious biases that come into play when people are making purchasing decisions, and why these have increased the success of PCWs:

*Reference dependence:* People are generally better at making comparisons than absolute judgements. PCWs make decisions easy by providing lots of reference points for comparison. It is not the cost of the product, per se, but where it ranks that is important.

*Framing effects:* PCWs typically frame decisions in terms of price alone. Customers therefore focus on price to the detriment of other considerations, such as level of service or restrictions in small print.

*Status quo bias:* Since people feel losses more acutely than equally sized gains, they prefer things to remain the same and need a large incentive to move away from the status quo. Clearly customers can be tempted away but there is an advantage to being a customer's current provider.

Decision Technology sets out five recommendations for banks to adopt in response to PCWs:

1. Ensure products make it into the top three spots on PCWs – this is crucial for brands to capture market share.
2. Create a low-cost, online-only brand to compete on PCWs efficiently.
3. Use low cost products to draw customers in via PCWs and then cross-sell more profitable services.
4. Conduct regular randomised controlled experiments to stay on top of the latest trends in customer behaviour.

5. Embed behavioural science throughout the bank so all teams understand the customer decision making process.

Nick Chater, Director at Decision Technology and Professor of Behavioural Science at Warwick Business School, comments: “Behavioural science is growing in popularity – for instance, with the creation and spin-out of the government’s ‘Nudge Unit’ – but it is not yet as influential as it should be in the financial sector. Understanding human behaviour is vital if banks are to perform better.

“The rise of price comparison websites is a great example of this. The websites appeal to our instinctive tendencies to compare, and they make complicated mental processes simple. Banks should use the same insights to make their own products more attractive, so they can become more competitive.”

The *Pulling Rank: How to win the pricing game* report is available online here:

[http://www.dectech.co.uk/behavioural\\_science/briefs/dectech\\_brief\\_pulling\\_rank.pdf](http://www.dectech.co.uk/behavioural_science/briefs/dectech_brief_pulling_rank.pdf)

**ENDS**

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#### **Notes to Editors**

##### **About Decision Technology**

Decision Technology (Dectech) is an innovative research consultancy that specialises in helping businesses and policymakers understand and manage customer decision-making, from acquisition through to retention and all the points in-between. It applies insights and techniques from behavioural science, such as randomised controlled field trials and online behavioural experiments, rather than traditional market research surveys. It is a member of the Market Research Society and the Management Consultancies Association.