Consumer Demand for Product Deregulation

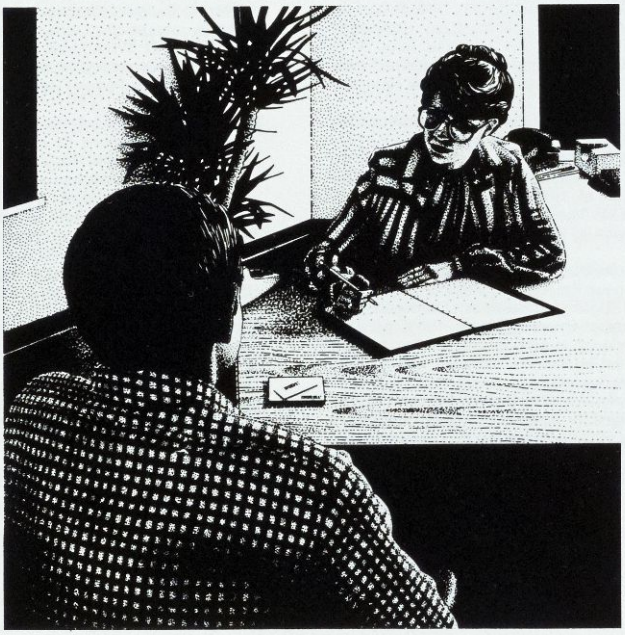
Changing consumer demand already has prompted considerable deregulation of the retail financial services industry. In the inflationary environment of the late 1970s and early 1980s, many consumers, demanding a better return on their money than depository institutions could legally pay, shifted their funds to newly created "checkable" money-market funds. It was this evidence of heightened consumer demand for transactionable high-interest-rate accounts that led ultimately to the deregulation of interest-rate ceilings for depository institutions.

Today, industry spokesmen claim that consumer demand is the driving force behind the movement toward product deregulation. Consumers demand one-stop financial service convenience, they say, and that demand cannot be denied.

What evidence exists to support these claims? This article will address that point. It is based on empirical data generated by consumer surveys conducted in 1982, 1983 and 1984. Some of the data have come from publicly available research reports. Some are based on proprietary studies conducted by private research firms. Some are new. After reviewing the empirical data that were available for public use, the Federal Reserve Bank of Atlanta commissioned a nationwide mail panel survey through National Family Opinion (NFO) to fill in the gaps. Of the 5,000 households surveyed, 3,410 usable surveys were returned. The sample represents a national distribution. The publicly available and proprietary data were assembled here with the Reserve Bank's new survey data in order to provide a comprehensive picture of consumers' reaction to broad financial product offerings.

All of the surveys indicate that many consumers favor the idea of one-stop financial service convenience. The evidence that consumer demand is the driving force behind product deregulation is less concrete. Just over a quarter of U.S. households want to secure most of their services from a single firm. Furthermore, affluent consumers, who use the greatest variety of financial services, generally are reluctant

Many consumers favor the concept of one-stop convenience in securing financial services, surveys indicate. Yet research has turned up less evidence that consumer demand is the force driving bank-product deregulation.



to consolidate their services. Because of customer loyalty and the desire to obtain a number of different investment perspectives, most U. S. households currently prefer to continue obtaining banking services from banks, insurance from insurance companies, and brokerage services from brokerage firms. Some, however, would like to have all these businesses located in a single place.

The Use of Multiple Financial Service Providers

A financial service provider may be a depository institution (commercial bank, savings bank, savings and loan association or credit union) or a nondepository financial service firm such as an insurance company or brokerage house. Most U.S. households today deal with two or more financial service providers.

A study conducted in 1982 by Electronic Banking Inc. (EBI) of Atlanta counted the number of financial service providers used by consumers and classified them as Bank Only, Bank +1 Bank +2 and Bank +3 or more. Under this classification scheme, "bank" is a generic term referring to any type of depository institution, while the +1, +2 and +3 designations refer to additional consumer/financial institution relationships, regardless of whether those relationships are with depository institutions or nondepository financial service firms.[1]

Data from the EBI study reveal that less than 2 percent of the responding households surveyed deal with only one financial institution. Thirty-nine percent deal with a "bank" and one other provider. Forty-two percent deal with a "bank" and two other providers. At the other extreme, only 17 percent dealt with three or more financial service providers in addition to a "bank".

The EBI data also indicate that the number of financial service providers a household uses is directly related to income. Households in the $10,000-$20,000 income range are one-and-one-half times as likely on average to deal with a "bank" and only one other firm. In contrast, the likelihood of high-income ($50,000 or over) households dealing with a "bank" and three other types of providers is twice the norm.[2]

A nationwide consumer survey conducted and published by Payment Systems Inc. (PSI) of Tampa in 1983, provides evidence that the use of multiple providers is a reflection of the financial services industry segmentation brought about by rate and product regulation.[3] Until NOW accounts were authorized nationwide in 1980, commercial banks were virtually the only institutions authorized to offer transaction accounts. Because of Regulation Q, savings and loan associations paid higher rates on savings than did commercial banks. Life insurance has been available primarily from life insurance companies. The average consumer historically has dealt with three different types of financial service providers to meet these three basic financial service needs and get the best possible return on their savings. Table 1 shows that most U.S. households have done this, and, despite recent interest rate deregulation, few have changed their ways.

Table 1. Percentage of U.S. Households Using Selected Types of Financial Service Providers

Provider	Percent Using
Commercial Banks	86.8
Life Insurance Companies	62.1
Savings & Loan Associations	50.3
Credit Unions	38.9
Brokerage Firms	15.0

Source: **Payment Systems, Perspectives '83: A Special Report,** Volume 2, Payment Systems Inc., Tampa, Fla.

Demand for One-Stop Convenience

At least half of the population, it seems, would like to do things differently. In a survey conducted in March of this year, the Federal Reserve Bank of Atlanta asked consumers, "How desirable would it be to get all financial services at one location?" Nearly 50 percent of the respondents indicated it would be somewhat or very desirable. Back in November 1982, Electronic Banking Inc. asked consumers, "If it were possible to obtain nearly all financial services such as checking, savings, loans, insurance, investments and tax planning from one provider, would you be inclined to consolidate your services?"[3] Nearly 50 percent of the

Table 2. Attitudes Toward Desirability of One-Place Financial Service Convenience and Willingness to Consolidate Services

Attitudes Toward Desirability	Percent	
Not at all desirable...	16	30
Somewhat undesirable...	14	
Neither desirable nor undesirable...	20	
Somewhat desirable...	26	50
Very desirable...	24	
Total number of respondents	2804	

Source: Federal Reserve Bank of Atlanta

Willing to Consolidate	Percent
No...	36
Don't know...	14
Yes	50
Total	1092

Source: Electronic Banking Inc.

respondents answered yes or said that they already do so. (Table 2 shows the responses to the two questions in greater detail.) In addition, Synergistics Research Corporation asked consumers last August, "If you could obtain most of your financial services from one financial services provider, would you consider this to be... an improvement?" Fifty-nine percent of the respondents to this survey said it would be very much or somewhat of an improvement. (See related articles.)

The sample selection critieria for the three surveys differed slightly. The questions were worded differently, and the surveys were conducted at three different times. Nevertheless, the responses to the three questions were not significantly different. About half of all U.S. households favor one-stop financial service convenience. Another 15 to 20 percent have no strong feelings for or against the idea. The remainder of households find consolidation undesirable for one reason or another.

Types of One-Stop Financial Service Convenience Preferred

Financial service providers are considering three general approaches to providing consumer financial services. One is the single firm approach—a financial services firm or institution offering all types of services under its own name. Many financial institutions urging product deregulation would like to be able to do this.

Second is the financial service center concept in which different financial services, like insurance, real estate, and brokerage, are available from different firms in one location. Sears is one organization taking this approach. Although all the providers in a Sears Financial Service Center are subsidiaries of the retailer, they retain their original names and may be thought of as separate entities by the consumer.

Finally, there is the financial services boutique. The boutique approach connotes specialization, by providing a limited number of products and services or by targeting a specific market segment, such as affluent consumers.

Among the 70 percent of all consumers who are not opposed to the concept of one-stop financial services, few seem to want financial service boutiques. Only 7 percent of those surveyed preferred this type of provider.

On the other hand, the sample is split fairly evenly between those who prefer to get most of their services from a single firm and those who prefer financial service centers or financial boutiques. (See Table 3.) Indeed, only 28 percent of all respondents to the Fed survey prefer dealing with just one firm. This preference seems to be strongest among individuals in the 50-64 age group. Younger individuals appear to respond more favorably to financial service centers.

Table 3. Type of One-Stop Provider Preferred
(respondents who do not find one-place services undesirable)

		Age Groups			
	%	34 and Under %	35-49 %	50-64 %	65 and Above %
Single firm	40	34	4	44	37
Financial Service Center	31	36	29	29	32
Financial Service Boutique	7	8	6	7	9
No Preference	23	22	25	20	23
Total	100	100	100	100	100
Total number of respondents	2398	518	654	770	456

Source: Federal Reserve Bank of Atlanta

Depository Institutions Preferred

Regardless of the preference for single-firm providers or financial service centers, depository institutions top the list of institutions preferred. Among the respondents who favor the single firm approach, 93 percent say they would like for that single firm to be a depository institution. This was virtually identical to the response to a similar question asked in the EBI study. Of those Fed survey respondents who say they prefer a single firm, 51 percent would like to get most or all of their financial services from a commercial bank, 26 percent prefer an S&L, and 16 percent prefer a credit union. (Table 4)

Depository institutions also are desired strongly by the 31 percent of respondents who prefer the financial service center approach. Seventy percent of the respondents prefering a financial service center want to find an S&L there, while 66 percent want to find a commercial bank. Forty-one percent say they would want a credit union represented in the center. These consumers may be more thrift institution-oriented than those who prefer a single firm.

The data do not suggest that deregulation to permit one-stop financial service convenience would change the relative competitive positions of the different types of depository institutions. An analysis of the preferences suggests that household market shares of the three major types of depository institutions' would decline if one-stop financial service convenience were available. However, one-stop convenience would have no substantial effect on the share of total relationships claimed by each type of institution.

Section One in Table 5 highlights the difference between the percentage of households

Table 4 Type of Institutions Preferred
(respondents preferring single financial institution)

	Percent
Commercial Bank	51
Savings & Loan Association	26
Credit Union	16
Full-Line Brokerage Firm	4
Discount Brokerage Firm	*
Insurance Company	*
Others	3
	100
Total number of respondents	924

* Less than 0.5 percent

Source: Federal Reserve Bank of Atlanta

Table 5. Depository Institution Market Shares

Section One: Current Distribution of Market

	Household Market Share %	Relationships Per 100 Households (number)	Relationship Market Share %
Commercial Bank	87	87	49
Savings & Loan	50	50	28
Credit Union	39	39	22
Totals	176*	176	100

*Multiple relationships possible. Total exceeds 100%

Section Two: Data Available From Consumer Research

	Group: Respondents			Distribution: % Using or Would Use		
	Number	%		Bank	S&L	C.U.
One-Stop Undesirable	1012	38		87	50	39
Prefer Single Firm	955	37		51	26	16
Prefer Fin. Svs. Center	734	28		67	70	41
Totals			2601	100		

Section Three: Calculation Results
cell percentages = group percent of total × distribution for group

	One-Stop Undesirable %	Single Firm Preferred %	Fin. Svs. Center Preferred %	Total %
Commercial Bank	34	19	19	71
Savings & Loan	19	10	20	49
Credit Union	15	6	12	33

Section Four: Estimated Distribution of Market Share in One-Stop Environment

	Market Share %	100 Households (number)	Market Share %
Commercial Bank	71	71	47
Savings & Loan	49	49	32
Credit	33	33	21
Totals	153*	153	100

*Multiple relationships possible. Total exceeds 100%

that use a depository institution and the percentage of each household's total number of depository institution relationships. It is based on data from PSI. This study found that 87 percent of all households that deal with a depository institution use one or more services at a commercial bank. However, as Section One of Table 5 shows, the data might also be interpreted to mean that, on average, each household has some kind of service relationship with 1.76 depository institutions. Thus, each 100 households have approximately 176 relationships and 87 of those relationships are with commercial banks. In short, commercial banks have an 87 percent market share when the market is expressed as the total number of households maintaining a financial relationship with a given type of financial institutions. Banks have a 49 percent share when the market is expressed as the number of financial relationships between households and depository institutions.

The next step in the analysis was to recalculate the percentages of consumers who would use the three types of depository institutions. This was necessary because some respondents to the Fed survey provided too little information about the type of institution they would use if one-stop convenience were available to estimate their behavior in such an environment. We disregarded these responses. Respondents who stated they consider one-stop convenience undesirable were not eliminated. Instead, we assumed that their behavior would not change, and they would continue to use the three types of depository institutions in the same proportions as reported by PSI. The recalculated percentages are shown in Section Two of Table 5.

Section Three of Table 5 shows the market share of households that each type of institution would control within each of the three user groups. The consumers' preference distributions for the depository institutions were multiplied by the percentage of households that each group represents to obtain these estimates of market share.

Section Four of Table 5 parallels Section One. It shows household shares and total relationship shares of each type of institution in a one-stop convenience environment. As noted above, household market share for each type of depository institution would be lower than the current market share because some consumers currently using multiple depository institutions would consolidate their financial services with one of the three types. The differences between the current and projected relationship market shares is small. Although some consumers would consolidate their financial services at one type of depository institution or another, their choice of institutions would vary and most consumers would continue to use multiple depository institutions. The consumer's tendency to stick with the tried and true is also a major theme in the related article contributed by SRI International.

The Relationship Between Income and Financial Service Usage

Thus far, we have focused on consumers as a single group; however, not all consumers have the same financial service needs. Affluent households generally are more active financially than those of more moderate means. Table 6 provides evidence of this. It shows, for example, that households with annual incomes in excess of $60,000 are twice as likely to use transactionable investment accounts and IRAs and three times as likely to use the services of full-line and discount brokerage firms.

The Atlanta Fed survey covered a larger number of financial services than the PSI study. In the Atlanta Fed survey, consumers who were not opposed to the concept of one-stop financial services and who specified a favored provider were asked what services they probably would obtain from a single firm, financial service center or financial service boutique. The responses confirmed the positive relationship between income and the use of large numbers of services. Of the 19 services studied (see Table 7), the likelihood of using one (passbook savings) decreases as income goes up. Obviously the reason is the lower return associated with these accounts. For five services—checking, life insurance, property and casualty insurance, real estate brokerage and tax preparation—income was not related to likelihood of use. The likelihood of a consumer's using the remaining 13 services was directly related to income.

The Relationship Between Income and Service Consolidation

The Fed survey found no statistically significant evidence that households earning $35,000

Table 6. Percentage of U.S. Households Using Selected Types of Financial Services

		Income (in thousands)			
	Total	Under $25	$25-$40	$40-$60	Over $60
Transaction Services					
Regular Checking Accounts	66.1%	71.2%	64.1%	61.7%	71.2%
Now Accounts	31.2	25.0	31.2	41.7*	–31.8
	(466)	(125)	(202)	(98)	(18)
Share Draft Accounts**	35.8	30.4	37.6	41.8	33.3
Transactionable Investment Services					
MMDA/SuperNOW Accounts	22.3	17.7	19.2	27.2	45.5*
Money Market Mutual Funds	16.2	10.4	14.8	22.3*	34.8*
Brokerage Services					
Full-Service Brokerage	12.7	5.9	10.6	23.8	31.8*
Discount Brokerage	3.5	1.4	2.3	8.3*	9.1*
Individual Life Insurance					
Term	31.4	25.0	30.8	45.1*	35.0
Whole Life	43.9	34.9	49.5	52.9	50.0
Universal Life	6.9	4.5	9.2	8.3	6.1
Individual Retirement Accounts (IRAs)	22.7	10.8	20.9	40.8*	54.5*
Total Number of respondents	1,199	424	426	206	66

*Percentage is significantly higher than the percentage shown for all U.S. households (Total) when tested at the 95% confidence level.
**Asked only of credit union members. Bases on which percentages are calculated are shown in ( )s.

Source: Payment Systems Perspectives '83: A Special Report, Vol. 2, Payment System, Inc., Tampa, Fla.

or more a year are less likely than the population as a whole to consider one-stop financial service convenience desirable. Two other studies, however, suggest that affluent consumers are less likely than middle or lower income consumers to consolidate with a single firm. In other words, affluent consumers prefer to obtain their financial services from a wide array of suppliers. EBI's report notes:

> Overall, while there is a large segment of the sample who would consider consolidating their financial services into one institution ... this segment of the population is heavily weighted with young, low to middle income consumers who are not currently using a diversified group of financial service providers. In short, the upscale segment ... is the least likely to be attracted by consolidation.[4]

In addition, PSI's Affluent Market Research Program, which surveyed over 1,500 households having annual incomes of $50,000 or more or net worths or $200,000 or above, found that "virtually none of the respondents indicated any tendency to consolidate their accounts."

Consumer Demand for Services from Non-Traditional Vendors

If those consumers whose financial lives are most active and most complex are unwilling or unlikely to consolidate their financial services, does consumer demand for product deregulation exist? Empirical evidence suggests it does. The extent of that demand appears to be limited, however.

One measure of consumers' demand for product deregulation is the degree to which they are willing to obtain financial services from nontraditional vendors. Evidence of this willingness is mixed. For example, when EBI asked consumers how likely they would be to purchase life, health or property insurance through a bank, approximately 47 percent said

Table 7. Types of Financial Services Likely to be Used at One-Stop Provider of Choice

		Income in Thousands				
	Total	Under $10	$10.0—$17.5	$17.5—$24.9	$25.0—$34.9	$35 & Above
Checking	87	80*	89	86	89	87
Passbook Savings	70	70	74	77	70	63
Certificates of Deposit	53	42*	48	52	57	64
Money Markety Funds/Accts.	44	27*	38	43	48	58
Credit Cards	60	39*	58	64	64	72
Lines of Credit	33	22*	28	34	35	42
Consumer Loans	33	20*	31	37	37	39
Mortgages	43	23*	39	46	52	52
Second Mortgages	14	7*	10	13	16	22
Life Insurance	28	27	28	34	27	26
P&C Insurance	36	30*	38	38	35	39
Real Estate Brokerage	18	13*	16	18	20	21
Tax Preparation Ser.	33	28*	35	35	32	37
Tax and Investment Planning and Advice	27	13*	19*	24	30	42
Stock & Bond Brokerage	24	8*	15*	19	27	43
Managed Investment Funds	17	8*	12*	10	22	30
IRA/Keogh Accounts	44	21*	34*	45	52	63
Estate Planning Settlement & Trusts	21	14*	16*	16	23	33
Asset Management Accts.	11	5*	7*	6	12	21
Total number of respondents	1,864	363	370	294	365	472

Source. Federal Reserve Bank of Atlanta Survey

they would be somewhat or very likely to do so.[5] However, when PSI asked commercial bank customers if they would purchase life insurance from any depository financial institution they dealt with, only 17 percent said they definitely or probably would.[6] That is a large variation, some of which may be accounted for by the different wording of the questions and the broader spectrum of insurance products covered in the question asked by EBI. The EBI report also notes that some of the respondents "qualified their positive reactions with such disclaimers as I'm willing to check into the service," "it depends on the service," or it depends on the price of the service."[7]

The two studies were more in concert on the question of purchasing brokerage services from a commercial bank. In both studies, over a third of the respondents indicated they would do this. However, both also provided caveats. EBI again noted that many of the positive responses were qualified by statements like, "I'm willing to check it out," or "when I have money available to invest"[8] PSI cautioned readers, saying, "These figures represent only the consumer's predisposition to use a service." Therefore, it should not be assumed that the potential for discount brokerage offered by depository institutions is currently anywhere near 35-40 percent of affluent households."[9]

In another approach to determining consumer demand for financial product deregulation, a factor analysis was performed using responses to the Atlanta Fed survey concerning services likely to be used at a one-stop financial service location. Factor analysis is a statistical technique used to reduce a large number of measurements—in this case, the likelihood of using each of 19 services—to a smaller set by determining which seem to go together and measure the same factor. The four factors produced by

Table 8. Factor Analysis Results

Factor	Services
Factor One	Stock & Bond Brokerage Asset Management Account Tax and Investment Planning/Advice Managed Investment Funds Money Market Funds/Accounts Estate Planning, Settlement & Trust IRA/Keogh Accounts Certificates of Deposit
Factor Two	Mortgage Loans Consumer Loans Second Mortgages Lines of Credit Credit Cards Real Estate Brokerage
Factor Three	Checking Passbook Savings Certificates of Deposit Money Market Funds/Accounts Credit Cards IRA/Keogh Account
Factor Four	Life Insurance Property & Casualty Insurance Tax Preparation Real Estate Brokerage Tax and Investment Planning/Advice

this analysis and the services they comprise are shown in Table 8.

Factor One is a set of services that would be used by a distinct segment of the population that can be described as package-oriented investors. The "package" orientation is suggested by the demand for asset management accounts, which generally combine transaction and investment services in a single account. All of the services that make up this factor may currently be obtained from a full-line brokerage firm. Many are also available from larger commercial banks. Under current regulations, however, banks cannot offer investment advice. Thus, existing regulations prevent any financial service provider from directly filling all the needs of these customers.

Factor Two is a combination of services that suggests a segment of the population best described as borrowers. In this combination, mortgages and second mortgages have high factor scores, suggesting that real estate investments are an important part of this segment's financial lives. Thus, it is not surprising to find that real estate brokerage services constitute one of this segment's financial service needs. Once again, however, regulations that restrict banks' real estate activities obstruct this segment from obtaining all the services it would like at one location.

The services that make up Factor Three can be met by full-service depository institutions today. Lacking a better term, these customers might be called traditionalists. They seemingly would be content with the status quo or would prefer not to secure "banking" and other financial services at the same place.

Factor Four is more difficult to interpret. This combination of services desired at a single location seems to reflect the needs of a security-conscious, help-seeking group of people. They seem to want the services of independent professionals as well as those of insurance and real estate firms. One can only speculate why real estate brokerage would be one of their important financial service needs. Perhaps they are high-equity homeowners, or individuals who pay cash for primary or secondary homes, making sizable downpayments to minimize their mortgage payments. It is reasonable to believe that people with such a conservative financial orientation would consider it important to get professional help and advice when buying or selling real estate.

Factor analysis provides no indication of the number of responses each factor represents. Thus, while the analysis may provide evidence of some consumer demand for deregulation, the extent of that demand cannot be determined.

CONCLUSION

Some, but far from all, consumers expect to gain from product deregulation. Fifty percent of those responding to the Atlanta Fed survey considered it desirable to obtain all their financial services at one location. Twenty-eight percent would like to obtain most of their services from one firm. Both of these facts appear to indicate considerable demand for product deregulation. Yet a factor analysis of the Fed's survey data suggests that some individuals in that 28 percent may define "most" as those services they can already obtain from full-service depository financial institutions. In short, the data are not conclusive but leave the impression that the

general population's current demand for additional product deregulation is not extremely strong. Educating consumers concerning these offerings and allowing them to become accustomed to obtaining these services from a single location might remove some resistance. But some firms may not believe the effort worthwhile in terms of training a staff and otherwise preparing to offer all these services.

This survey of empirical evidence also leads to the conclusion that consumer demand for product deregulation is unlike the demand for interest-rate deregulation. The demand to earn higher interest rates was a compelling enough force to make consumers redirect their funds to the new types of institutions offering money-market rates. With product deregulation, however, there is a gap between what consumers say they will do when broader product choices are offered and what they say they will do when they consider using non-traditional vendors. It is doubtful that convenience alone will cause large numbers of consumers to consolidate their services if financial products are deregulated in the future. More likely, financial service firms in a deregulated environment will have to prove their ability to provide services outside of their traditional purview effectively and at a competitive price before consumers will make a change.

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Affluent Consumers' Demand for Financial Products and Services

Affluent consumers (defined as those with annual incomes of $50,000 or more and/or with net worth of $200,000 or more) represent an attractive market to many financial service providers. A nationwide survey of affluent consumers conducted by Payment Systems Inc. (PSI) in 1983 revealed, however, that this market is not homogeneous in terms of product usage and that such customers in general show little propensity to change their present ways of handling financial affairs.

In making their financial decisions, affluent consumers appear to make conscious tradeoffs between costs and benefits, risks and returns. The majority say they shop for convenience rather than low cost for services such as checking. They also shop around to find the financial institution offering the highest return. All agree that quality financial planning and investment advice can be costly. Finally, while 53 percent prefer guaranteed returns on their savings, 82 percent prefer to put some of their assets into non-guaranteed investments to get a higher rate of return.

Affluent consumers say they want personal attention from their financial service providers. Seventy percent feel it is important that the officers of their financial institutions know them personally; 78 percent agree they would stay with a account executive with whom they had established a good working relationship, even if the account executive changes firms; and 60 percent prefer tellers to automated teller machines (ATMs) for routine financial transactions.

A majority of affluent consumers use eight financial and investment products or services. First, of course, is the checking account; 90 percent of the respondents use one or more such accounts. It should be noted, however, that the PSI survey definition of a "checking" account includes NOW and Super NOW accounts.

The second most widely used product is life insurance, with 87 percent holding one or more life insurance policies. Nevertheless, there appears to be little potential to sell new insurance products to this group. None of the respondents lacking life insurance coverage at the time of the survey indicated that they planned to obtain it in the next 12 months. Only 1 percent of the life insurance users intended to increase their use of this financial product. And 2 percent said they intended to discontinue policies. Affluent consumers who value insurance protection obviously have already met their needs, and some will probably get out of this investment vehicle gradually as they grow older and their life circumstances change.

The remaining six products and services used by a majority of affluent consumers are:

- Money market accounts or funds - used by 79 percent;
- Retirement accounts - used by 75 percent;
- Brokerage services - used by 70 percent;
- Passbook savings accounts - used by 65 percent;
- Tax preparation services - used by 60 percent; and
- Premium credit and travel and entertainment cards - used by 59 percent.

Knowing the percentage of affluent consumers who use each particular service provides no insight into specific combinations of services used by different groups. PSI performed a factor analysis of the survey data and found considerable diversity in the combinations of services used. The six clusters of services that the analysis identified are shown in the accompanying table. The names assigned to the clusters are PSI's interpretation of the kinds of affluent consumers that use each group.

The absence of a particular product or service from the lists of services used by each segment in the table does not imply that none of the individuals use that service. Some may and some may not; however, usage is not consistent enough to make the unlisted product or service useful in identifying the segment's financial affairs. For example, while one may reasonably assume that individuals in the Entrepeneur segment have transactions accounts, they do not gravitate toward any one type of transaction account. Some may use checking (including NOWs and Super NOWs); some may use asset management accounts; some may use checkable money market funds; and some may be cash oriented.

In light of the variety of services affluent consumers use, it is not surprising to find that they deal with a number of different financial firms. Six types of providers are used by a majority of the respondents:

- Commercial banks - used by 87 percent;
- National full-line brokerage firms - used by 74 percent
- Insurance companies - used by 73 percent
- Independent professionals (attorneys, CPAs, etc.) - used by 72 percent
- Savings and loans or savings banks - used by 68 percent; and
- Travel and entertainment card companies - used by 63 percent.

In addition, about a third of the affluent consumers deal with direct-mail investment firms and credit unions, while 20-27 percent deal with bank trust departments, major retail chains, specialized brokerage firms and discount brokerage firms.

With all their experience in dealing with different financial service providers, affluent consumers should be able to identify the type of provider they would prefer if they wanted one-place convenience and could get all types of financial services from a single firm. The survey, however, shows a dichotomy exists between what affluent consumers say they want and what they say they would do.

Two attitude questions tested the respondents' desire to consolidate their financial dealings with a single firm. On each question, 70 percent consistently agreed that they would like to consolidate. However, when asked to place themselves in a hypothetical situation where all providers could offer all services legally and to assume that the cost, quality and features were the same regardless of provider, virtually none of the respondents indicated any tendency to consolidate their accounts. Affluent consumers say that, in a deregulated environment, they will still obtain insurance from insurance companies; discount brokerage services from discount brokerage firms; credit cards from credit card companies or banks; tax, accounting and advisory services from independent professionals; transactions, savings retirement accounts and loans from commercial banks and savings institutions; and other investments from national full-line brokerage firms.

In short, while affluent consumers find the concept of product deregulation attractive, the availability of one-stop financial service convenience appears unlikely, by itself, to encourage them to change their patterns. They say it would be nice to be able to consolidate all their financial dealings; but, before they will make a change, affluent consumers will have to be shown that a single provider can meet all their needs effectively and provide some advantage to them.

Consumer Preferences in the New Financial Services Industry

It is clear to financial services vendors that the industry has changed because of deregulation, but the effect of deregulation on consumers is less clear. Research conducted by SRI International's Consumer Financial Decisions (CFD) Program indicated that deregulation has produced little change in the way many households handle their financial affairs. Two factors causing consumers' inertia are their fear of change and their unmet needs for information and advice.

As a result of deregulation, consumers are deluged with advertising by financial services vendors. The volume of advertising will likely increase dramatically over the next few years. Households are bombarded with descriptions of the new financial products and vendors available to them. One reaction to these new options is typified by the CFD focus group respondent who eagerly anticipated the day he could buy a few shares of stock as he walked through the checkout line at his neighborhood grocery store. A more common reaction, however, is for households to attempt to maintain the status quo, in fact to insist that nothing has changed. In a recent CFD survey, more than half of the U.S. households questioned stated that they are unlikely to try a new financial product unless someone they know recommends it. Thus, it is unsurprising that, in the face of change, consumers continue to prefer traditional financial relationships.

The logic behind their convictions is sometimes surprising. For example, although less than one-fifth of the households surveyed use a stockbroker regularly, half say they would be comfortable dealing with a stockbroker in a brokerage office. Most households use banks regularly, but less than one-third say they would be comfortable with a broker in a retail store. To consumers, brokers belong in brokerage offices, not in banks or department stores.

Clearly, consumers have not yet developed preferences for nontraditional vendors. As the table below indicates, more than three-fourths of those surveyed say that, if all vendors offered financial services at competitive prices, they would prefer to

use banks. Yet, households do accept the idea of nontraditional vendors in theory. For example, more than half of the households surveyed believe that insurance companies could offer both insurance and checking, and more than a third believe department stores could.

The gap between consumers' willingness to consider nontraditional vendors in theory and their willingness to use them may be largely due to their inability to get information and advice for decision-making. In the deregulated environment, households need information and advice. Half of those surveyed consider being able to obtain information and advice regarding financial decisions highly important. One-fourth consider it critical. Because they often are unwilling to pay for information or advice, however, most households fail to receive the assistance they need. One-third of the households surveyed say they do not know how to choose financial products and services. More than half say they never get information about differences in financial products, and two-thirds say they never get advice on which financial products are best for them.

The need for information and advice represents a clear strategic opportunity for new vendors, or those willing to change, since this need is one that is not being met by existing relationships. Although households tend to maintain traditional relationships because of their confusion, they appear willing to establish new relationships to get the information and advice they need. Half of the households surveyed, for example, say they would use a financial center (that is, a financial "supermarket") for information, and close to half would do so for advice. Because bundling information with all but the simplest of financial products increases a product's perceived value, vendors that regard information and advice as a marketing necessity (rather than a profit-generating product) in mass markets will be a step ahead in the new financial services industry.

As the boundaries between traditional financial industries continue to dissolve, vendors must also concern themselves with developing or maintaining distinct images. Consumers will continue to be attracted by particular institutional attributes, such as safety and competitive prices. But their willingness to trade off one against the other will vary with their psychographic profiles, financial needs, and current life stages. Image attributes such as competence and courtesy will be helpful in maintaining customer relationships—less so in establishing them. Still other attributes, such as vendor size, are often irrelevant to the consumer.

The ideal image is insufficient to motivate confused consumers to modify their behavior. Promoting institutional differences or product features to consumers who insist nothing has changed wastes scarce marketing resources. Vendors that choose instead to inform and direct the mass-market consumer will benefit now through cross-selling opportunities and in the future through households' increased ability to differentiate products and institutions.

Relationship Management: A Consumer Perspective

Consumer financial relationship management has emerged as the dominant retail financial strategy in the 1980s. Success or failure in relationship management will depend on a service provider's ability to integrate multiple services. To achieve integrated, mutiple-service relationships, financial service providers will offer a wide variety of deregulated products and services that establish an initial account with a customer, and then encourage a total relationship including checking, savings, investing, insuring, and financial planning.

One of the key pressures now acting on the environment of financial services is competition for the pool of household assets. The consumer financial market is highly fragmented in the distribution of these assets. Even though the average consumer is using about eight services, the average client relationship amounts to two services per client. Through effective use of relationship programs and multiple service offerings, providers can increase their business and decrease the cost of acquiring clients.

The attractiveness of relationship management programs from the provider standpoint is obvious. Synergistics Research Corporation (SRC) of Atlanta assessed consumer reactions to such programs last August by surveying 500 consumers across the country. The data can be projected to the 74 percent of U.S. households with incomes or liquid financial assets (excluding the primary home) of $15,000 or more.

Respondents were asked: "If you could obtain most of your financial services from one financial services provider, would you consider this to be very much of an improvement, somewhat of an improvement, not too much of an improvement, or no improvement at all?" Data suggest that, while consumers are less enamored of this concept than providers, it appeals at least somewhat to the majority of those surveyed, as shown below:

Very much of an improvement	20%
Somewhat of an improvement	39%
Unsure	6%
Not too much of an improvement	15%
Not at all an improvement	20%

Marketing to the affluent is one of the segmentation strategies most often cited by financial services providers. Many providers see relationship management as an approach to improving their affluent-market

position. Survey data, however, show that the single provider concept is not as appealing to income-affluent or asset-affluent consumers as to others. For example, only half the consumers with household incomes of $50,000 or more feel that the concept represents at least somewhat of an improvement, compared to 62 percent of those with household incomes below the $50,000 level. Similarly, the single provider concept appeals to 48 percent of households with $100,000 or more in liquid assets, versus 64 percent of those with lower assets.

Consumer financial relationships are now highly fragmented—especially within the upscale or affluent customer segment. While these consumers use more services, they also maintain relationships with more nonbank providers. Also, they tend to rely on specialists such as accountants and attorneys for financial information and advice. The net result is that it may be difficult for financial firms to encourage a consolidated relationship among members of this market segment. Relationship management, by definition, decreases or eliminates the number of specialists that consumers rely on for their financial needs. It also should reduce the amount of comparison shopping done for financial products or providers. Survey data confirm that relationship prospects are not oriented toward specialists or comparison shopping to the same extent as are non-prospects.

Nearly two-thirds (63 percent) of consumers who feel that the single provider concept represents a substantial improvement strongly agree with the statement, "I would rather deal with one generalist for all types of financial services than with several specialists." In comparison, only one-third of non-prospects strongly agree with the same statement. Relationship prospects are also more likely than non-prospects to agree that, "It takes too much time to comparison shop for financial services" (56 percent vs. 32 percent). Therefore, it appears that prospects are convenience-driven to some degree.

One strategy for promoting relationship management being highly touted is to offer some form of financial planning services as a key element in the total relationship. From a practical standpoint, however, many providers are skeptical about their ability to deliver financial planning in a cost-effective manner. Nevertheless, SRC's research shows that consumers' reactions to the single provider concept are highly correlated with their stated willingness to pay for financial advice on savings and investments.

Almost three-quarters (74 percent) of conumers who say they are "willing to pay a reasonable fee for good advice about savings and investments" are attracted to the single provider concept, compared to only 44 percent of those who say they are not willing to pay a reasonable fee. Of course, we must take care in intepreting the term "reasonable fee." "Reasonble" as defined by providers is rarely the same as "reasonable" as defined by consumers. According to SRC's research, only 2 percent of the consumers surveyed have paid even $500 for financial planning during the past two years.

Given the volatility of the current environment—with new products, new providers, and uncertainty about interest rates—it is not surprising that consumers want and need financial information and advice. Consumer demand for relationship programs seems to be real, as measured in this and several other SRC research studies. It may well be that financial planning of some form will provide the impetus and incentive around which a relationship program can be built. Consumers surely will need an incentive to overcome the inertia, complexity, or awkwardness involved in changing their financial relationships.

NOTES

[1] Telephone conversation with J. Brittain, Brittain Associates, Atlanta, Ga., April 8, 1984.

[2] Electronic Banking Inc., **Financial Service Usage and Product Strategies: A National Consumer Survey**, (Atlanta December, 1982) Appendix B., Table 1, Page 1.

[3] Payments Systems Inc., **Payments Systems Perspectives '83: A Special Report**, (Atlanta: July 1983).

[4] Electronic Banking Inc., Appendix A.

[5] Ibid., p. 25.

[6] Payment Systems Inc., **Payment Systems Perspectives '83: A Special Report**, Payment Systems Inc. (Atlanta, Ga.: July, 1983) Vol. 1, p. 68.

[7] Electronic Banking Inc. **Financial Service Usage and Product Strategies: A National Consumer Survey**, Electronic Banking Inc. (Atlanta, Ga.: December, 1982) p. 26.

[8] Ibid., p. 27.

[9] Payment Systems Inc., **Payment Systems Perspectives '83: A Special Report**, Payment Systems Inc. (Atlanta, Ga.: July, 1983) Vol. 1, p. 73.