

Customer Attitudes: Trust, loyalty and affinity partnerships

29th September 2010

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Agenda

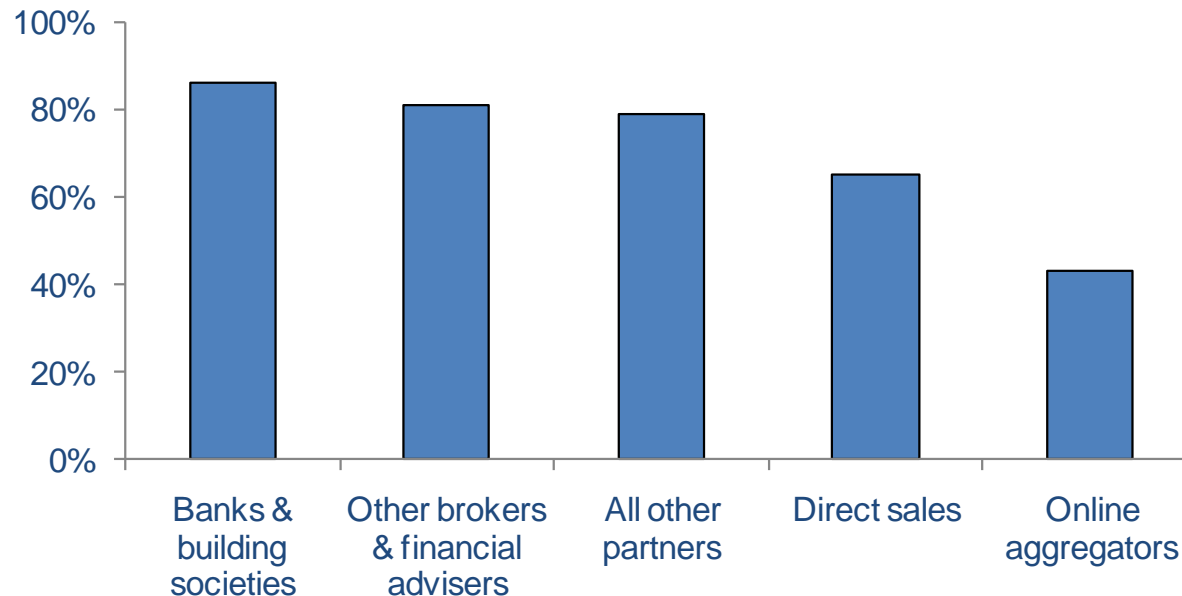
- Thousands of financial services affinity partnerships exist in the UK
- Some have become tremendous successes, while scores of others close each year
 - Which products to sell?
 - And by which interfaces?
- Focus on supermarkets
 - Will Tesco Bank succeed?
 - And can other supermarkets follow in its footsteps?
- What other opportunities exist?

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Affinity customers are loyal...

Partners are better than direct sales (i.e. from the provider) and much better than online aggregators for loyalty. Banks and building societies do well by packaging products together

Loyalty rate: customers renewing with existing provider as % switchers and renewals, 2009



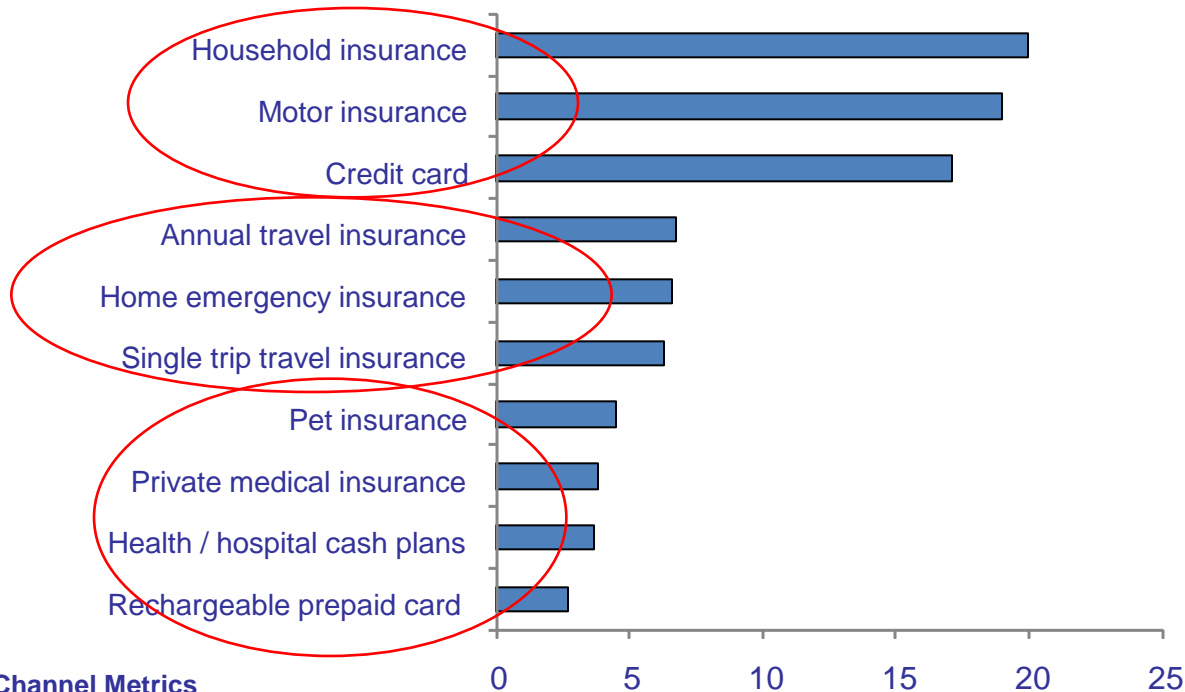
Source: Finaccord Channel Metrics
Products covered are those shown on slide 4

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... but which products should they sell?

Should affinity partners hope to win a small slice of a large cake, or a larger slice of a smaller cake?

Customer base in million households, 2009



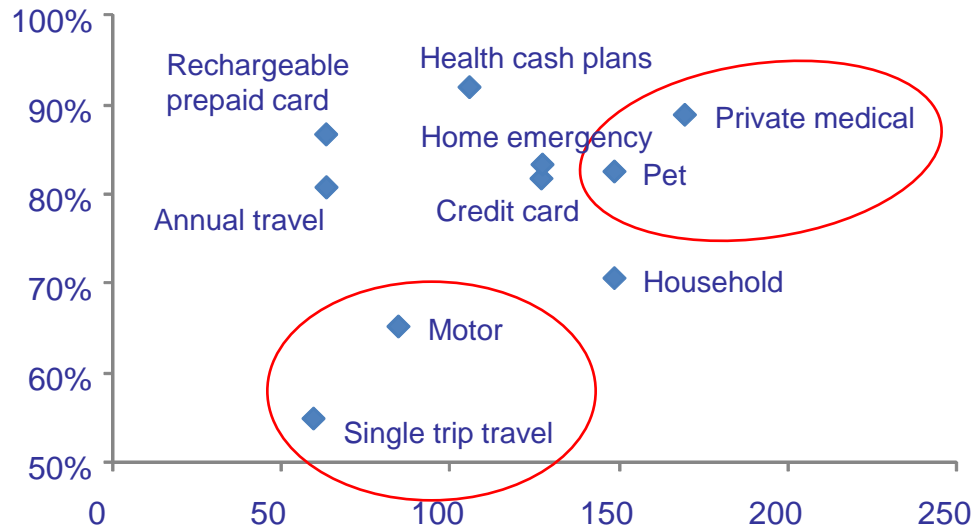
Source: Finaccord Channel Metrics

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Product sales or long-term relationship?

Products with a high volume of sales achieve this in part through a high churn rate.
Which products combine high volumes with high loyalty?

Loyalty rate: customers renewing with existing provider as % switchers and renewals, 2009



Sales in 2009 (new customers + switchers) in 000 households by non-for-profit affinity partners

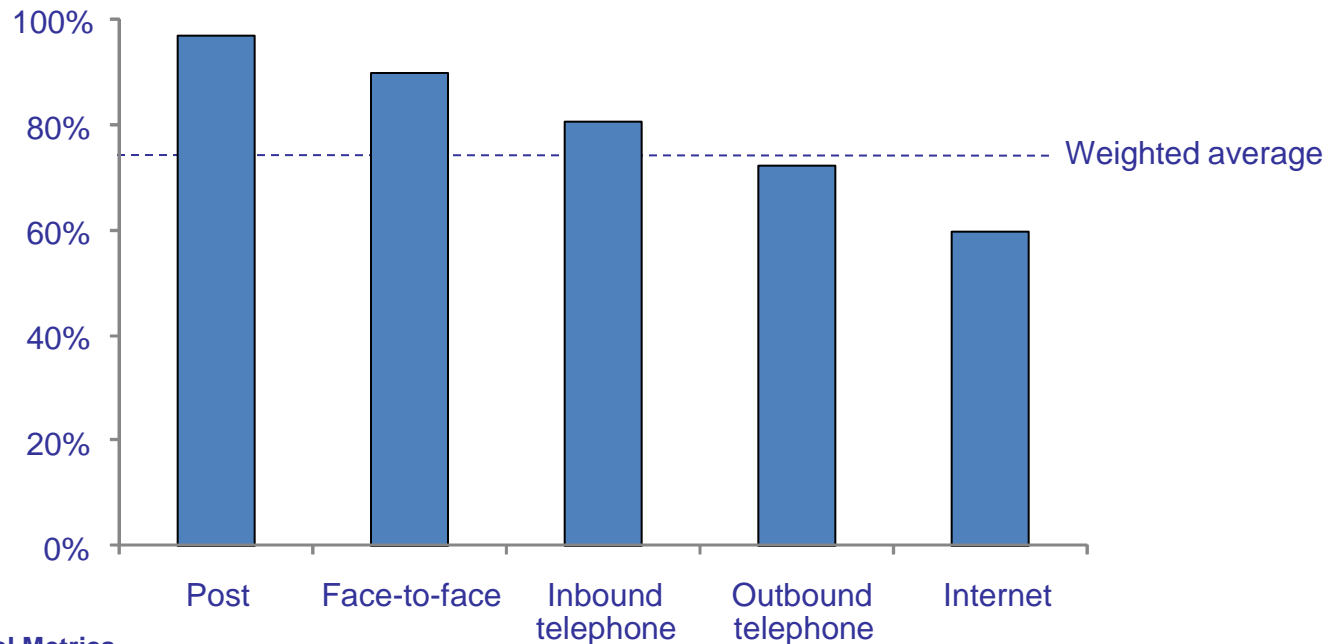
Source: Finaccord Channel Metrics

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Loyalty varies by distribution interface...

The easiest way to promote additional financial products is to add them to a website, but does this win long-term customers or fleet-footed ones?

Loyalty rate: customers renewing with existing provider as % switchers and renewals, 2009



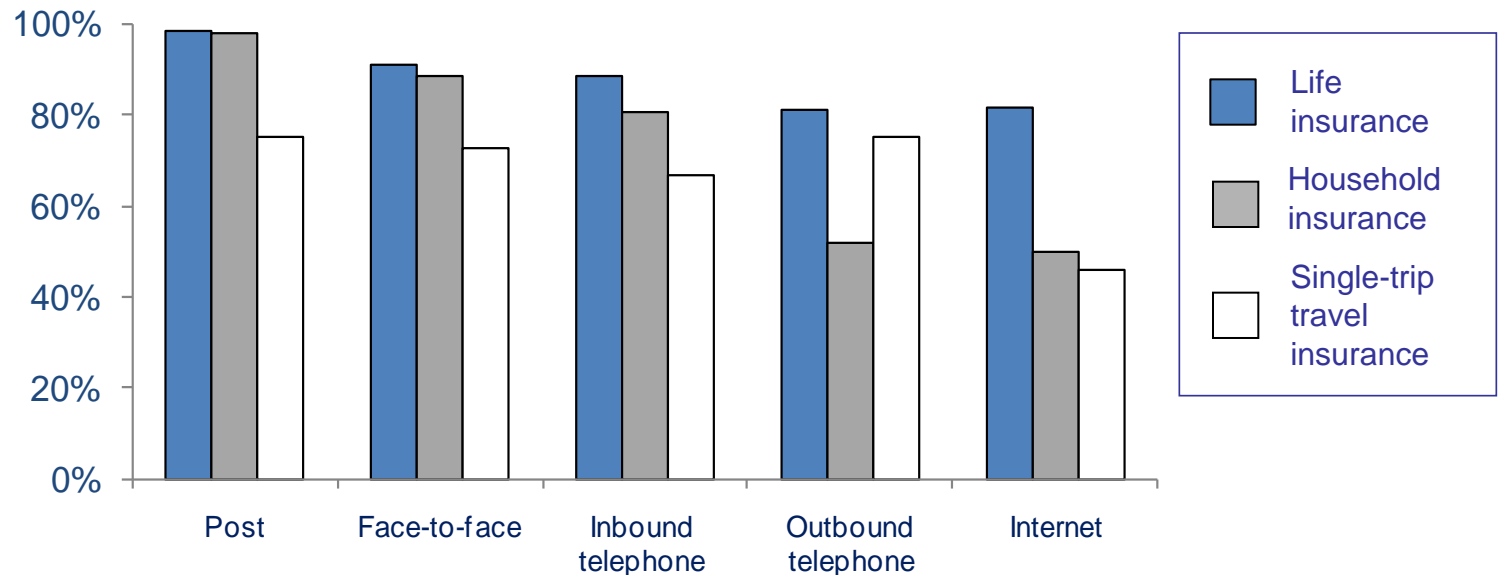
Source: Finaccord Channel Metrics
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... and by product

Life insurance loyalty rates are less affected by channel than household and travel insurance

Loyalty rate: customers renewing with existing provider as % switchers and renewals, 2009



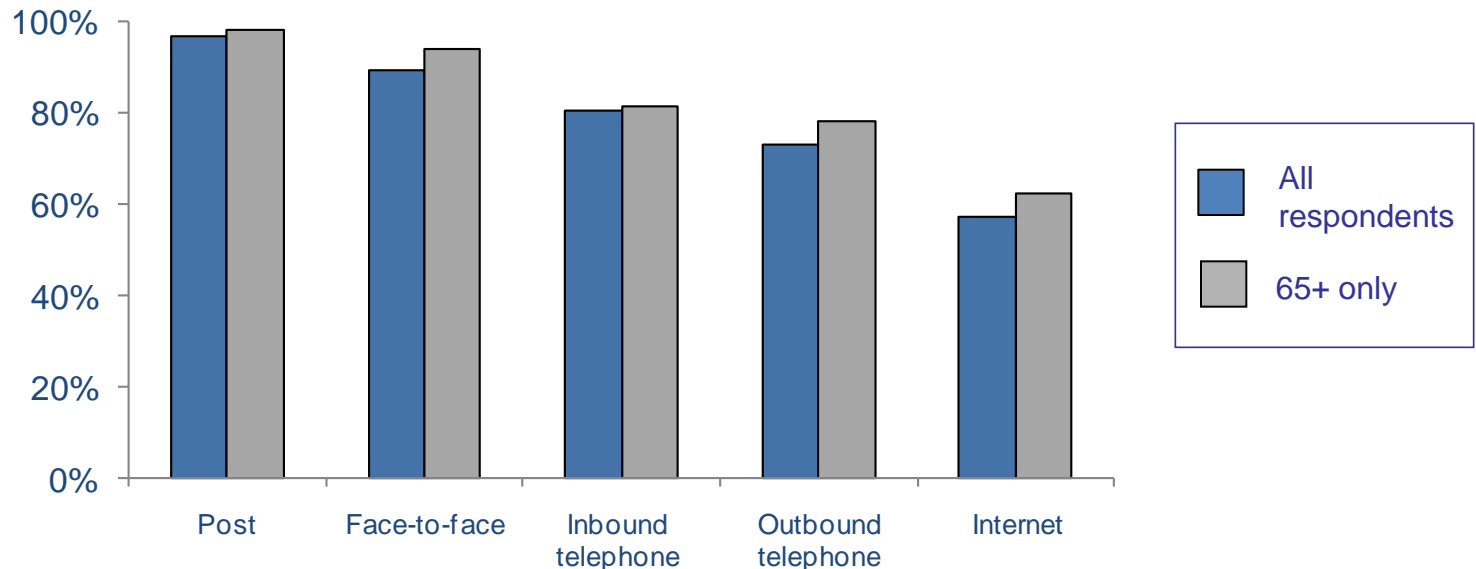
Source: Finaccord Channel Metrics

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Older customers lose their loyalty when online

It's not age – older customers may have a lower tendency to use Internet, but once they go online, they are nearly as disloyal as everyone else

Loyalty rate: customers renewing with existing provider as % switchers and renewals, 2009



Source: Finaccord Channel Metrics
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Focus on supermarkets

- Shift attention from affinity distribution as a whole to the most important segment of it
 - Many customers...
 - ... many products...
 - ... and Tesco Bank

3. Implied number of actual and viable customers for payment cards, 2010

Partner organisation	Sector	Combined % of viable customers	Implied no. of own customers (m)	Implied no. of customers for product (000s)	Rank
Tesco	Retailer - supermarket	14.9%	42.9	6,392	1
Sainsbury's	Retailer - supermarket	8.4%	36.9	3,082	7
ASDA	Retailer - supermarket	7.9%	38.1	3,014	8
Morrisons	Retailer - supermarket	4.6%	33.5	1,525	18
Waitrose	Retailer - supermarket	5.7%	17.2	984	38
Lidl	Retailer - supermarket	3.4%	25.6	875	49
Aldi	Retailer - supermarket	3.0%	23.3	705	58
Spar	Retailer - supermarket	2.3%	19.8	449	85

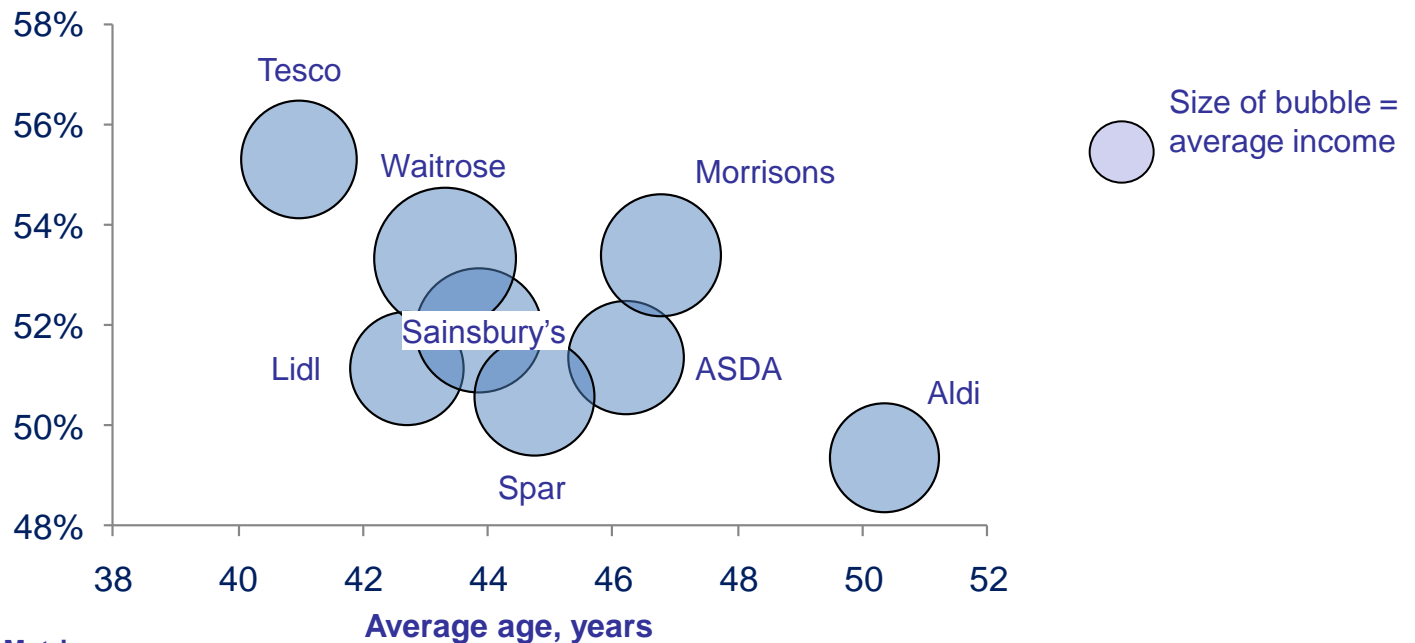
Source: Finaccord Partner Metrics

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Supermarket demographics

Tesco has the highest proportion of younger, female shoppers

Female customers as % of total



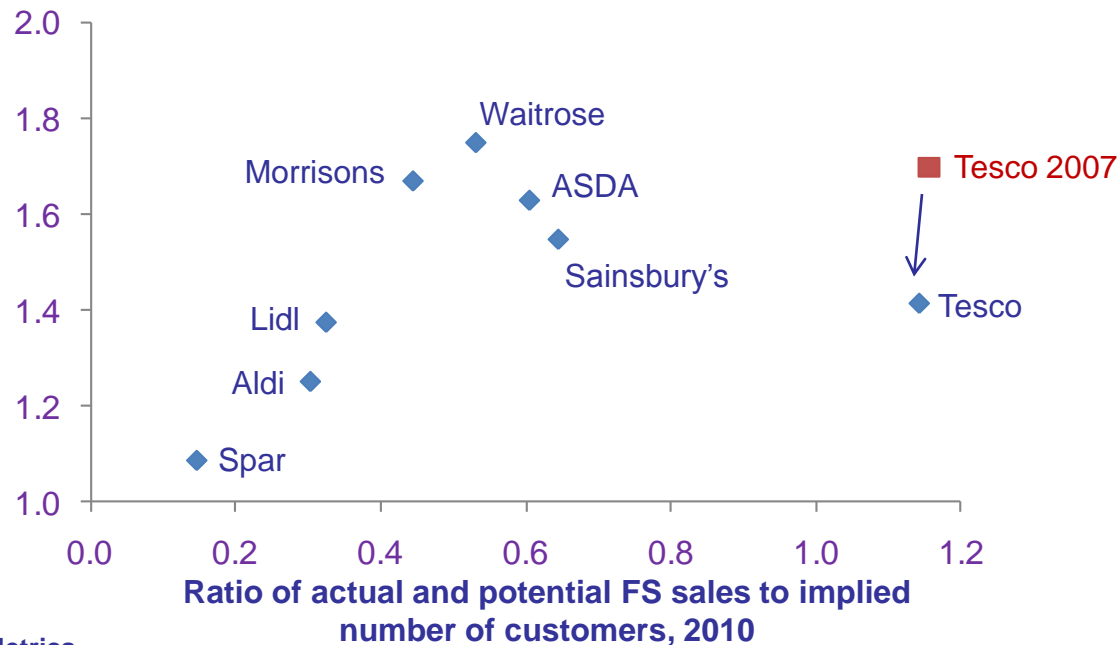
Source: Finaccord Partner Metrics

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Is Tesco's crown slipping?

Trust and the ability to cross-sell financial services are related. Trust in Tesco is falling just as it launches Tesco Bank

Score for trust among own customers, 2010



Source: Finaccord Partner Metrics

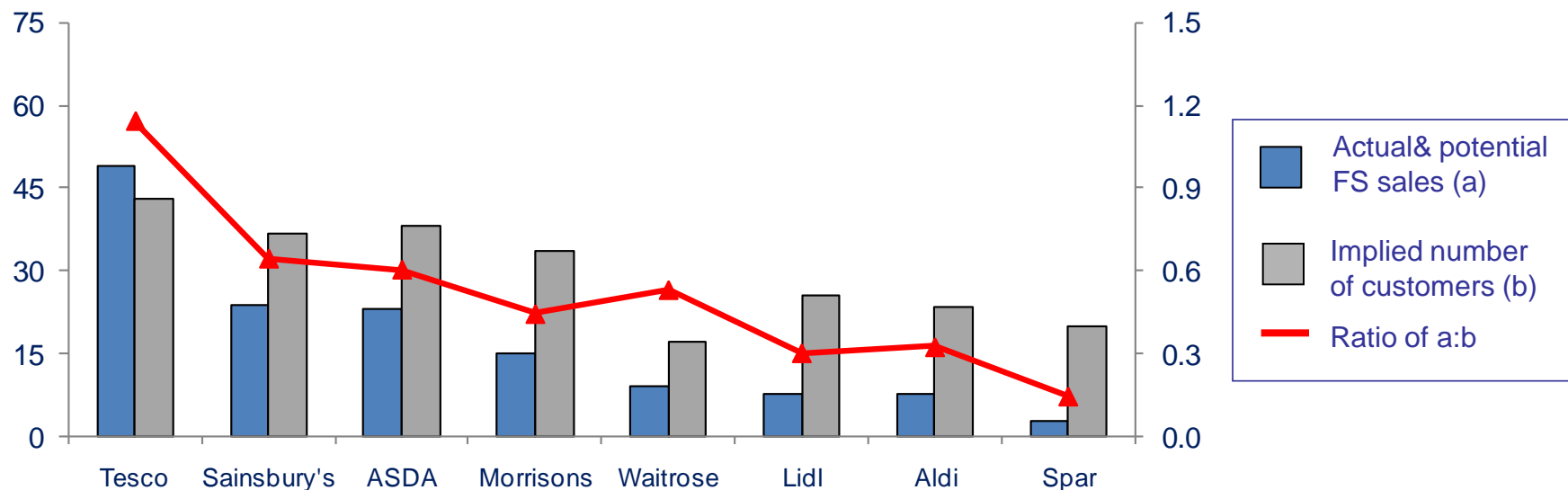
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And is there space for anyone else?

Does Tesco's leadership in financial services mean that consumers are willing to buy FS from supermarkets generally, or has it swamped the competition?

Actual and potential FS sales and implied customer numbers, million

Ratio of actual & potential FS sales to implied number of customers, 2010



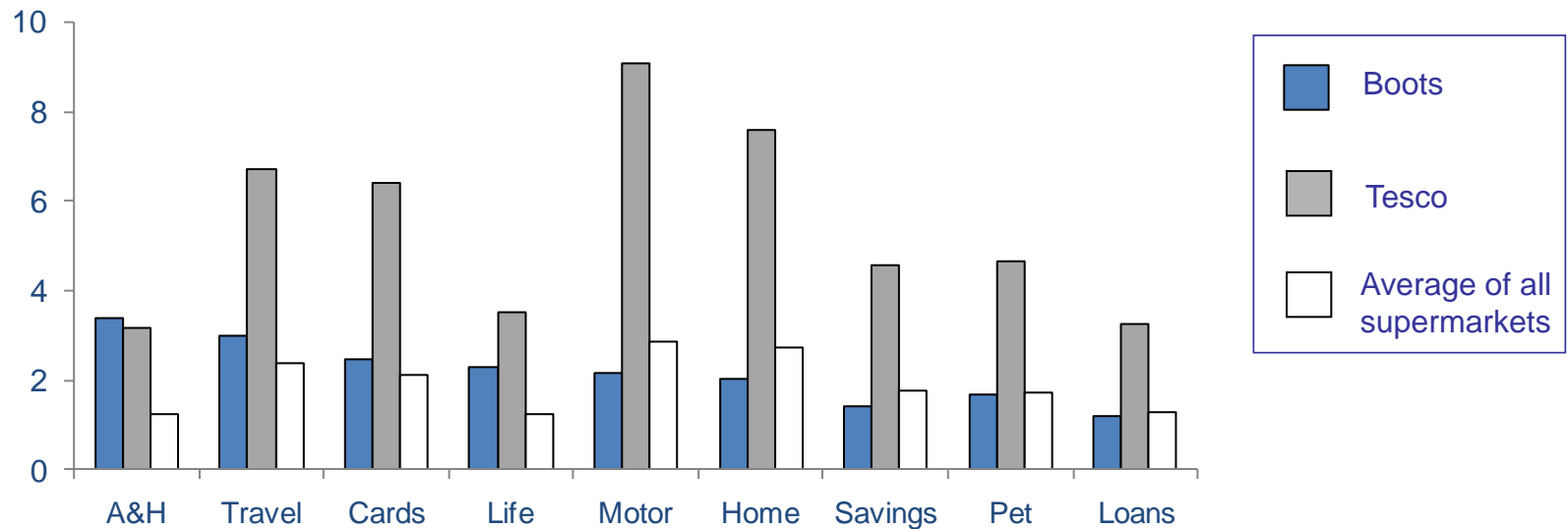
Source: Finaccord Partner Metrics

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Opportunities: trust Boots...

Boots is highly trusted (ranked 3rd among all respondents), has a large customer base (ranked 4th) and most potential for accident and health insurance

Implied actual and potential customers, million

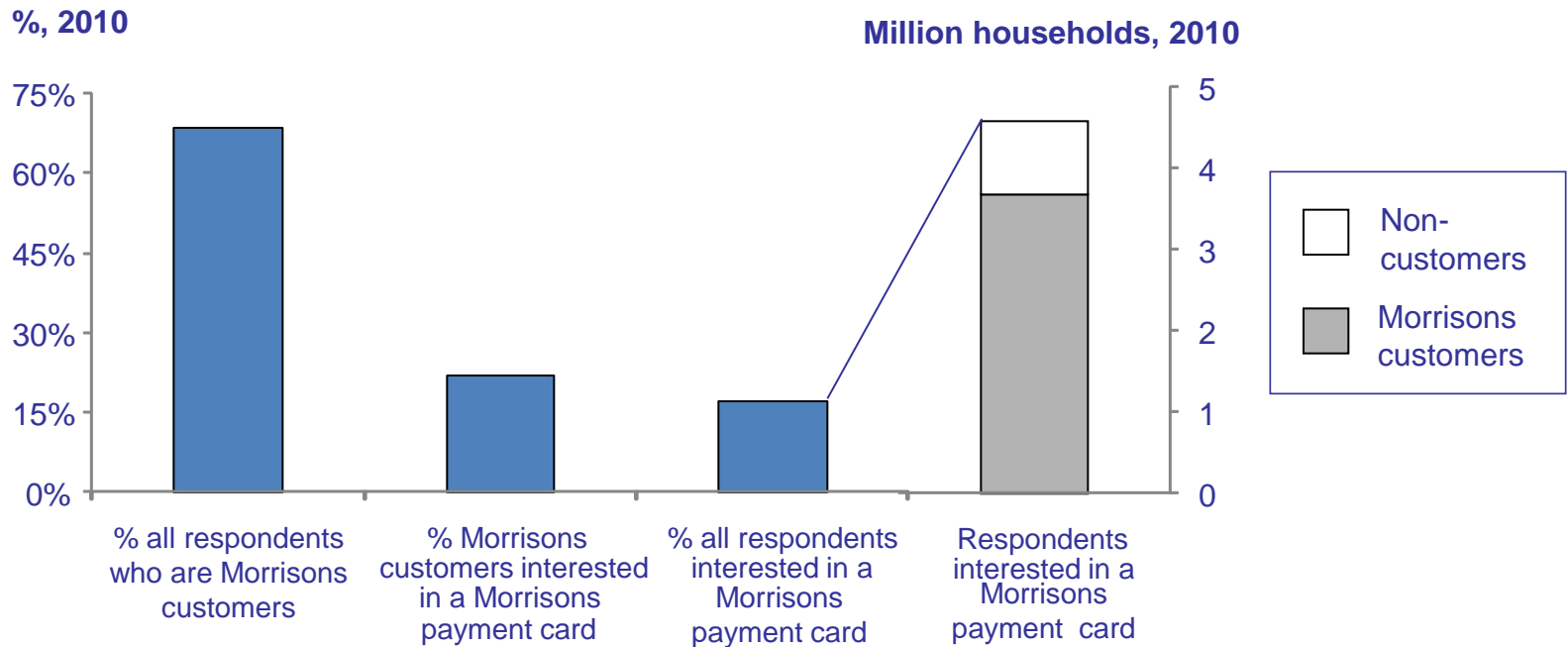


Source: Finaccord Partner Metrics

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...pay with a Morrisons card...

Supermarkets are major distributors of payment cards, and Morrisons has a large customer base. It could cross-sell a credit or payment card, ideally though stores rather than the Internet

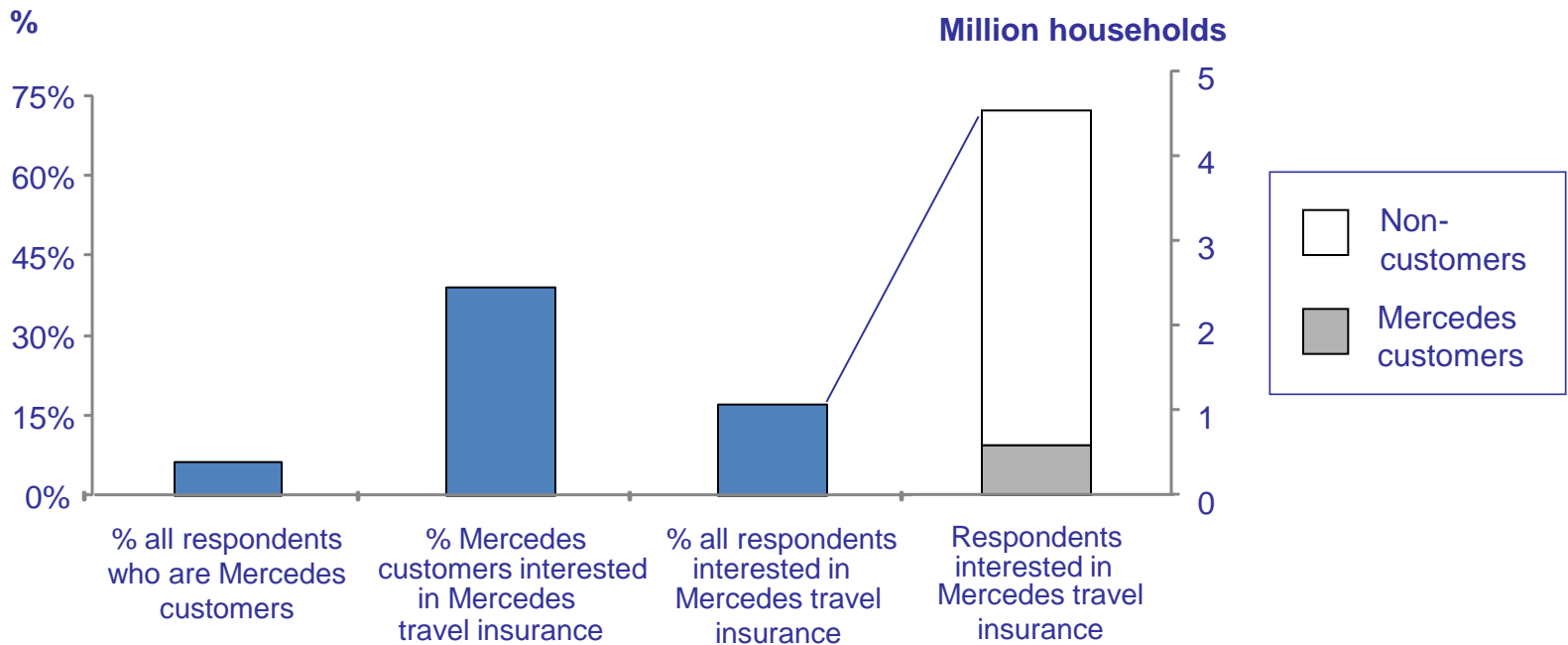


Source: Finaccord Partner Metrics

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... and holiday with Mercedes-Benz travel insurance?

Mercedes-Benz has few customers, but many non-customers would be interested in buying Mercedes-Benz travel insurance. This would lead it to online selling which is also the leading channel for travel insurance – and the one with the lowest loyalty rate



Source: Finaccord Partner Metrics

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Where else should affinity partners look?

➤ **Financial products are very important for affinity partnerships, but they have their limitations**

- High turnover of partnerships
- Too many 'me too' partnerships
- Few financial products mesh with the partner's brand or add something distinctive for their customers

➤ **Affinity partners can choose the 'path of least resistance', e.g. hosting BeatThatQuote.com on their website, covering all financial products indiscriminately...**

➤ **... but is there a better opportunity in assistance?**

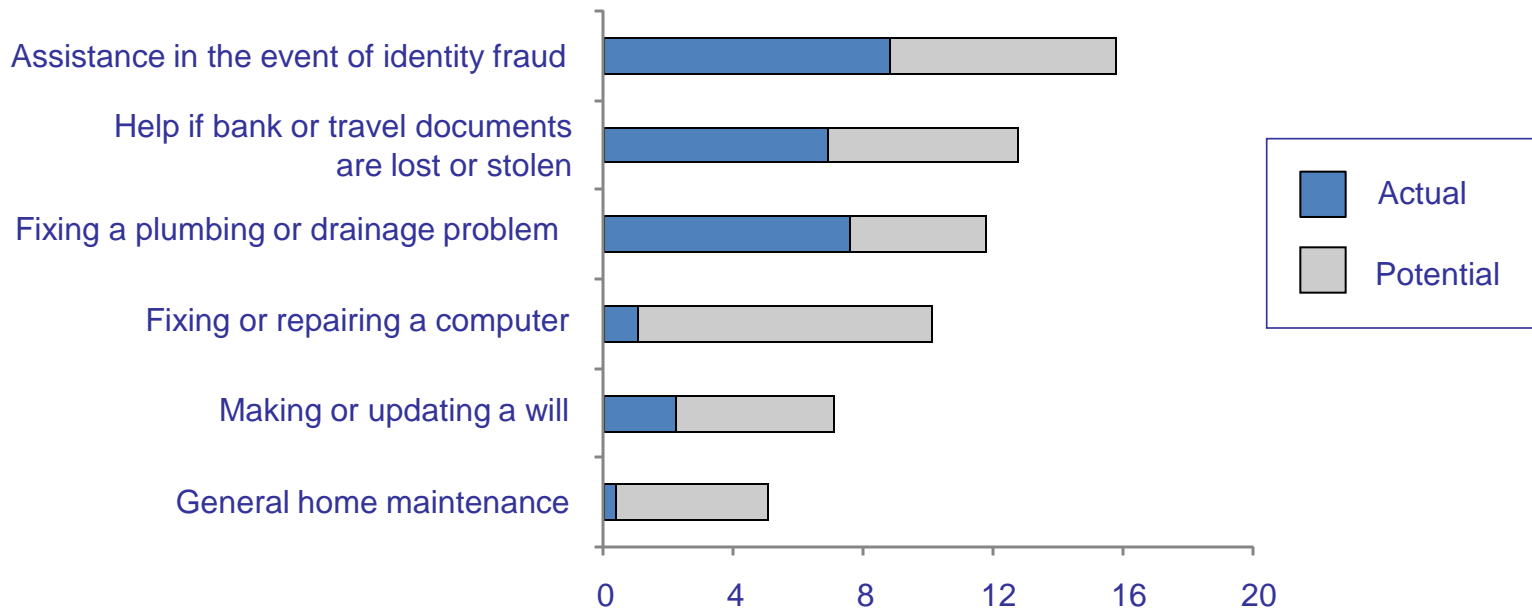
- Assistance covers a wide range of activities to help people
- Positions an affinity partner as being on / at the customer's side
- Different from other partners and providers
- Can be tailored to meet the partner's position

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What sort of assistance should be offered?

A wide range of types of assistance can be offered, to match the affinity partner's area of activity, customer base and brand values. While some of these are well developed, such as breakdown assistance, many others are in their infancy, e.g. concierge services

Customer base in million households, 2009



Source: Finaccord Assistance Metrics

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