Financial Services Brand Engagement: The Role of Experience and Perceived Risk

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Against a background of growing consumer cynicism towards brands and high levels of consumer distrust of the financial services industry, this developmental paper explores the possible role of consumer experience and perceived risk in consumer brand engagement within the financial services industry.

This paper proposes that consumers who have less experience and therefore perceive more risk when purchasing high-credence financial services products such as a pension or investment are more likely to engage with a financial services brand than consumers who are experienced in the purchase of such products and perceive less risk.

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Introduction.

The role of brand has long been recognised as important in many business sectors, particularly those that are consumer facing such as FMCG and consumer electronics, both in terms of attracting and retaining the custom of consumers, and in adding value for shareholders through the creation of brand equity. Indeed for many companies such as Apple, Microsoft, Unilever and Proctor and Gamble much, if not most of their market value is based upon brand equity rather than other more tangible assets such as property or cash reserves (Aaker, 1996; Keller 2013), not least because the ownership of a brand where consumers perceive value in possessing that brand can allow the brand owner to charge a premium for products sold under that brand thereby considerably enhancing profit margins (Aaker, 1996; Chaudhuri and Holbrook, 2001; Ailawadi *et al.,* 2003).

Consumer Brand Engagement

One factor identified as contributing to brand equity is Consumer Brand Engagement (CBE) which has been described as vital to strong consumer brand relationships and effectively represents the creation of a more meaningful and deeper relationship between a consumer and a brand (Keller, 2013; Khan *et al.,* 2016; Kumar *et al.,* 2010). CBE has been the focus of much academic research in recent years and is seen to include cognitive, affective and behavioural dimensions (Hollebeek, 2011a) and has been defined as "the level of an individual customer's motivational, brand-related and context-dependent state of mind characterised by specific levels of cognitive, emotional and behavioural activity in direct brand interactions" (Hollebeek 2011b, p.790).

CBE is recognised as being beneficial to an organisation as good CBE can improve sales, profitability and customer loyalty, reduce costs, encourage consumers to contribute to co-creation and increase brand referrals. CBE is therefore viewed as a means for a brand to obtain competitive advantage and a key metric for measuring brand performance (Hollebeek and Chen, 2014; Hollebeek *et al.,* 2014).

Recently however, concern has been raised that consumers, particularly younger consumers, may be becoming more cynical of brands and promotional practices surrounding them with many brands being seen as arrogant and often exaggerating product performance claims leading to a position where 42% of UK consumers distrust brands and 69% distrust brand advertising (Marketing Week, 2017a). Whilst this cynicism may be of concern to brand managers in areas such as FMCG and consumer electronics where the role of brand is well established and accepted, in other industry sectors such as the financial services industry, the role of brand has always been ambiguous and much less certain with ongoing doubts being expressed about the level of CBE and consumer brand loyalty (Marketing Week, 2017b). Such concerns relating to financial services industry brands can only be exacerbated by events surrounding the banking crisis of 2008 and other scandals, such as the commission based selling of pensions and mortgage endowments in the 1980's and 1990's and more recently, PPI miss-selling, that together have caused consumer confidence and trust in the financial services industry to collapse (Ulsaner, 2010; Nienaber *et al.*, 2014).

Financial Services Brand Engagement.

This uncertainty relating to financial service brand engagement is reflected in ambiguity and disagreement in the academic literature. For example, Devlin (2007) found that UK financial services consumers do not generally engage with financial services brands when purchasing mortgage endowment policies, whereas Gough and Nurullah (2009) found that over half of their respondents based their decision to purchase a particular investment or pension product upon brand familiarity. Neither author offers any explanation for their findings relating to this issue. Indeed, there is further ambiguity in the academic literature as McKechnie (1992) claims that many consumers often base their decision to purchase a financial services product upon their level of trust in their financial adviser rather than on product or supplier attributes, effectively, brand attributes.

This ambiguity in the literature was recognised by Poole and Yousafzai (2017) and also reflected in their findings which indicated that whilst the presence of a well-known brand positively contributed to levels of consumer trust in the financial services industry generally and financial advisers in particular, the relationship was not strong. Many of their respondents indicated that they did not particularly value the presence of a well-known brand when purchasing long term high risk high credence products such as a mortgage, investment or pension. Poole and Yousafzai (2017) suggest that consumer experience may be a moderating factor in this relationship as their respondents who had more experience of purchasing financial services products held a more cynical attitude towards the major brands believing they would obtain a better deal by utilising the services of an independent financial adviser, whilst respondents with less experience of purchasing such products generally found the presence of a well-known brand to be reassuring and would therefore often chose to purchase such products through a financial adviser employed by a well-known brand such as a high street retail bank (Poole, 2014).

Perceived Risk and Experience.

Given that long term financial services products are often complex, high credence products that consumer struggle to understand and judge (Devlin, 2001; Gough, 2005; Harrison *et al*., 2006; Gough and Nurullah, 2009), a potential explanation for this moderating role of experience suggested by Poole and Yousafzai (2017) may be that consumers with more experience i.e. where the consumer has purchased the product in question before (or a similar product), perceive lower levels of risk than less experienced consumers, i.e. where the consumer has not purchased the product (or similar) in question before or has purchased the product infrequently (Mitra *et al.*, 1999).

Perceived risk is where an individual holds a belief that a course of action may involve some form of loss or negative consequence for them and is known to affect consumer behaviour by, for example, engaging in behaviour that may reduce the risks associated with a particular purchase such as the acquisition of information about the product and supplier (Lim, 2003; Solomon *et al.*, 2010).

Consequently, when an inexperienced consumer is in the process of purchasing a high credence product such as an investment or pension, they may engage in behaviour to reduce the levels of risk they are perceiving with one possible strategy being to purchase a product offered by a brand that the particular consumer is already familiar with and possibly trusts, particularly as it has been suggested that trust is essentially a means of enabling individuals to either reduce or overcome perceived risk (McKnight *et al.*, 2002).

Essentially, consumers with less experience of purchasing a particular high risk high credence product, such as a pension or investment, will engage with a brand they trust in order to reduce the level of risk they perceive during the purchasing process. As the consumer becomes more experienced in purchasing products from that particular category, they will perceive less risk and will therefore be less likely to engage with the brands that offer products in that category.

Various forms of perceived risk have been identified as potentially affecting the decision to purchase a product including financial risk, performance risk, physical risk, social risk, psychological risk and time risk, with consumers perceiving different forms dependent upon the product being purchased (Jacoby and Kaplan, 1972; Lim, 2003; Solomon *et al.*, 2010).

In the case of financial services products such as an investment or pension, most if not all will carry levels of financial risk as an investment could fall in value. Performance risk may also be perceived as, for example, the investment performance of a pension may not provide an adequate income in retirement. This in turn could cause the perception of psychological risk as the failure to secure an adequate retirement income could lead to that consumer suffering a loss of status. It is however difficult to imagine how the purchase of an investment product could carry physical risk i.e. the risk of physical harm to a consumer.

Further Development

This developmental paper proposes to examine this issue and establish if experience and perceived risk do moderate financial services brand engagement by UK consumers as suggested and in doing so, answer the call by Poole and Yousafzai (2017) for further research into this issue.

Proposed Methodology

It is proposed to undertake a quantitative empirical examination of this phenomena using structural equation modelling as the main analysis technique, particularly as there are established scales for many of the constructs discussed in this developmental paper (for example, the scale used by Mitra *et al.*, (1999) to measure perceived risk and the scale used by Hollebeek *et al.*, (2014) to measure CBE) that could be easily adapted for use in this context.

However rather than restricting the study to the potential moderating effects of experience and perceived risk upon CBE in the context of high risk-high credence UK financial services industry products, it is proposed that the design of the study will allow parallel studies in different contexts to be undertaken, thereby enabling the study to establish if this proposed phenomenon is restricted to high risk, high credence UK financial services products or not. Following such as design would allow the findings to be generalisable and therefore of more value to both academia and practitioners.

Next Steps

It is proposed that the next stage of development for this paper will be to fully explore the theoretical foundations for the proposed relationships thereby allowing the formulation of a suitable research plan and research instrument.

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