Decision-Making Criteria for Financial Services: Differences Among Younger and Older Consumers

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Deregulation of the financial industry has resulted in greater choice of financial providers and products (Krishnan, Ramaswamy, Meyer, & Damien, 1999; Orlow, Radecki, & Wenninger, 1996). The increased complexity makes consumer decision-making more challenging (Khazeh & Decker, 1992; Stravins, 1999). Consumers may be in need of unbiased information about financial services and products in today's marketplace. Since much of the change in the industry is recent, there is reason to believe that younger consumers may use different decision-making criteria than do older consumers. Older consumers have had to adapt their decision styles to changes, while younger consumers may have less experience with the way it was. Consumer education programs might be quite different if research indicates that younger consumers use different decision-making criteria than do older consumers.

Previous studies have identified some of the criteria consumers use in choosing financial services, but not by age of the consumer: recommendations by family, quality of service, pricing or service-charge policy, reputation, loan rates, and convenience (Beckett, Hewer, & Howcroft, 2000; Lepak, 1998; Sinkula & Lawtor, 1988; Khazeh & Decker, 1992). Several researchers investigated decisions made by college students and found that convenience and parents' recommendations were significant criteria for U. S. students (Schram, 1991), but that service charges were the most important for Irish and Chinese students (Ta & Har, 2000; Colgate, Stewart & Kinsella, 1996). Boyd, Leonard and White (1994) examined various subgroups of consumers and found that younger household heads were more concerned with hours of operation than were older households. Lee and Marlowe (2003), using the Survey of Consumer Finances (SCF), found that

consumers' decision-making criteria were associated with age. Participants in the SCF study were asked to define the single most important criterion used in selecting a financial institution. However, it is likely that consumers use more than one criterion in selecting financial services. Therefore, the purpose of this study was to investigate whether consumers use several criteria in choosing financial services, including checking accounts, savings accounts, certificates of deposit (CDs), and vehicle loans, and whether criteria are different for older and younger consumers.

Research Procedures

Focus group methodology was used to investigate the criteria younger and older consumers use in selecting financial services, including how they might combine several criteria. Focus groups with homogenous participants were used to provide insights that could not be obtained through analysis of more traditional surveys (Krueger, 1998). An expert in consumer financial behavior was hired as a moderator to lead the discussions. A moderator's guide was developed by the researchers in consultation with the moderator. The purpose of the guide was to provide a framework for discussion structured to obtain information relevant to the research question: Do selection criteria for financial services differ for younger and older consumers? Some of the discussion questions were: In the decision-making process, which factors or features were important to you? Are some features more important than others? If you closed an account, why did you close the account? What process did you go through in selecting a financial service?

Four focus groups were conducted in Athens, Georgia, which has a population of approximately 100,000 residents. Participants from the metropolitan area were selected through a random-digit dialing process by the Survey for Behavioral Research at the University of Georgia. All participants were asked a screening question to determine whether they had opened a checking account, savings account, or certificate of deposit during the past six months. Only those who had opened one of the above accounts were eligible to participate.

The four focus groups were formed, and participants were paid $80 each for their participation. The first two focus groups comprised individuals 18-49 years of age; participants in the other two groups were 50 years of age or older. Five participants were in the first focus group (all white, 3 males, 2 females), six in the second (all white, 2 males, 4 females), 10 in the third (9 white, 1 Hispanic, 7 males, 3 females) and 11 in the fourth (8 white, 2 black, 1 Hispanic, 2 males, 9 females). The focus groups were conducted on week nights over a two-week period in January and February, 2001. Each of the sessions was audio taped and lasted one to two hours.

The primary function of focus group analysis is to identify trends and patterns. The researchers consider how often a subject is discussed, how many individuals mention the subject, and whether a topic is discussed with passion or depth of feeling (Krueger, 1998; Morgan, 1998). To ensure the reliability of analysis, two research assistants were hired to analyze the data independently. In addition, the co-authors independently analyzed the data. Consistency of coders was checked, and whenever an inconsistency arose all four coders re-examined the transcripts of the audio tapes and resolved the inconsistency.

Findings

Findings are summarized in the table. As expected, there were some distinct differences in the criteria that younger consumers and older consumers used in selecting a checking account. While most focus group participants mentioned convenience as a primary criterion in choosing an institution for a checking account, younger consumers had different definitions of convenience than did older consumers. The older consumers were more likely to have higher levels of assets and were able to open accounts that required higher minimum balances, earned higher

Table
Decision Criteria of Younger and Older Consumers

Type of Product	Criteria for Younger Consumers	Criteria for Older Consumers
Checking Account	Convenience (located in a grocery store, hours of operation, ATM availability, on-line banking, interstate banking), low monthly fees, low minimum balance, first year free.	Convenience (located close to home, hours of operation), no monthly fee, higher interest rates, good service, no teller fees, fee structure (consider all of them together), positive relationship with personnel, want a community (local) bank, range of services.
Savings Account	Overdraft protection, interest paid, forced way of saving, automatic deduction from paycheck. (Other: Would rather invest in stock mutual funds.)	Overdraft protection, interest paid. (Other: Would rather invest in stock mutual funds.)
Cert. of Deposit (CD)	Few younger consumers are interested in CDs.	Rates paid, will switch institutions to get better rate, will try to negotiate better rate.
Vehicle Loan	Low interest rate, length of loan, down payment. (Other: Dealers give best rates. Rates depend upon credit rating. No need to search for best rates.)	Low interest rate, get loans from people you know (your local bank). (Other: Dealers and credit unions give best rates.)

interest rates, and waived monthly service fees. Consumers were very sensitive to monthly service fees, and stated that they would switch institutions if the monthly fee was higher than acceptable; however, consumers were insensitive to other retail fees, such as per-item fees in excess of the number of free transactions, insufficient funds fees, and fees for returned canceled checks. Many participants were not aware of these fees. Younger consumers were very much aware of ATM fees. Consumers were extremely sensitive to fees for using a human teller.

Having a positive personal relationship with personnel at the institution was an important criterion for older consumers; they would trade cost for convenience, but they would not tolerate poor service. While younger consumers were more likely to do their banking at an ATM or on-line, they, too, said that they would switch institutions if they received poor service. All focus group participants who had had bad experiences at an institution where they had checking accounts switched institutions. Interestingly, some of the participants linked good service to community financial institutions, citing unfriendly, less consumer-oriented business practices of large banks after consolidation. However, participants who were supportive of community financial institutions did not choose the financial institution for a checking account on this single criterion.

Most focus group participants said they considered the rate of return the most important criterion for selecting a savings account or certificate of deposit (CD). Younger consumers were not interested in CDs, stating that if they had money to invest, they would put it in the stock market. Older participants used CDs and were very assertive in searching for good interest rates. Few participants were interested in savings accounts, except when the account was used to provide overdraft protection for a checking account. Two younger consumers had savings accounts as a way of forced savings, with an amount automatically deducted by the institution from the consumers' paychecks and put into savings accounts.

Most consumers had obtained lower interest rates on vehicle loans from automobile dealers than from financial institutions; however, older consumers said they would go to a financial institution to inquire about a vehicle loan if they knew someone at the institution. Younger consumers believed that the interest rate they received was based on their credit report; thus, there was no need to shop around for interest rates.

Implications for Consumer Education

Given that there have been many changes in the financial industry in recent years, there is a need to educate consumers about the implications of these changes. In this focus group study, a number of the criteria mentioned as important in selecting financial accounts differed for younger and older consumers. Thus, financial education programs need to be different for younger (18-49) and older consumers (>50). For younger adults, topics of a program on how to select a checking account might include information about on-line banking as well as how interstate banking works given that younger consumers (college students, for example) want the convenience of using a bank in more than one state. Young consumers need to be aware of fees that are associated with checking accounts. Savings accounts and certificates of deposit are not popular with young consumers. Thus, these kinds of accounts could be covered as part of education on savings in general. Since there is no one savings mechanism that serves all purposes, it is important for young consumers to know which kinds of savings instruments are best for specific purposes. Young adults need to be able to distinguish stock-based from non-stock based savings instruments. They also should understand the risks associated with each, as well as risks associated with savings accounts, CDs, and money market funds.

Young adults do not understand credit ratings and their relationship to interest rates for vehicle loans. While there is a relationship, it is not the credit rating, but rather the lender, who determines the interest rate. None of the younger consumers were aware that they could shop around for better interest rates on vehicle loans. The young adults believed that dealers gave the best rates based on the consumer's credit rating. Market conditions might change and younger consumers need to be aware that dealer financing may not always be the best option. Young consumers appear very trusting of automobile dealers, and education could inform young adults of typical fraudulent practices that occur with vehicle sales.

While consumers over 50 years of age were savvy in choosing checking accounts with lower fees, they were reluctant to change the way that they had been operating with respect to checking accounts. Programs that explain advantages and disadvantages with respect to interstate banking, on-line banking, and use of ATMs might keep older consumers from feeling excluded in today's banking world. Although older consumers were astute with respect to choosing CDs that offer better rates, programs that cover investment alternatives to CDs could help these consumers consider instruments that yield more than do CDs.

Delivery of Education

Consumer educators need to use different means of delivering education to older versus younger adults (Langer, 2002; Taylor, 2002; Huang, 2002). There is a learning cycle throughout one's adult life and delivery should be adjusted accordingly. Older adults learn better from programs that involve activities, reflection and application to actual problems. The participants themselves can be the richest resources in activities such as group discussion, and instructors need to acknowledge past experiences of adults and apply these experiences to the topics covered (Langer, 2002, p. 899). It is useful for instructors to use additional resource personnel, such as individuals with specialized knowledge and field experiences (Langer, 2002). This approach would work well with education about financial services. With respect to young adults, it is important to acknowledge the importance of online

education. Many young adults prefer on-line delivery of education, especially young parents with busy schedules (Taylor, 2002).

Summary

Consumers have had to adjust their decision-making with respect to choosing financial services as a result of the many changes in the financial industry. Younger adult consumers use different criteria in making choices than do older consumers. Trends that emerged from the focus group study reported here indicated that young adults want electronic services, ATMs, and interstate banking. The trend among consumers over age 50 years was a preference for personal service and a feeling of community. All consumers wanted to receive good service and indicated they would switch if they did not receive it. Convenience was important to participants in both age groups, though the definition of convenience was different for the two groups. Cost of financial services was a consideration but not the main criterion. Consumer educators need to take these factors into consideration and develop programs that are tailored to the age of their adult audiences.

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