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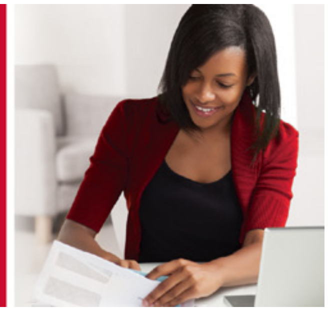

Managing Customer Attrition

When customers switch financial institutions, banks lose an average of $750 per customer, making it essential for banks to focus their attention on retaining existing customers. The cost of servicing existing customers is relatively low, considering fixed costs related to facilities, technology, and personnel vs. the relatively high additional costs of onboarding new customers. Onboarding typically costs several hundred dollars per new customer, with approximately $350 for account set up plus any cash promotions for which some banks are willing to pay as much as $200 per customer.

There are four areas in which banks are falling short in their efforts to increase customer loyalty:

- Providing basic customer service
- Providing greater clarity and transparency
- Preventing problems
- Executing at moments of truth

Providing Basic Customer Service

At-risk customers (those who say they “definitely will” or “probably will” switch banks in the next 12 months) are more likely than loyal customers (those who say they “definitely will not” or “probably will not” switch banks in the next 12 months) to experience sub-par branch and call center interactions, with a gap in satisfaction with each channel of more than 130 points on a 1,000-point scale.

To ensure consistent service delivery and adherence to service standards at branches and call centers, there are three important best practices that banks should follow:

1. Define what a good service experience is—specifically, banks should create video tutorials that demonstrate good and bad service experiences. By providing real-world examples, employees will likely gain a better understanding of performance expectations, as well as a point of reference for their interactions with customers.
2. Hire the right personnel to execute these standards, which entails monitoring staff performance on a regular basis. High-performing banks tend to institute more effective practices for disseminating both employee-level and branch-level data on a timely basis and using the data gathered for ongoing training and coaching.
3. Recognize and reward individual employees who are executing on the bank’s core values, which may also encourage other staff members to consistently provide this level of service to their customers.

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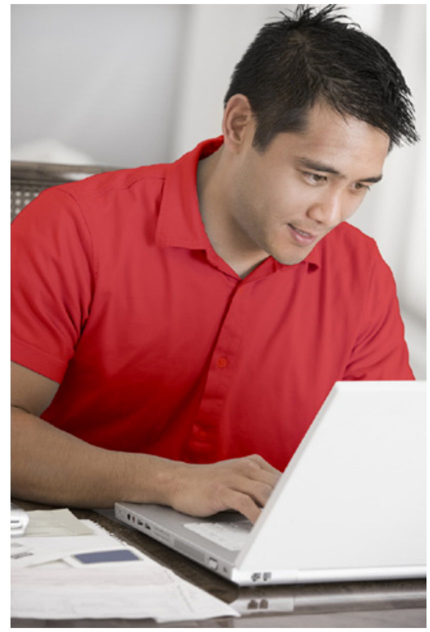
At-Risk Customers		Loyal Customers
703	Branch Satisfaction	845
5.6	Branch wait time (avg. minutes)	2.9
59%	Greetings (% yes)	78%
39%	Branch customer service (% yes)	55%
692	Call Center Satisfaction	828
7.6	Call center hold time (avg. minutes)	3.9
47%	Transferred to another rep (% yes)	31%
73%	Call center customer service (% yes)	92%

Source: *J.D. Power & Associates 2013 U.S. Retail Banking Satisfaction Study*[SM]

Providing Greater Clarity and Transparency



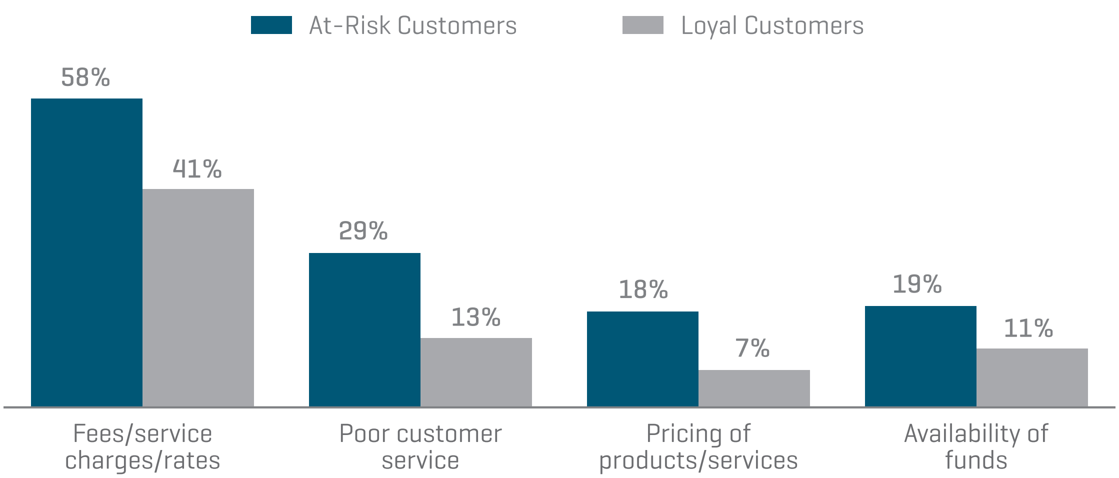
At-risk customers receive the same number of proactive contacts from their bank as loyal customers receive—two per year, on average. However, in terms of satisfaction, it's not about quantity; it's about quality. At-risk customers are less likely to say they "completely" understand checking account features, compared with loyal customers (36% vs. 45%, respectively), as well as fee structures (26% vs. 34%, respectively). At-risk customers also indicate that the communications they receive are not tailored to their needs. Further, Account Information satisfaction is significantly lower among at-risk customers than among loyal customers (716 vs. 854, respectively). Specifically, at-risk customers indicate that there is less availability of key account information—whether on paper statements or online—and that the information provided is not presented in a clear and concise manner, compared with loyal customers.

It becomes critical for banks to ensure account information is easy to access, clear, and concise via all channels, including mailed statements, website, and mobile app or mobile website. Additionally, banks should review their communication strategies and tailor them to meet customer needs, ensuring that customers are receiving not only communications regarding product or pricing changes, but also information about current product services/features and special offers/promotions.

Preventing Problems

Problems are a primary cause of intended defection. More than four in 10 (43%) at-risk customers have experienced a problem in the past 12 months, compared with only 15% of loyal customers. Fee- and customer service-related problems are not only the most commonly experienced problems, but they are also experienced by considerably more at-risk customers than loyal customers. These problems have a considerable impact on satisfaction and may be difficult to resolve, making it imperative for banks to minimize their occurrence.

PROBLEM TYPES BY CUSTOMER SEGMENT



Source: *J.D. Power & Associates 2013 U.S. Retail Banking Satisfaction Study* SM

Fee-Related Problems

While it is important for banks to understand the relationship between charging fees and fee-related problems, eliminating fees is not a realistic option for financial institutions. Therefore, it is critical for banks to mitigate the potential negative impact on attrition by focusing on providing a clear explanation of what fees will be incurred by customers, and to explain what they receive in return for paying them. Whether it is an unexpected fee or a change to current fee schedules, clear and ongoing communications are critical to driving greater customer understanding and, in turn, preventing fee-related problems.

Customer Service Problems

The number of customer service problems may be reduced by ensuring that all customer-facing employees are respectful, courteous, and knowledgeable. Representatives should greet customers in a friendly manner; offer them additional assistance; and thank them for their business. It is also critical that representatives are as helpful as possible, especially when handling a problem or question. Furthermore, branch/call center managers and supervisors need to be vigilant and intervene whenever necessary to prevent or resolve customer service issues.

Executing at Moments of Truth

While it is important to meet customer expectations during every interaction, it is imperative that banks perform well at critical "moments of truth." Within the banking industry, two such moments occur at account opening and during problem resolution. When customer expectations are not effectively met, the repercussions are likely to be felt for years to come—not only impacting customer attrition, but also advocacy and share of wallet.

	Problem Resolution Satisfaction		New Account Opening Satisfaction	
	High Satisfaction	Low Satisfaction	High Satisfaction	Low Satisfaction
% Definitely will/Probably will switch	11%	46%	8%	43%
% Definitely will not/Probably will not reuse	15%	64%	7%	58%
% Definitely will not/Probably will not recommend	17%	73%	7%	66%
Share of deposit balances (mean)	71.9%	62.7%	74.5%	48.4%

Source: *J.D. Power & Associates 2013 U.S. Retail Banking Satisfaction Study*[SM]

Account Initiation

It is critical that banks provide a highly satisfying account opening experience since it is often the first interaction customers have with their bank and has the potential to set the tone for the entire banking relationship. This is especially important because there is an above-average incidence of intended attrition among customers who have been with their bank for 2 years or less (13% vs. 11% industry average). The following are critical steps for establishing a highly satisfying banking relationship:

1. Greet these new customers when they enter the branch and direct them to the appropriate representative to open their account.
2. The representative who is opening the account should greet the customer with a smile and hand shake.
3. Representatives should introduce new customers to the branch manager, as available, to help reinforce the message that the customer's business is valued.
4. Provide a comprehensive needs assessment for new customers, which includes explaining account features and benefits and discussing fees/product pricing.

Succeeding at the new account initiation process is not limited to the first meeting, but extends to the follow-up experience as well. The follow-up process should involve a phone call from the representative who opened the account and should occur within the first 3 days after account opening. During these calls, it is important that representatives answer customers' questions, reinforce product fees/pricing, and clarify account features and benefits.

Problem Resolution

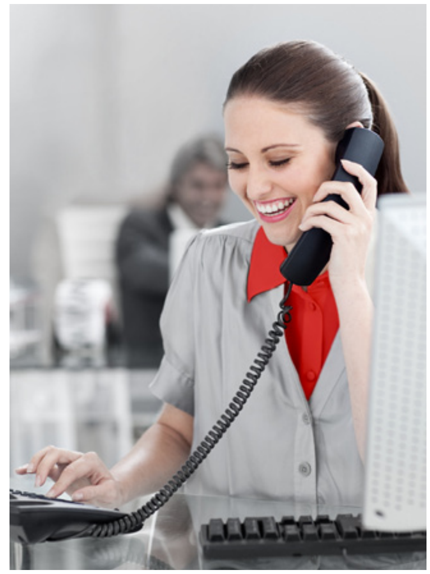
When problems occur, satisfaction declines by 128 points, and intended attrition increases by 18 percentage points. That said, when problems are resolved the same day, requiring a single contact from the customer and meeting the time frame provided, the impact on intended attrition is minimized. However, it is important to note that only one in 10 customers who experienced a problem indicate that they received this level of service during the resolution process.

It requires a concerted effort from banks to not only prevent problems from occurring in the first place, but to also eliminate any barriers to resolution. For banks to successfully grapple with these dual issues, they must monitor problems on a regular basis from all available sources, including internal problem capture, customer surveys, and employee feedback. Banks must then determine the root cause of each problem and, finally, adjust their policies and procedures as needed for both problem prevention and resolution.

Conclusion

Although the incidence of customers switching banks is down slightly from last year, managing attrition remains a significant financial issue for banks with respect to onboarding costs and revenue relative to the low costs of servicing existing customers. Understanding the drivers of attrition and how to implement specific improvement initiatives in the four areas where banks fall short is essential to reducing costly attrition. Retaining existing customers provides the foundation on which banks should build their customer base. Next steps include:

- Implement a customer experience framework that defines the customer experience and focuses on employee recruitment, training, coaching, and recognition.
- Review customer communication strategies and customer interfaces (e.g., website and statements) to ensure information is clear, concise, and consistent between channels. All communications should be written at a level that all customers can understand.
- Utilize the account initiation experience to drive fee understanding. Representatives should use this opportunity to fully disclose and explain fees, as well as explain ways customers can minimize exposure to fees. During the follow-up call, representatives should reconfirm understanding of fee structures.
- Banks need to focus on preventing problems, as well as eliminate barriers for resolution. Analysis of problem data and determination of problem root causes may help banks adjust policies and procedures.



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