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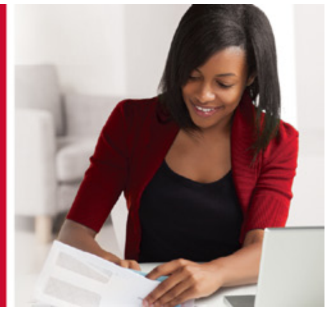

Improving the Return on Investment in Bank Customer Satisfaction—Focusing on What Really Matters

THE PROBLEM:
Which Levers Should Banks Pull to Most Impact Business Results?

Looking at banking trends during the past few years through the lens of industry publications, one might conclude that the efforts to grow revenue and profitability revolved around greater ad spend, richer promotions, continued cost cutting, and a near obsession with improving customer advocacy—as best illustrated by the widespread adoption of Net Promoter Score as the ultimate solution to measuring improvement in customer experience. These efforts are misguided. Analysis by J.D. Power and Associates shows that while ads and promotions are successful in attracting new customers, those customers tend to be less loyal and less affluent than customers who selected their bank for other reasons. While ongoing cost-cutting is necessary, there are under investments in expenditures that are deemed discretionary, such as customer satisfaction. This may be a shortsighted approach, as research shows that a 50-point increase (on a 1,000-point scale) in satisfaction may drive an 8.5% increase in pre-tax revenue.

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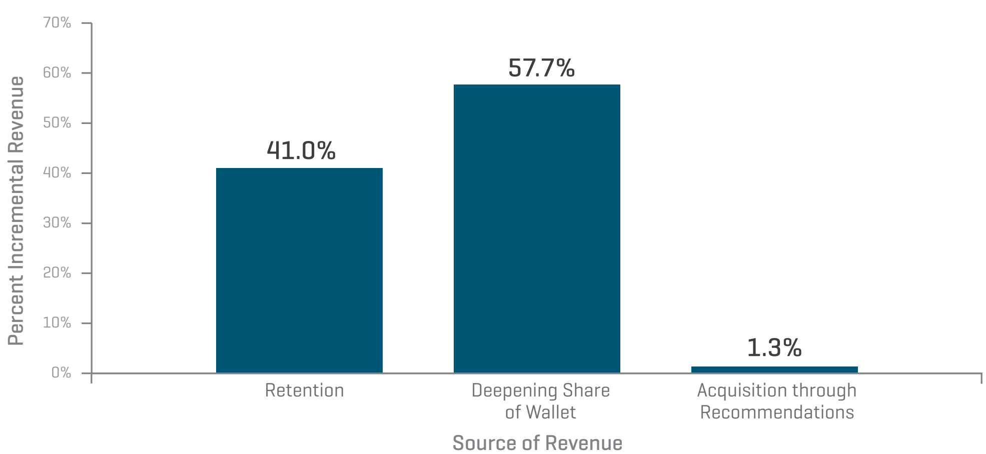
SOURCES OF INCREMENTAL REVENUE RESULTING FROM INCREASES IN SATISFACTION



Source: J.D. Power and Associates 2012 US Retail Banking Satisfaction Study℠

Analysis also shows that placing a heavy emphasis on advocacy may be misplaced as well. When examining the relationship between improving satisfaction and the impact on business results, the impact of recommendations is negligible. Instead, share of wallet and retention have the greatest correlation to improvements in satisfaction.

THE SOLUTION

So, if a better customer experience is most likely to show up in higher retention and deeper share of wallet, what specific initiatives should banks focus on to improve that experience? To maximize business results, banks should make a concerted effort to enhance the account opening process; increase awareness of bank capabilities and investment opportunities; minimize problems; and improve problem resolution.

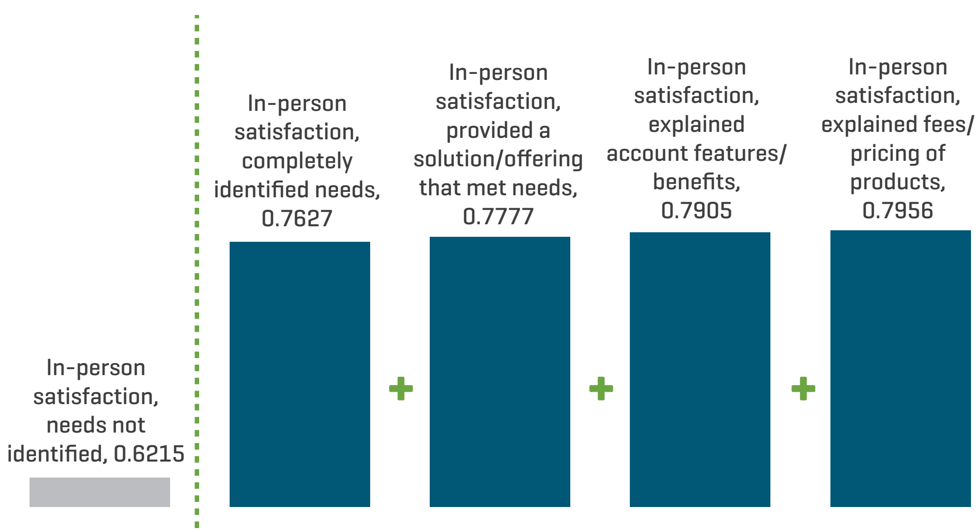
RECOMMENDATIONS

1. Focus on New Customers

Tenure alone will not drive share of wallet, nor will standard sales and marketing approaches. In fact, share of wallet, on average, does not grow substantially after the first year, thereby emphasizing the importance of maximizing account opening and onboarding activities. J.D. Power research shows that identifying customer needs, providing solutions that meet those needs, and explaining account pricing and features leads to greater share of wallet.

Furthermore, failing to understand customers' needs up front, coupled with not focusing on the primary drivers of satisfaction, such as clearly explaining account fees and terms early, may not only decrease initial share of wallet, but may also likely result in long-term lost revenue.

NEW ACCOUNT BEST PRACTICES AND IMPACT ON SHARE OF WALLET



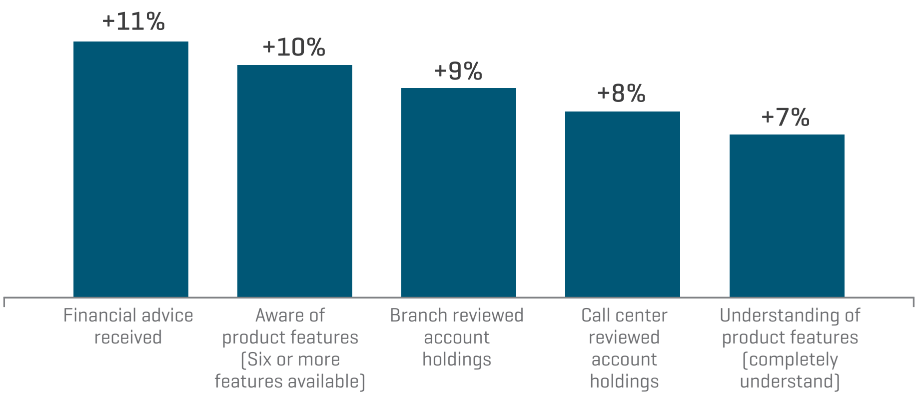
Source: J.D. Power and Associates 2013 US Retail Banking Satisfaction Study[SM]

2. Leverage opportunities to increase awareness of investment opportunities

The focus has traditionally been on acquiring deposit share; however, as Boomers begin to retire and wealth moves from older consumers to younger consumers, it is important to acquire share across the entire relationship, which includes investments.

Increasing customer awareness of bank capabilities and investment opportunities has a significant impact on share of investable assets. Simply providing financial advice may increase share of investable assets by 11 percentage points. Other actions that may have a positive impact on investment share include reviews of account holdings and informing customers of new products or services that may be more appropriate for their financial situation; informing customers of the product features associated with their accounts; and ensuring customers completely understand the available features.

IMPACT ON COMMUNICATION AND PRODUCT OFFERING METRICS ON SHARE OF WALLET

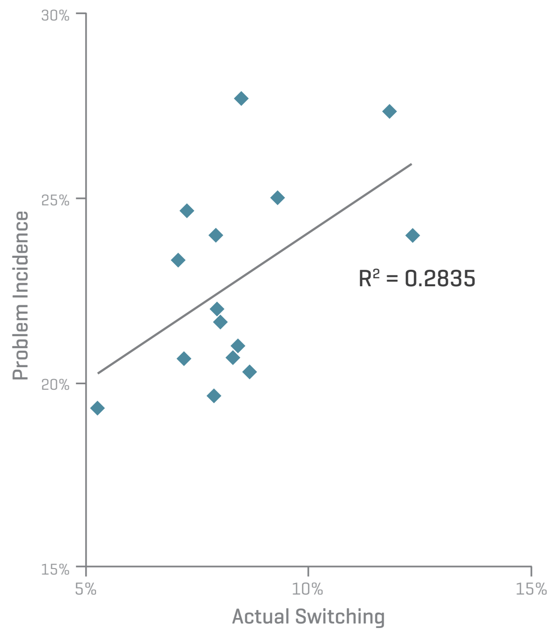


Source: J.D. Power and Associates 2013 US Retail Banking Satisfaction Study℠

3. Focus on Problem Prevention

A relationship exists between the occurrence of problems and customer attrition—banks that have a high incidence of problems tend to have higher attrition. J.D. Power research identifies pricing- and customer service-related issues as the two most common types of problems driving attrition, indicating banks should focus primarily on these two areas.

RELATIONSHIP BETWEEN PROBLEM INCIDENCE AND SWITCHING AT BANK LEVEL



Sources: J.D. Power and Associates 2012 US Retail Banking Satisfaction Study[SM] and 2013 Financial Services Screener

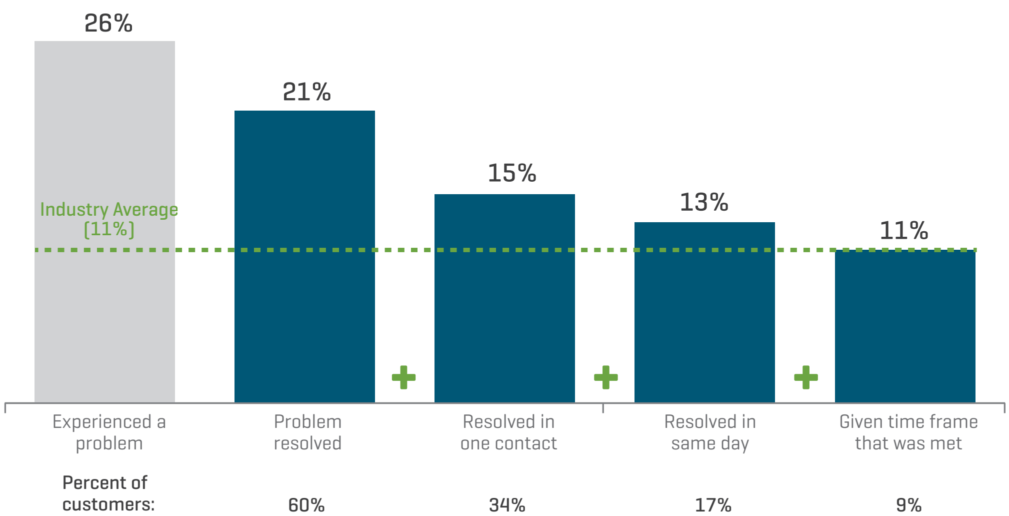
J.D. Power and Associates has identified three practices for preventing pricing- and customer service-related problems:

- Leverage the account opening experience to articulate the bank's value proposition; fully disclose and explain fees, as well as explain ways customers can minimize exposure to fees; and outline the specific benefits available to the customer. These messages should be reinforced with customers through a follow-up call. While frequently cited as problems and reasons for switching, fees alone are not the issue, but instead the "gotcha" aspect of unexpected fees and/or the lack of perceived value received are the real issues.
- Execute and manage to—not just measure—the key service best practices for both in-branch and on the phone. Greeting customers, referring to them by name, and thanking them for their business at the end of the transaction should be three key components of each customer-facing representative's interaction. Train employees on the value proposition, the desired customer experience it implies, and their role in delivering on it. All staff must clearly understand the value proposition and incorporate it into their day-to-day interactions with customers.
- Branch/Call center managers and supervisors need to monitor customer interactions, intervening when necessary to prevent the occurrence of customer service problems.

4. Improve Problem Resolution

Banks can't prevent all problems from occurring, but they can minimize the impact that problems have on intended attrition through successful resolution. 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 reduced. However, it is important to note that only one in 10 customers who experienced a problem indicates that they received this level of service during the resolution process, further emphasizing the necessity of reducing problems.

PROBLEM RESOLUTION BEST PRACTICES AND IMPACT ON INTENDED ATTRITION



Source: J.D. Power and Associates 2013 US Retail Banking Satisfaction Study℠

Banks must make a concerted effort 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 should monitor problems on a regular basis from all available sources, including internal problem capture, customer surveys, and employee feedback. Banks should then determine the root cause of each problem and, finally, adjust their policies and procedures as needed for both problem prevention and resolution.

THE BOTTOM LINE

To drive greater financial performance, banks need to focus on what matters most to customers and use the available levers to increase share of wallet and drive greater retention.

1. Review procedures for new account opening, ensuring representatives fully engage with customers to assess financial needs and provide clarity around product features and pricing.
2. Focus on reviewing account holdings and providing financial advice to customers, highlighting the bank's abilities and promoting customer confidence.
3. Develop a customer service framework that encompasses defining service expectations, training employees, monitoring performance, and on-going employee coaching.
4. Focus on preventing problems, as well as eliminate barriers for resolution.

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