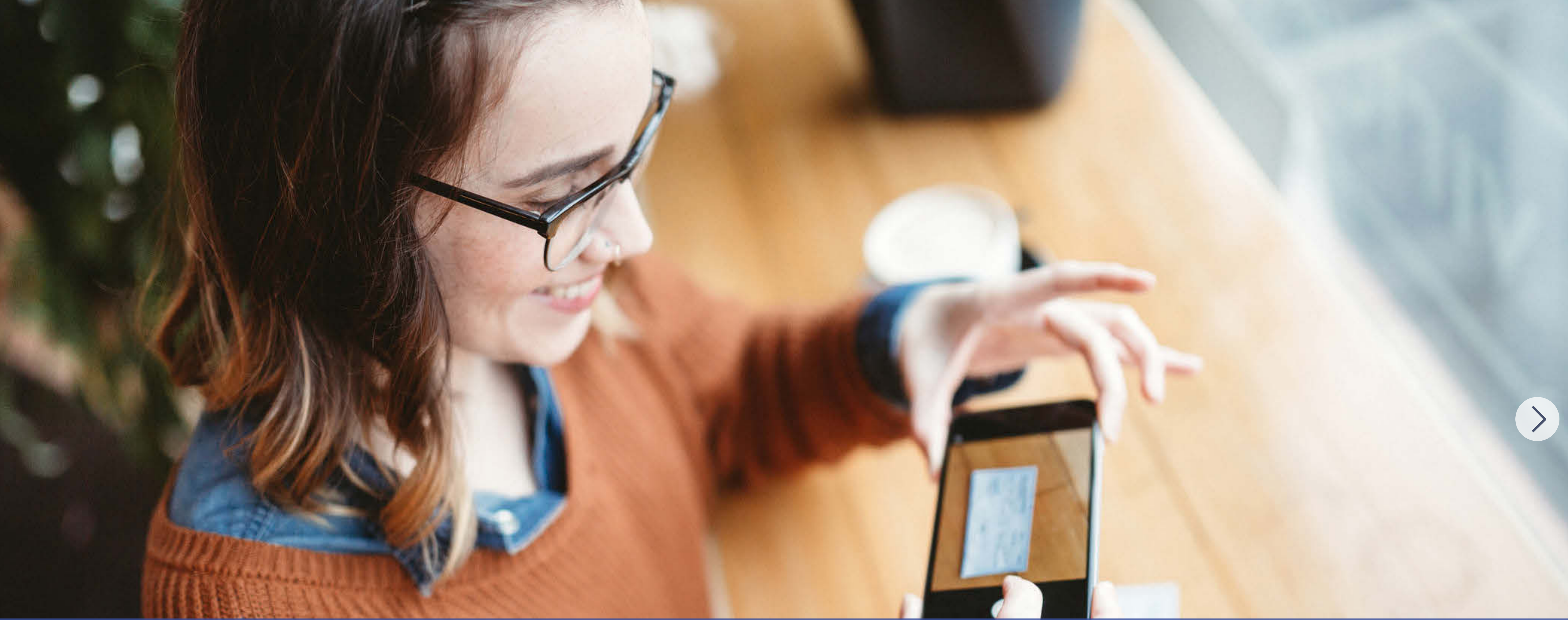

REPORT | 2017

BANK SATISFACTION BAROMETER (BSB)

CFI Group
CLAES FORNELL INTERNATIONAL

CONTENTS

INTRODUCTION

Retail banks are experiencing steady growth. Since 2013, commercial banks overall have experienced strong CAGR in total assets (4.5%), total loans (5.4%), and total deposits (6.0%).

Yet, the number of FDIC-insured commercial banks continues to decline, down from 5,980 in 2013 to 5,011 in 2017. To thrive in today's market, banks must remain focused on customer-centric strategies to compete and grow.

To help banks assess customer trends and design customer-centric approaches to growth, CFI Group conducts the annual Bank Satisfaction Barometer (BSB) survey of bank customers.

We identify two key trends that should influence how retail banks engage their customer base:

1. THE TRADITIONAL BANK VALUE PROPOSITION IS CHANGING
2. PRODUCT AND SERVICE INNOVATION IS DRIVING BANK SATISFACTION

These trends have two implications for banks:

Reboot the Branch Experience for the branches that remain open. As customers increasingly reserve branch visits for the most complex transactions, the role of the branch increases as an important customer experience touchpoint.

Pursue Product and Service Innovation that connects to the broad array of digital financial services available to consumers and use the bank's position of trust to remain the primary point of money management for customers.

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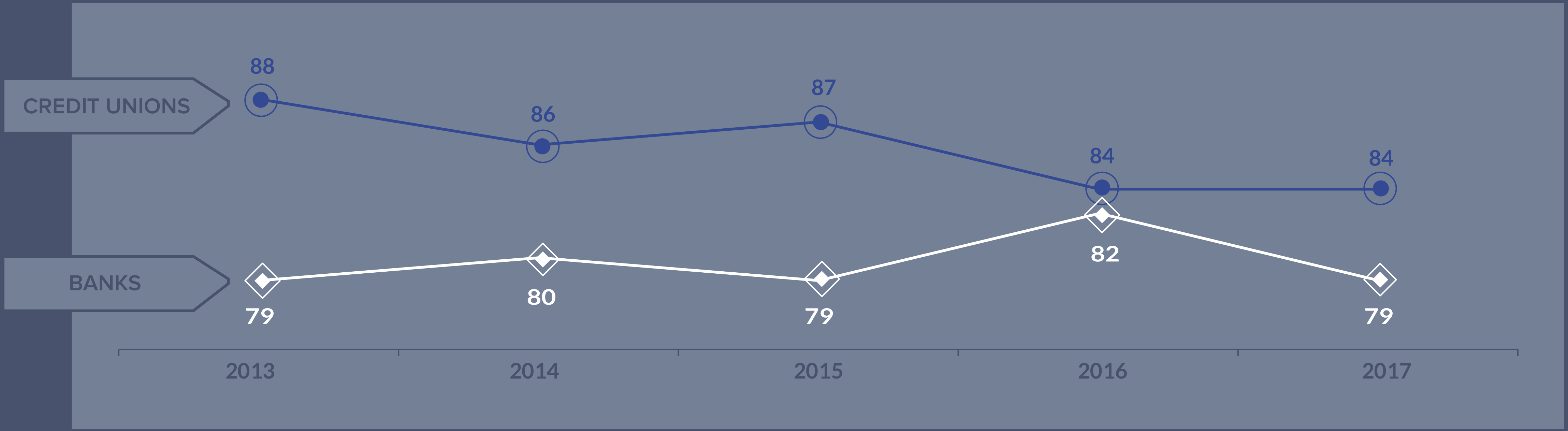
Source: Federal Deposit Insurance Corporation, https://www.fdic.gov/bank/statistical/stats

BANK SATISFACTION BAROMETER

BANK SATISFACTION SLIPS BACK DOWN

The Bank Satisfaction Barometer (BSB) is 79, as measured on a 0-100 scale, dropping 3 points from 82 in 2016. The BSB is calculated based on feedback from a panel of 493 respondents who have a current financial relationship with a bank.

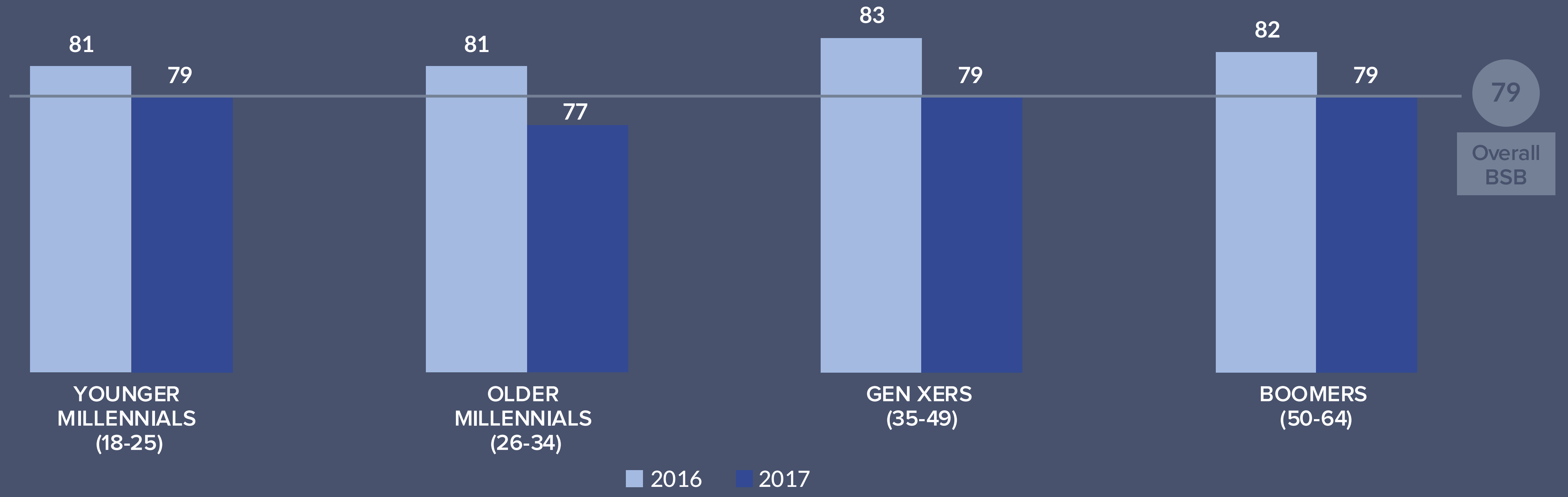
Bank satisfaction has historically run several points lower than the credit union satisfaction (CUSI). While banks closed the gap to 2 points in 2016, the gap widens again to 5 points in 2017.



Source: CFI Group Credit Union Satisfaction Index 2017, https://cfigroup.com/resource-item/credit-union-satisfaction-2017/

SATISFACTION DOWN FOR ALL GENERATIONAL GROUPS

There is little difference in bank satisfaction among the four key generational groups classified by CFI Group. Satisfaction for all generational groups slipped 2-4 points, underscoring how the dip in overall customer satisfaction is experienced across the age groups. Banks should be looking for broad, common improvement opportunities by examining key drivers of customer satisfaction.



ALL DRIVERS OF THE BANK CUSTOMER EXPERIENCE EDGE DOWN

CFI Group models the bank customer experience using our patented cause-and-effect methodology. Applying this modeling approach, we identify seven drivers that make up the experience.

Driver scores across the experience dipped from 2016 to 2017. The most notable change comes from rates and fees, which fell 5 points. The retail banking market is extremely competitive, and banks must continue to provide innovative products with competitive rates. Banks cannot compete effectively on rates and fees alone; they must also offer an exceptional customer experience and provide innovative products and services.

YEAR-OVER-YEAR CHANGES				
		2016	Δ	2017
BANK SATISFACTION BAROMETER		82	-3	79
DRIVERS	RATES AND FEES	75	-5	70
	PRODUCTS AND SERVICES	84	-2	82
	MOBILE APPLICATIONS	88	-2	86
	INFORMATION/COMMUNICATIONS	85	-2	83
	ONLINE BANKING	88	-1	87
	BRANCH STAFF	89	-1	88
	BRANCH CONVENIENCE	84	-1	83


10% HAVE A CERTIFICATE OF DEPOSIT
Down from 19%
1
THE TRADITIONAL BANK VALUE PROPOSITION IS CHANGING

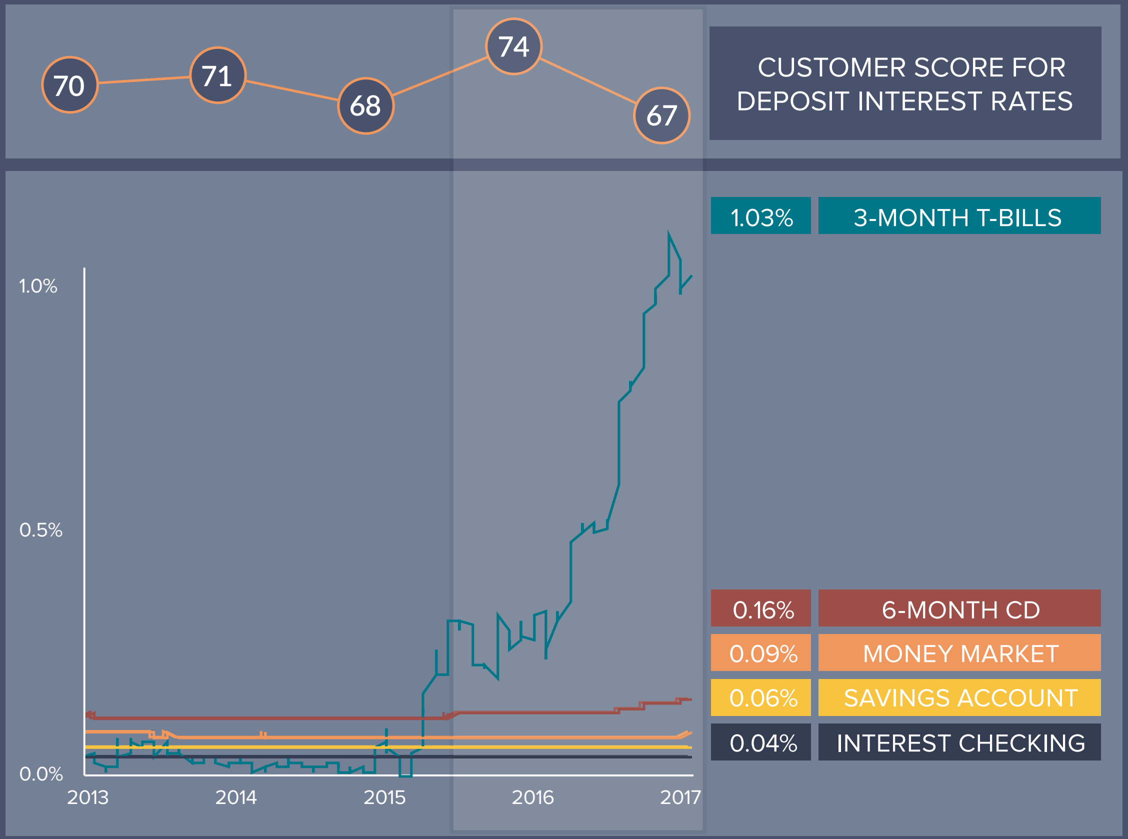
COMPETING ON DEPOSIT ACCOUNT INTEREST RATES IS CHALLENGING

There are four general types of bank deposit accounts: checking, savings, money markets, and CDs. Rates for these deposit accounts have remained relatively low since the federal funds rate dropped precipitously in 2008. Other instruments, such as 3-month T-bills, move with the federal funds rate and remained low as well.

With the four 25-basis-point increases in the federal funds rate since 2008 (Dec. '15, Dec. '16, Mar. '17, and Jun. '17), 3-month T-bills increased sharply. Customers naturally expected deposit account rates to follow.

However, at the end of Q3 2017, rates for 6-month CDs, money market accounts, and savings accounts all still remain virtually unchanged, despite bumps in the federal funds rate.

It is no surprise, then, that the customer score for deposit interest rates dropped 5 points, from 74 in 2016 to 67 in 2017. Customer are clearly frustrated that the increased fed rate has not translated into better rates for these deposit accounts.



"The national rate is calculated by the FDIC as a simple average of rates paid (uses annual percentage yield) by all insured depository institutions and branches for which data are available. Data used to calculate the national rates are gathered by RateWatch. Savings and interest checking account rates are based on the $2,500 product tier while money market and certificates of deposit are based on the $10,000 and $100,000 product tiers for non-jumbo and jumbo accounts, respectively. Account types and maturities are those most commonly offered by the banks and branches for which data is available- no fewer than 49,000 locations and as many as 81,000 locations reported."

- Federal Reserve Bank of St. Louis

Source: Federal Reserve Bank of St. Louis, retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/categories/22, https://www.federalreserve.gov/monetarypolicy/openmarket.htm

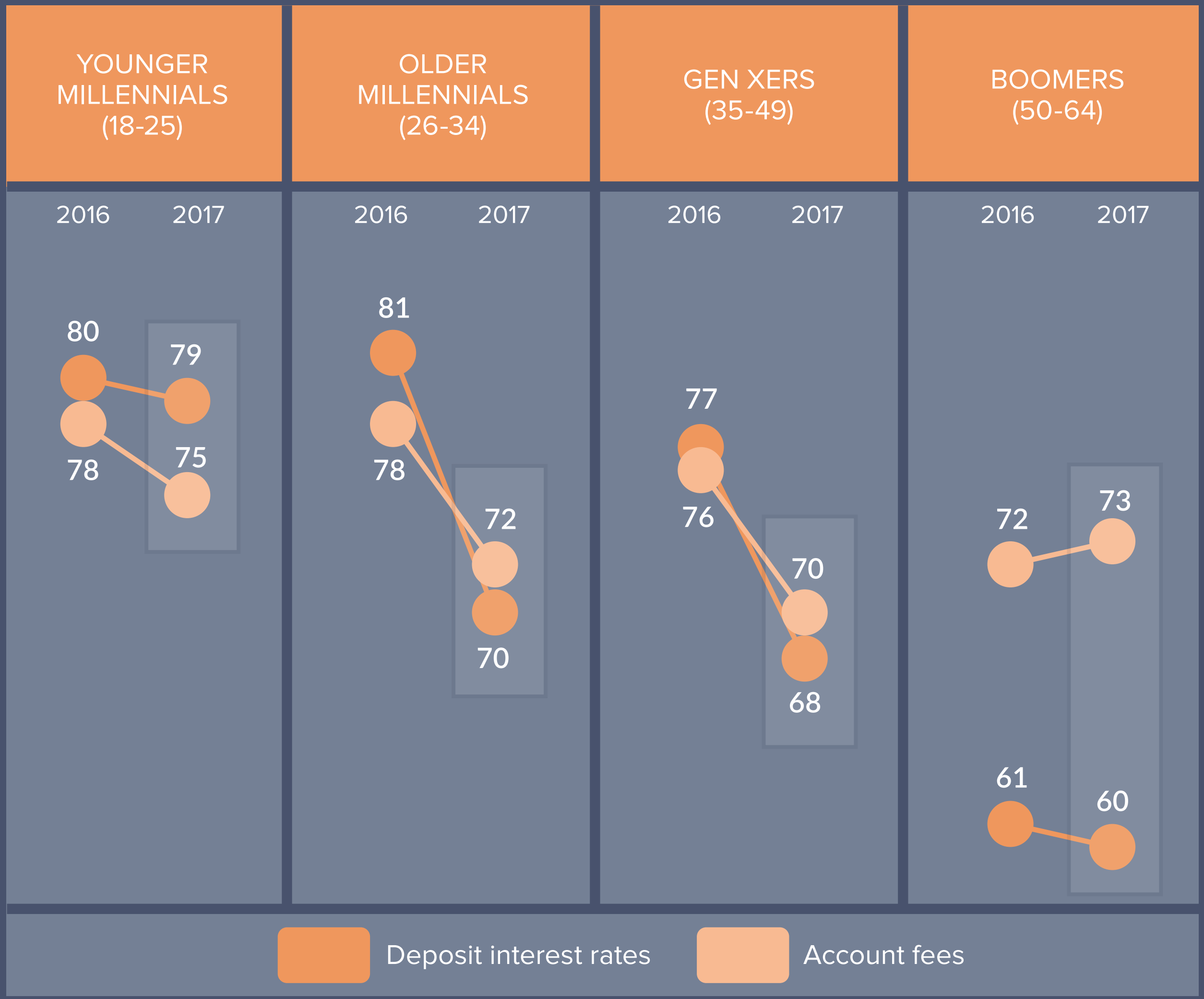
THE VIEW OF DEPOSIT ACCOUNT RATES DOWN FOR ALL AGE GROUPS

YOUNGER MILLENNIALS view deposit interest rates more favorably than account fees. This group is interested in no-fee accounts that may have less than competitive interest rates. Younger Millenials have come of age in an era of virtually 0% rates on deposits, so expectations for these rates are naturally mild. They are also in a stage of life where they are unlikely to have large balances on which they can earn interest, so interest volatility is of minimal concern.

OLDER MILLENNIALS and GEN XERS show sizable drops in their ratings for both deposit interest rates and account fees. These two groups also experienced a large 4-point year-over-year drop in bank satisfaction.

BOOMERS have a much different perspective than the other groups. Boomers are extremely disappointed with current deposit interest rates, having experienced a previous era where deposit account rates were sizable. However, they are relatively happy with account fees.

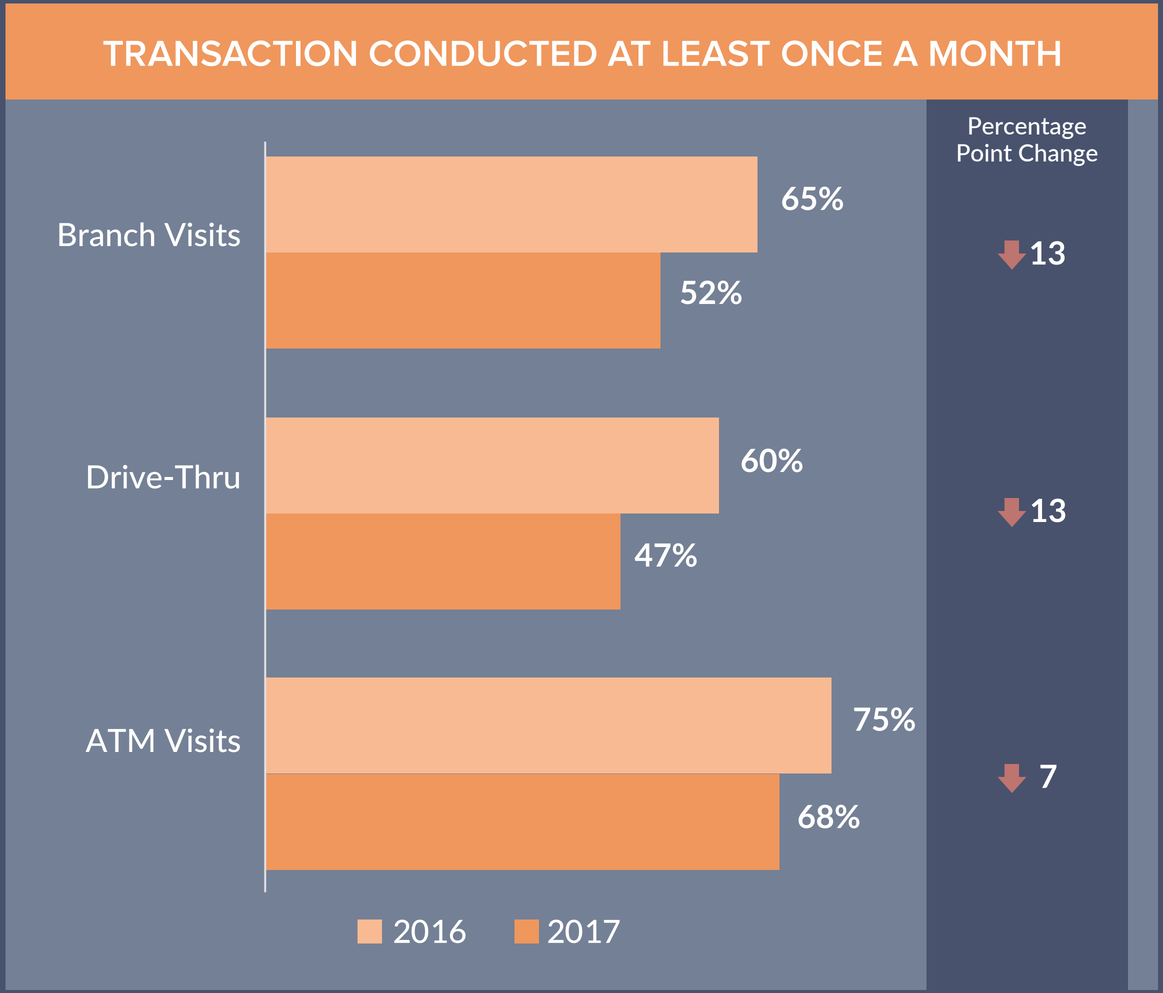
Banks can design products for Younger Millennials with less competitive rates as long as fees are kept to a minimum, since Younger Millennials are more sensitive to fees than interest rates. Conversely, Boomers can be offered products with competitive rates that may be accompanied with higher fees.



CUSTOMERS ARE CONDUCTING FEWER TRANSACTIONS WITH BANKS

Customers are conducting fewer overall transactions compared to 2016. The percentage of customers who conduct at least one transaction a month at an ATM, a drive-thru, or a branch is down 7, 13, and 13 points, respectively.

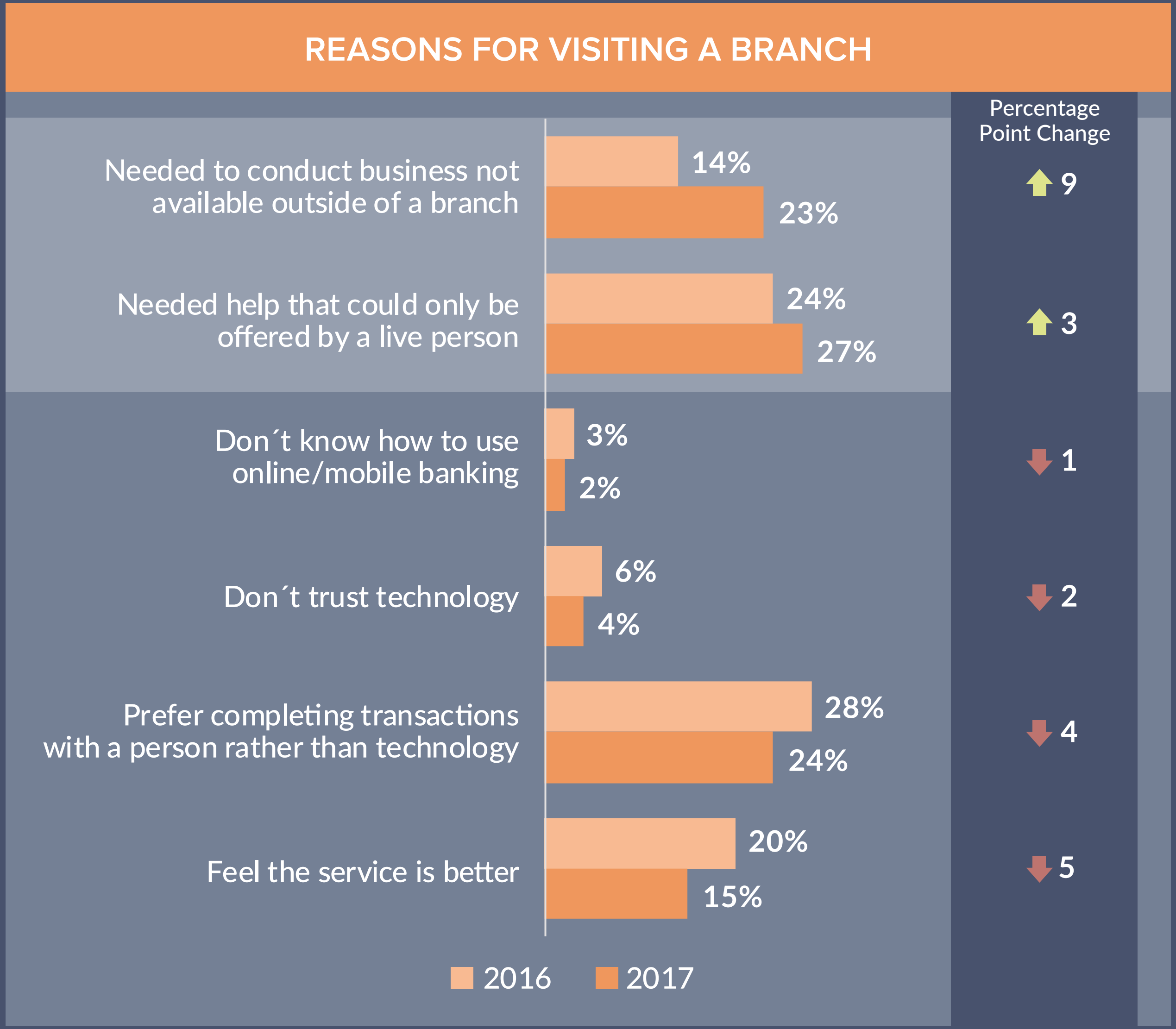
Even website visits are down slightly. In the past 60 days 85% have visited their primary bank's website, compared to 89% a year ago.



CUSTOMERS INCREASINGLY ONLY VISIT A BRANCH FOR COMPLEX BANKING

The ability to conduct most banking remotely is an effective replacement for time-consuming branch visits. As customers feel less inclined to visit a branch for common banking transactions, banks should be careful not to view the decreased interaction as a “bug” or problem. Fewer branch visits is actually a service “feature” to customers, enabling them to go about their business without requiring a branch visit.

In 2016, 24% visited a branch when they needed help that only a live person could provide. This number is up slightly in 2017 to 27%. Similarly, 14% in 2016 visited a branch to conduct business only available in a branch. In 2017, that number has increased significantly to 23%.

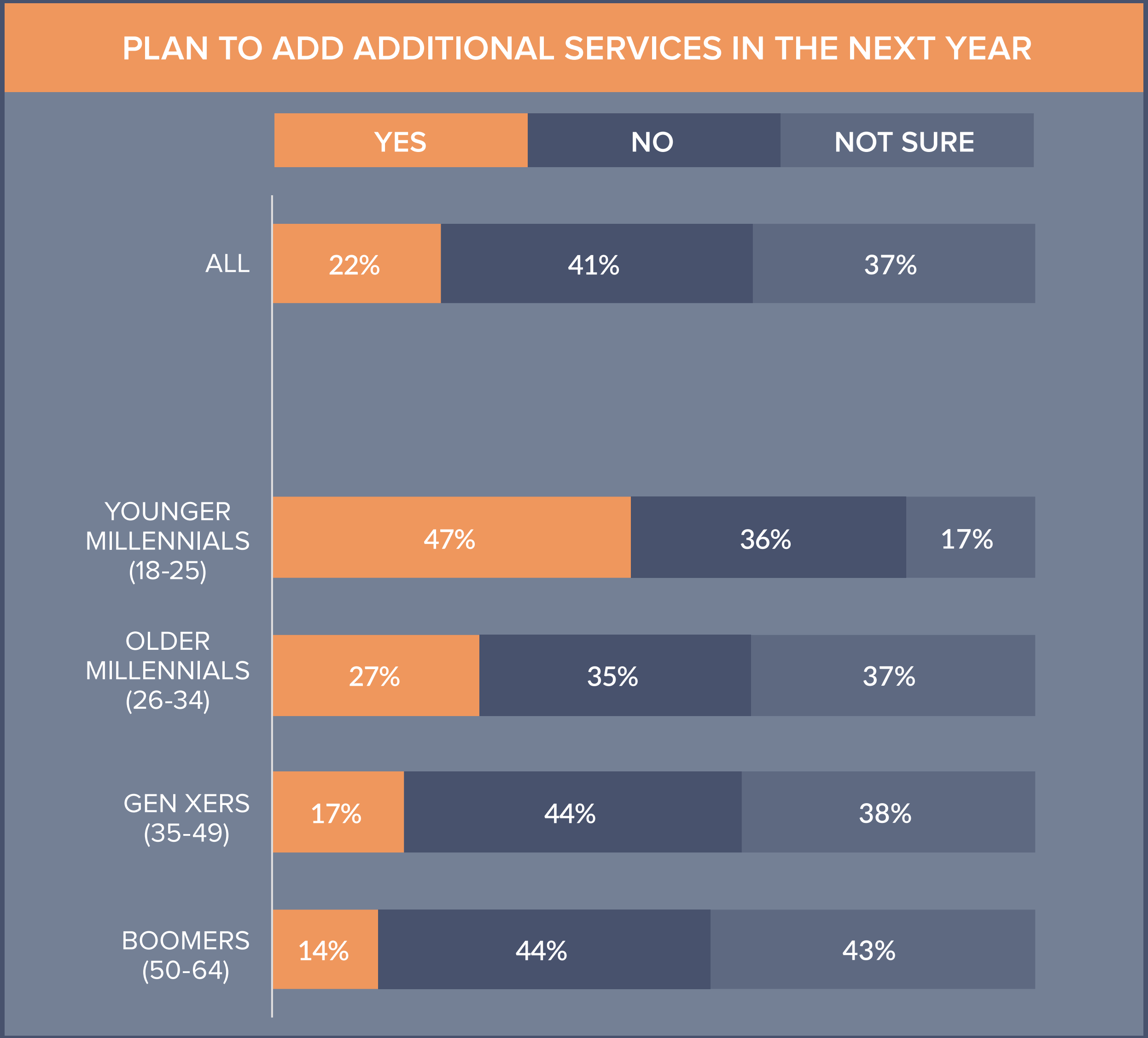


MOST CUSTOMERS ARE NOT PLANNING TO ADD SERVICES IN THE COMING YEAR

On the whole, customers are not going to be signing up for new services next year. Only 22% say they are planning on adding services, while 41% say they are not planning on it. A full 37% say that they are not sure if they will add services next year.

Plans differ between generational groups. Almost half of Younger Millennials expect to add a service in the next year, well above the 27% for Older Millennials. Meanwhile, only a few Gen Xers (17%) and Boomers (14%) are planning on adding new products in the coming year.

The ray of hope for banks to sell new products to customers lies foremost in Younger Millennials, but also in the relatively large “Not Sure” areas for the other age groups. For Older Millennials, Gen Xers, and Boomers, that grey area is a large 37%-43%.



48% HAVE USED THEIR BANK'S MOBILE APP IN THE PAST THREE MONTHS

Up from 43%

2 PRODUCT AND SERVICE INNOVATION IS DRIVING BANK SATISFACTION

PRODUCTS AND SERVICES HAVE THE LARGEST IMPACT ON BANK SATISFACTION

CFI Group's ACSI-powered technology calculates the relative impacts of seven drivers of satisfaction. These impacts show how much influence each driver has on the level of overall customer satisfaction.

SATISFACTION DRIVERS	
HIGH IMPACT	PRODUCTS AND SERVICES
MEDIUM IMPACT	RATES AND FEES
	BRANCH STAFF
	INFORMATION/COMMUNICATIONS
	ONLINE BANKING
	MOBILE APPLICATIONS
LOW IMPACT	BRANCH CONVENIENCE

Our modeling shows that the driver with a highest impact on bank satisfaction is, by far, the breadth and competitiveness of the products and services offered. Because this driver shows such a large influence on bank customer satisfaction, much of the drop in BSB can be explained by the lack of product and service innovation meeting bank customer needs.

PRODUCTS AND SERVICES
(down 2 points from 2016)

Comprehensiveness of offerings

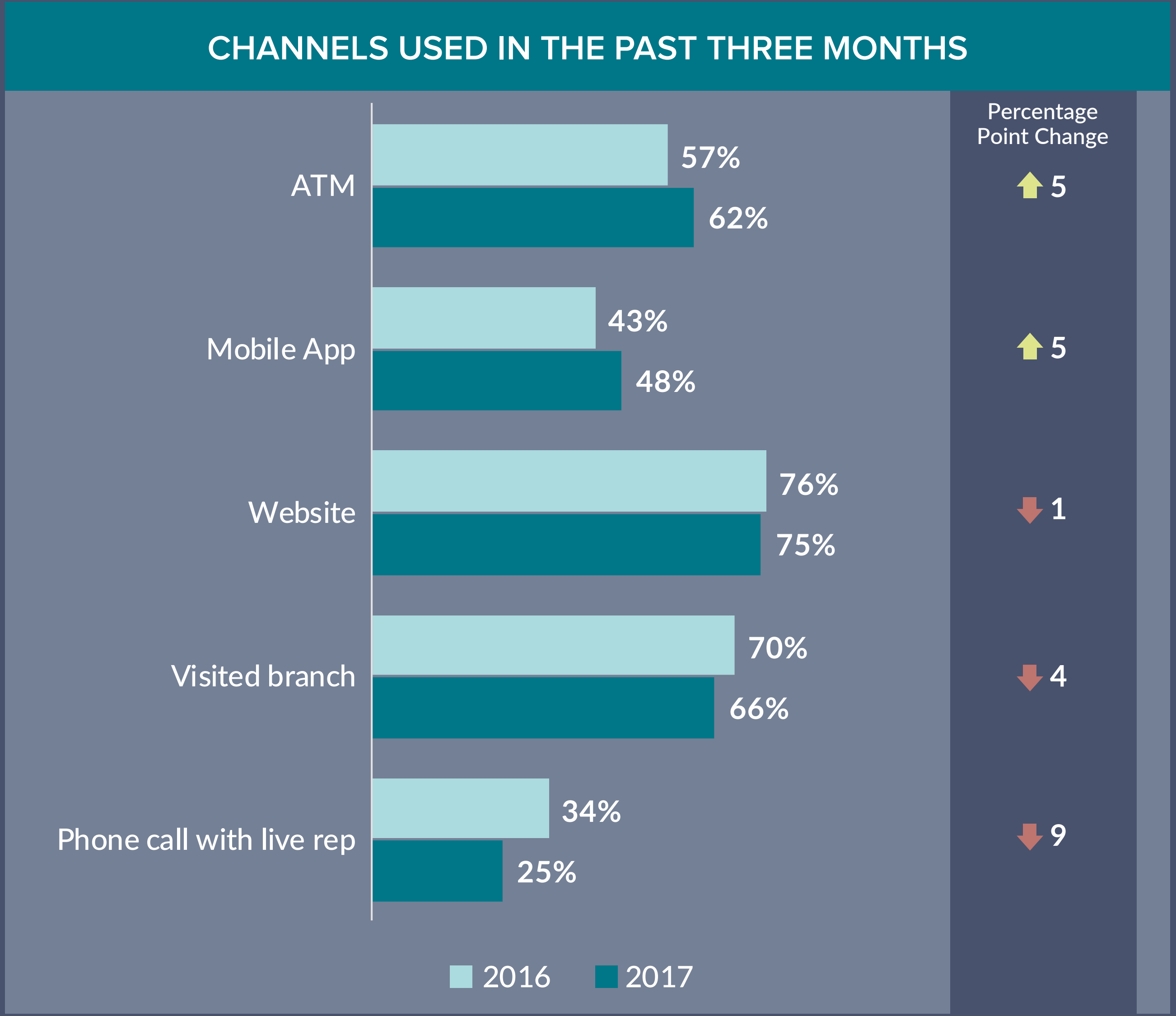
Products and services meet your needs

Competitiveness of offerings

CUSTOMERS ARE GROWING COMFORTABLE WITH USING BANK TECHNOLOGY

Customers are becoming more familiar with digital banking options and turning to digital banking tools more frequently. For example, the number of customers who used their bank's mobile app within the past three months increased from 43% in 2016 to 48% in 2017.

Mobile app use seems to be mildly displacing some branch visits, contact center interactions, and even website traffic.



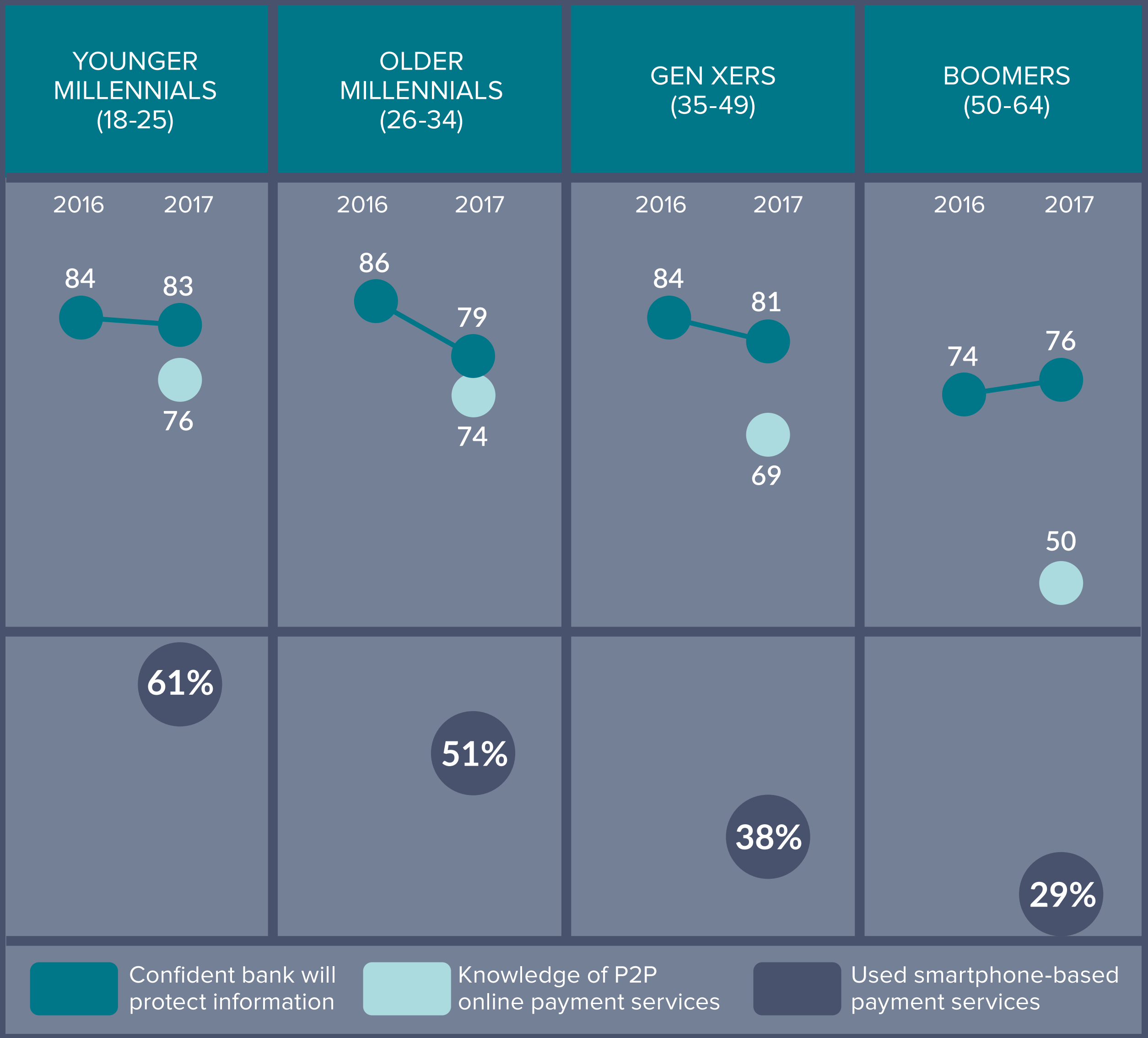
CUSTOMERS ARE BECOMING AWARE OF INNOVATIVE FINANCIAL TECHNOLOGIES

Customers are growing more familiar with new financial services. Millennials, in particular, are aware of new technologies that help them use and manage their money.

For example, use of peer-to-peer payments (P2P) is growing, and there are a number of solutions now available that enable general consumers to easily make payments to others. P2P solutions allow people to easily send payments to others using a smart phone.

Millennials are most knowledgeable about P2P among the generational groups. And because they are also the most confident with their bank being able to protect their information, more Millennials are using P2P and other smartphone-based payment services.

But all age groups are adopting new technology to some degree. The good news for banks is that all age groups have fairly high confidence in their bank's ability to protect information, putting banks in a trusted position to offer innovative products and services.



Source: http://www.toptenreviews.com/business/payment-processing/best-p2p-payments/

WHAT ARE THE IMPLICATIONS FOR RETAIL BANKS?

BANKS MUST ENHANCE THE EXPERIENCE IN BRANCHES THAT REMAIN OPEN

The traditional bank branch model is clearly unsustainable, and the number of branches will continue to decline. However, for those branches that are selected to remain open, banks should enhance the customer experience, use the branch visit as an opportunity to showcase the products and services available, and have live staff available to assist and engage visiting customers.

QUESTIONABLE: FULL AUTOMATION

Some banks are creating fully-automated branch locations to provide customers with full-featured banking options without the labor costs of employing branch staff. These virtual banking options are really more like ATM enhancements than virtual branches.

By the time customers have determined that they need to visit the branch to conduct their banking, they want to interact with a live person. Our study shows that removing branch staff from remaining branch locations—even while adding sophisticated tools and technology—creates a barrier separating bank staff from customers. Any cost savings from reduced labor is likely offset by lost revenue due to less engagement from customers.

RECOMMENDED: ENHANCED INTERACTION

Instead, banks should retain staff for remaining branches while infusing the branch with new technology, creating an enhanced interaction between customers and branch staff. The technological improvements make banking smoother, faster, and simpler, while the personal connection and assistance make it a great experience.

Banks must be careful not to make the mistake that many cable companies have made, where it becomes difficult to connect with someone who can help you. Branches should provide an engaging experience where banks can showcase their products and services and give customers the opportunity to speak with live representatives. The branch experience is a rare moment-of-truth where banks can engage customers and strengthen their loyalty.

BANKS MUST PURSUE PRODUCT AND SERVICE INNOVATION

Banks are in danger of becoming like a utility in the eyes of the average consumer. As financial products and services available to the average consumer grow at a rapid rate, banks are at risk of simply providing the account piping needed for consumers to connect to innovative financial tools. To counter this trend, banks must connect to an ecosystem of financial tools while using their current position of trust to the primary point of financial management.

INNOVATION TO CONNECT EXTERNALLY

Customers are increasingly using mobile phones to use and manage money. Consequently, there are a myriad of new apps designed to make money management easier, such as:

- Mint – money management
- YNAB – personal budgeting
- Acorns – automatic saving
- Upstart – peer-to-peer lending
- Robinhood – no-fee trading

Banks should not only ensure that consumers can easily connect their accounts to these new services, they should also actively promote their digital ecosystem.

INNOVATION TO REMAIN PRIMARY

As customers proceed to connect to a web of financial tools and touchpoints, they increasingly need a central point of administration to actively manage these financial connections. And as reports of data breaches continue, customers need to be convinced that their information is secure and protected.

Customers generally feel their information is safe with banks, creating a position of trust that banks can leverage. Banks must continue to innovate on simple account management tools that allow customers to manage their network of financial connections easily and securely.

Source: https://www.citi.com/credit-cards/creditcards/citi.action?ID=citi-apple-pay
https://stories.wf.com/innovative-banking-hub-puts-customers-control-tower/

ABOUT THE APPROACH

This study is the fifth edition of the CFI Group Bank Satisfaction Barometer survey designed to determine how well banks are faring in the current retail banking environment.

CFI Group asked 493 bank customers across the U.S. to rate their customer experience with their primary financial institution (i.e., the institution where they conduct at least the majority of their banking). The Bank Satisfaction Barometer looks not only at overall satisfaction, but also examines the key drivers of satisfaction and important business outcomes affected by customer satisfaction.

CFI Group applied our patented adaptation of the ACSI technology to the survey data to calculate impact weights to each of the seven identified satisfaction drivers and determine which drivers have the largest influence on customer satisfaction. Improvements to drivers with large impacts on customer satisfaction will often provide greater return on investment through increased customer loyalty and word-of-mouth business.

Contact us to find out more about CFI Group resources and expertise available to help you measure and manage the customer experience and grow your business.

ABOUT US

Since 1988, CFI Group has delivered customer experience measurement and business insights from its Ann Arbor, Michigan headquarters and a network of global offices. As founding partner of the American Customer Satisfaction Index (ACSI), CFI Group is the only company within the United States licensed to apply customized ACSI methodology in both the private and public sectors. Using this patented technology and top research experts, CFI Group uncovers the business drivers and financial impact of customer experience. For more information, visit www.cfigroup.com.