

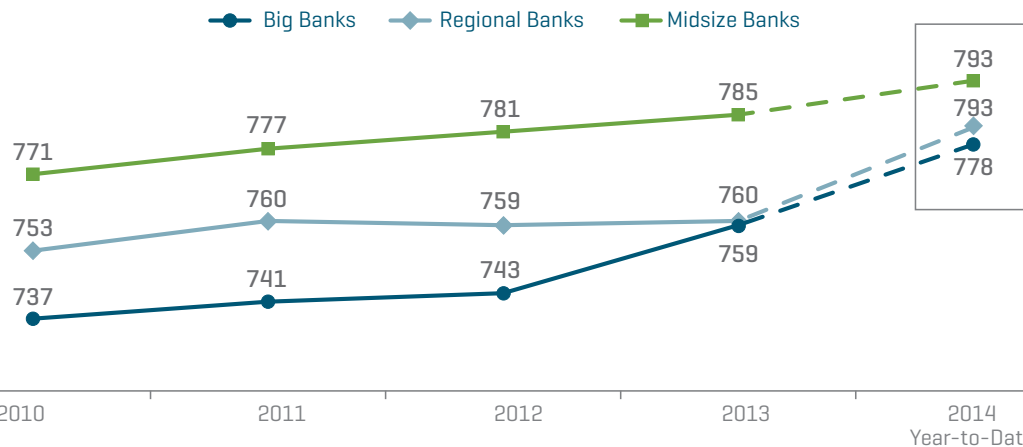
Stuck in the Middle: Creating a value proposition for customers of regional and midsize banks

Customer satisfaction among retail banking customers varies widely across the different bank size segments that are measured in the *J.D. Power Retail Banking Satisfaction StudySM (RBS)*. Historically, study data has shown that overall satisfaction tends to be higher among customers of midsize banks and regional banks¹ than among customers of big banks. In the 2011 RBS, for example, the overall satisfaction score for midsize and regional banks was 777 (on a 1,000-point scale) and 760, respectively, compared with 741 for big banks.

However, data from the first two fielding waves of the *2014 Retail Banking Satisfaction Study²* finds that big banks have made significant progress in improving the overall customer experience. Notably, satisfaction scores for big banks are nearly equal to scores for regional banks (778 vs. 782, respectively). Further, the gap in satisfaction scores between big banks and midsize banks has narrowed considerably since 2011 (15 points vs. 36 points, respectively).

“Big banks have made significant progress in improving the overall customer experience.”

OVERALL SATISFACTION TREND



Source: J.D. Power 2010-2014 Retail Banking Satisfaction StudySM

¹ Big banks are defined as the six largest financial institutions based on total deposits (\$180 billion or more) as reported by the FDIC; regional banks are defined as those with \$33 billion-\$180 billion in deposits; midsize banks are defined as those with \$2 billion-\$33 billion in deposits.

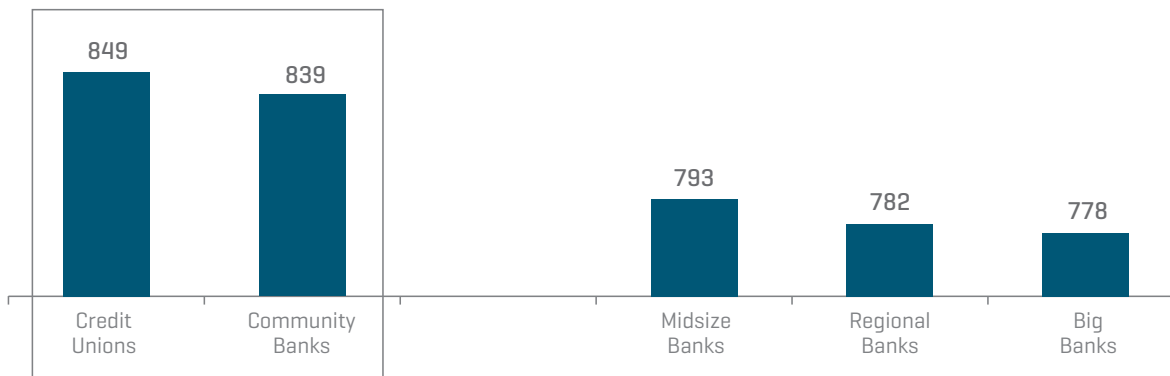
² Wave 1 of the 2014 study was fielded in April 2013; Wave 2 of the 2014 study was fielded in July 2013; the 2013 study was fielded in January 2013 and published in April 2013.

While increases in satisfaction among customers of big banks during the past few years are evident across all factors measured in the *Retail Banking Satisfaction Study*, the improvements center on three primary efforts:

- An increased focus on service basics, such as employee courtesy and knowledge, wait times, and problem resolution
- Improved clarity and stability of pricing
- Continued advancement in technology, primarily related to such digital self-service channels as ATMs, online banking, and mobile banking

In parallel with the increase in competition from big banks, regional and midsize banks also face competition from credit unions and community banks,³ which have a reputation for service excellence and high levels of customer satisfaction. As identified in the chart below, analysis of data from the first two waves of the *2014 RBS* finds that satisfaction scores for credit unions and community banks are significantly higher than for banks in the other segments.

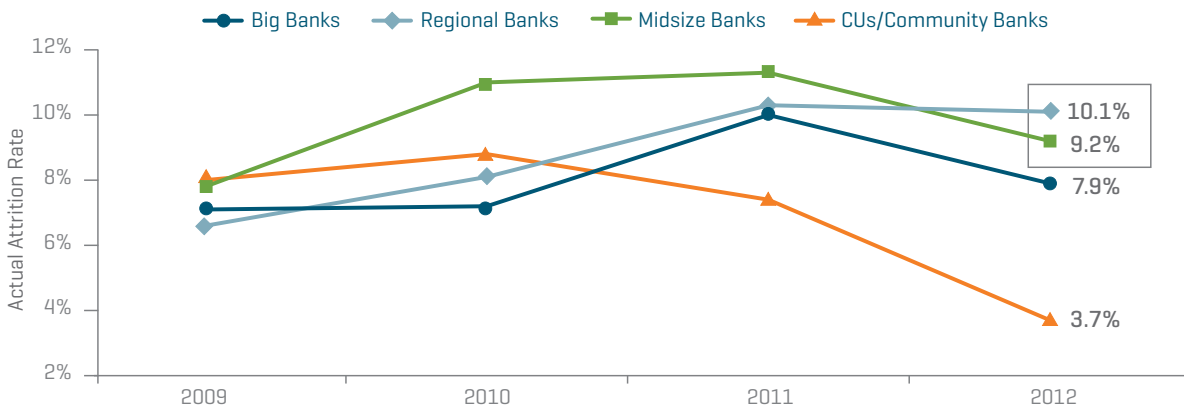
2014 YEAR-TO-DATE OVERALL SATISFACTION
[AGGREGATE OF WAVE 1 AND WAVE 2 FIELDING PERIODS]



Source: J.D. Power 2014 Retail Banking Satisfaction StudySM

³ Community banks are defined as those with less than \$2 billion in deposits.

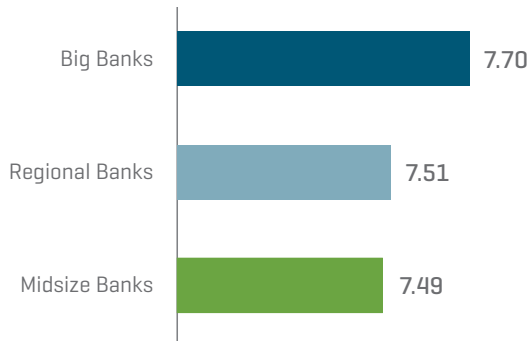
The changing competitive landscape within the retail banking industry has created challenges for regional and midsize banks. In terms of cross-selling, 41% of big bank customers have opened a new product/service during the past 12 months—based on data from the first two waves of fielding for the 2014 study—which is significantly higher than the 36% of customers of regional banks and 37% of midsize bank customers. Perhaps more important, customer attrition is highest at regional and midsize banks, as reflected in the figure below.



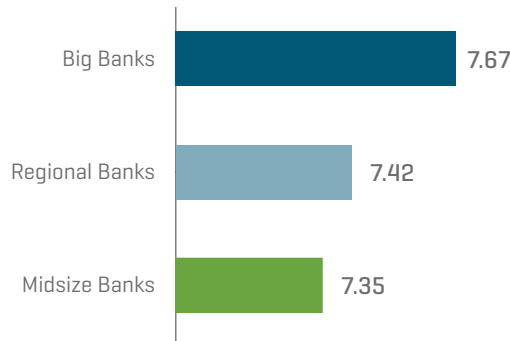
Source: 2010-2013 J.D. Power Financial Service Screener

The identification and promotion of a clear value proposition is an additional challenge facing regional and midsize banks, and is likely driving their cross-sell and attrition concerns. Regional and midsize banks lack the resources needed to match the competitive advantages offered by big banks. According to data from the first two waves of fielding for the 2014 RBS, satisfaction with the branch and ATM network is significantly higher among customers of big banks, who are also significantly more satisfied with their ATM, website, and mobile phone functionality. With the continuing migration of customers toward digital interaction channels, it is important that all financial institutions focus on matching the technology offerings of big banks. However, despite this migration, branch/ATM network size remains a key driver of selection, which provides an advantage to larger institutions during the consideration and selection phases of the customer purchase funnel.

SATISFACTION WITH NUMBER OF BRANCHES NEARBY



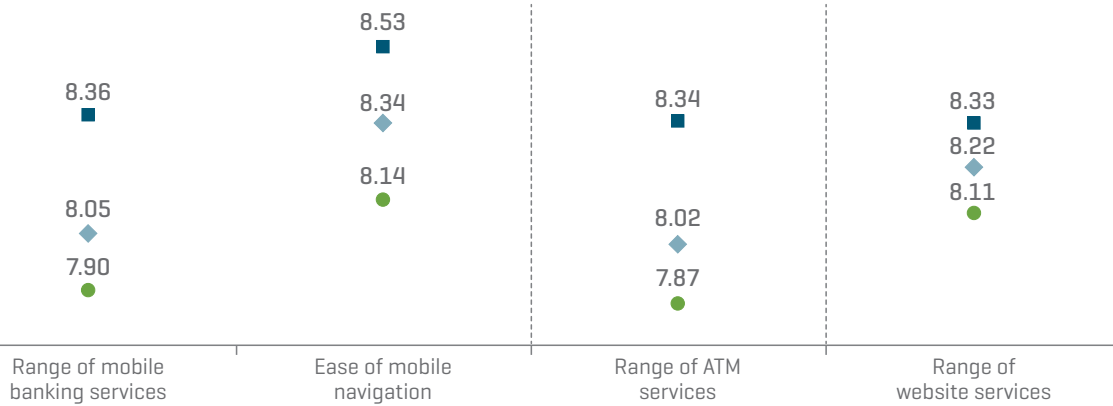
SATISFACTION WITH NUMBER OF ATMs NEARBY



Attribute Rating [10-point scale]

Source: J.D. Power 2014 Retail Banking Satisfaction StudySM

■ Big Banks ◆ Regional Banks ● Midsize Banks

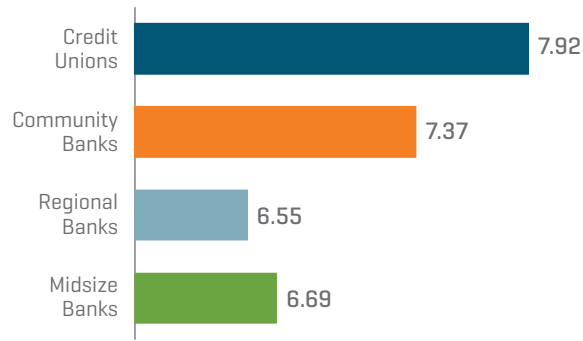


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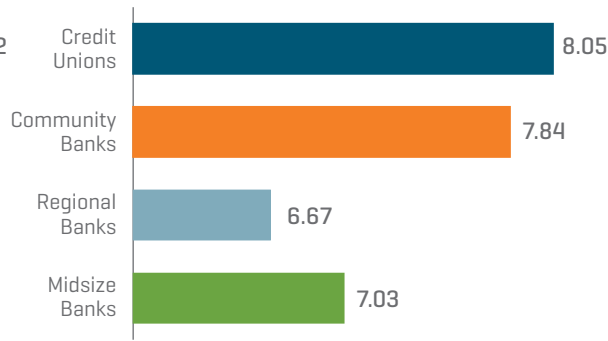
Source: J.D. Power 2014 Retail Banking Satisfaction StudySM

Additionally, regional and midsize banks struggle to compete with the pricing (fees and interest rates) and service excellence (branch and call center personnel) traditionally offered by credit unions and community banks. These characteristics can have a direct impact on bottom-line performance, as dissatisfaction with pricing and/or customer service are primary drivers of attrition among retail banking customers.

SATISFACTION WITH COMPETITIVENESS OF INTEREST RATES

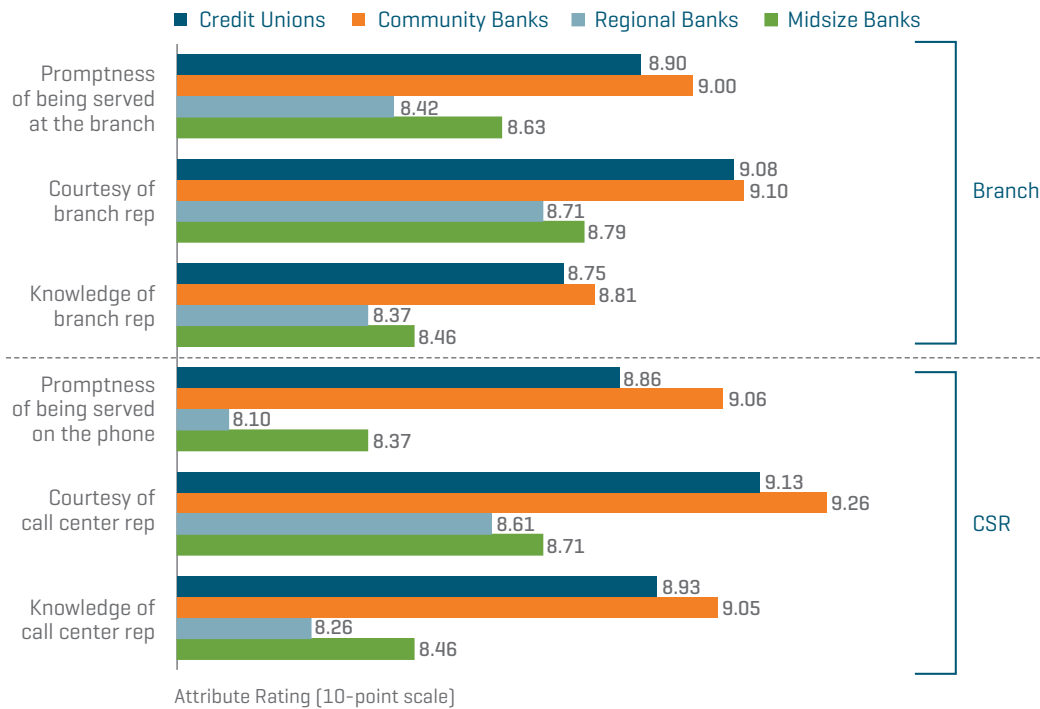


SATISFACTION WITH FEES



Attribute Rating [10-point scale]

Source: J.D. Power 2014 Retail Banking Satisfaction StudySM

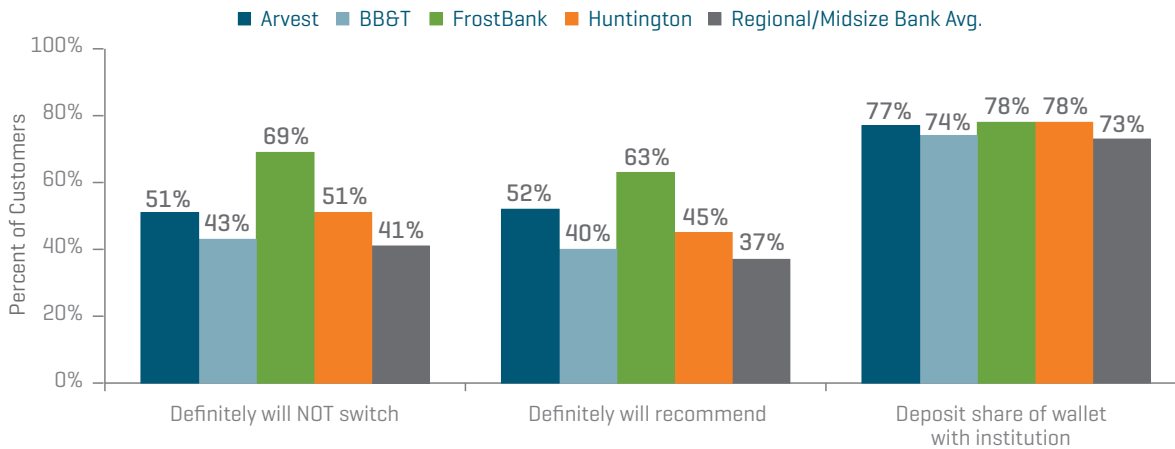


Attribute Rating [10-point scale]

Source: J.D. Power 2014 Retail Banking Satisfaction StudySM

Although regional and midsize banks tend to be “stuck in the middle” regarding the competitive advantages they are able to offer, it is important to note that a number of banks within these two segments have been able to establish a clear value proposition. For example, customers of Arvest Bank and BB&T are highly satisfied with the size of their branch/ATM network, and are also highly satisfied with the functionality of their digital interaction channels (website, ATM, mobile). Therefore, these institutions are well-positioned to challenge the competitive advantages traditionally enjoyed by big banks. Similarly, customers of Frost Bank and Huntington Bank are highly satisfied with pricing and customer service, which are advantages typically associated with credit unions and community banks.

In turn, each of the aforementioned financial institutions also experience above average results regarding retention, advocacy, and share of wallet.



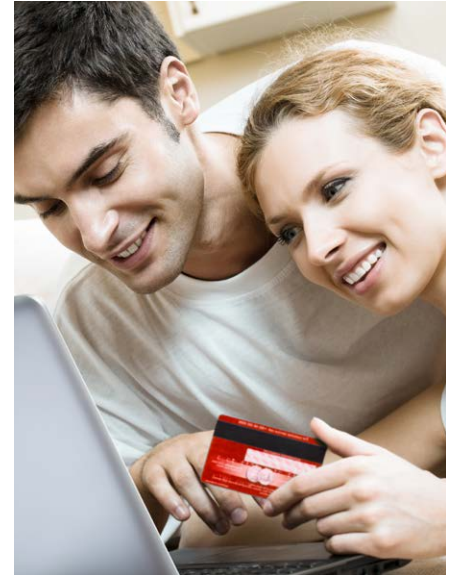
Source: J.D. Power 2013 Retail Banking Satisfaction StudySM

CONCLUSION

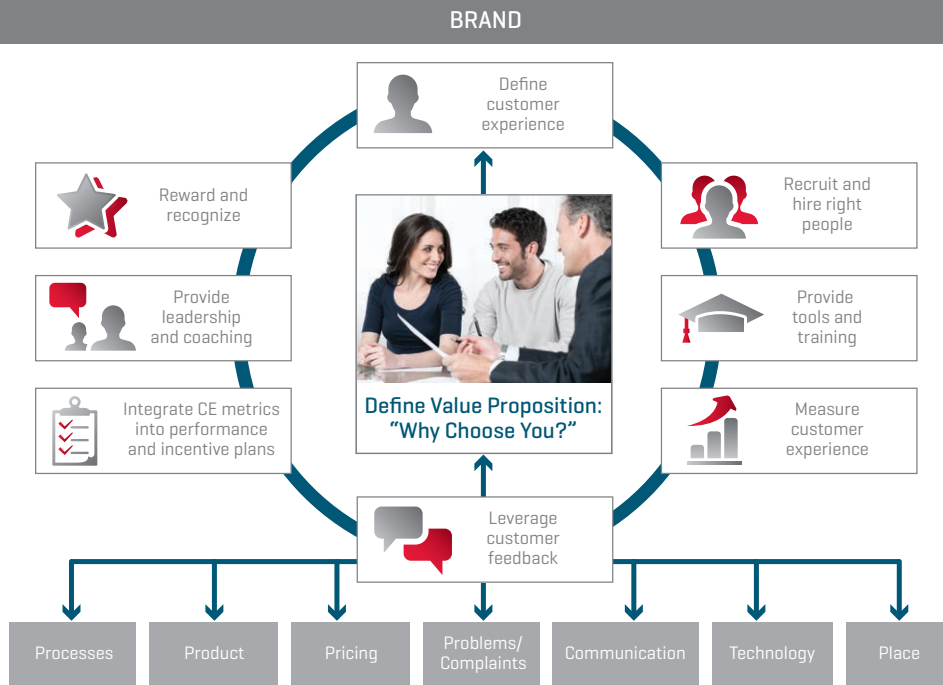
In today's competitive banking environment, it is important for all financial institutions to develop and articulate a value proposition to both current and potential customers. Failure to do so may negatively affect their ability to acquire and retain customers, thereby impacting bottom-line performance. Regional and midsize banks may find it particularly challenging to establish a value proposition, as the size of these institutions places them between big banks and credit unions/community banks in terms of traditional offerings. Finally, it is critical for financial institutions to not only develop a clear value proposition, but also to implement organizational changes that will enable them to provide the level of service required to deliver on the competitive advantages they choose to promote.

Recommendations:

- Clearly define why customers **should** choose you and why they **should** continue to bank with you, which is your value proposition.
- Determine what defines success and set specific goals to achieve it.
- Evaluate your bank's current performance.
- Ensure all employees understand what you are trying to accomplish; why you're implementing the change; what they need to do to support your strategic goal; and what they will be held accountable for.
- Questions to ask:
 - Can you measure your performance today?
 - What metrics should you use to monitor your success?
 - How does your performance compare with competitors?
 - How are you trending, compared with past performance and competitors?



CUSTOMER EXPERIENCE FRAMEWORK



How J.D. Power can help:

- Syndicated benchmarking studies
 - Help in evaluating strengths and weaknesses, compared with competitors
 - Provide data to help you understand trends in performance
- Website and mobile banking evaluations
- Tracking programs to monitor customer satisfaction initiatives at varying frequency intervals
- Problem management programs
 - Improve problem-capture and aid in the development of resolution processes
 - Provide understanding of problems by category so you can focus efforts on reducing the most frequent and most impactful problems
- Consulting services to identify areas of opportunity and assist in the development of action plans

For more information about the many ways J.D. Power can help your organization measure, understand and improve, contact:
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