Customer Experience:

Best Practices for Growing Revenue

HARLAND CLARKE®

Since the 2008 economic collapse, revenue growth among U.S. financial institutions has been hampered by a series of unprecedented headwinds, including record low interest rates, weak retail loan demand, tougher regulations, and broader competition from nontraditional banking sources.

For many banks and credit unions, the past decade has been a time for healing wounds and rebuilding relationships with consumers. To gain a competitive edge, many of them have reached out to their account holders with one profound question:

"How are we treating you?"

Retention equals growth

Customer experience (CX) lies at the center of an industry-wide movement intended to better understand and adapt to evolving account holder expectations. While some industry executives still resist CX initiatives as costly and intangible, the practice of enhancing overall customer experience is gaining steam across verticals. An expanding body of statistical evidence shows a correlation between customer retention rates and revenue growth.

Customer experience, however, is not new. Financial institutions began exploring its potential in the 1990s, during a period of industry deregulation that spurred competition and put more control into the hands of consumers. Back then, banks and credit unions relied largely on anecdotal feedback from branch staff and informal comment or suggestion cards filled out sporadically by account holders. Such procedures are archaic by today's standards.

Understanding today's market

Creating a great CX environment starts with the ability to empathize with customers and recognize their purchase behaviors. For example, a three-star restaurant with wonderful food but lousy service probably won't stay in business for very long.

Unfortunately, what a company considers great customer service isn't always what customers want or expect. A widely touted poll of large companies asked if their operations provided "superior" customer service – 80 percent said "yes." But only 8 percent of customers polled said the same companies delivered "superior" service.[1]

Drilling down for a closer (and more recent) look at financial institutions, the disconnect isn't much better. Forty-five percent of banks and credit unions consider themselves "relationship focused," while just 13 percent of consumers say the same.[2]

Clearly, there is work to be done.

[1] Time, *Customer Service Hell*, June 7, 2011
[2] *BAI Demand Pulse Survey*, June 2012

Not all bad news

Every industry is susceptible to complaints. When it comes to banking, complaints in the U.S. outnumber their global counterparts. More than 20 percent of U.S. account holders have submitted a formal complaint to their bank or credit union – more than the U.K., Australia, Germany and China.[3]

But compared to other business sectors, the financial industry fares well in customer satisfaction. While e-retailers top the list of customers who rate their experience as either a 9 or 10 out of 10, financial institutions come in a strong second (40 percent rate their experience as a 9 or 10).[4] And 41 percent recommended their financial institution within the previous 12 months.[5]

Other than financial security, account holders gave several reasons for expressing loyalty to their primary financial institution:

- The way I am treated (56 percent)
- How they communicate with me (44 percent)
- Quality of advice provided (41 percent)
- Problem resolution and complaint handling (38 percent)
- My relationship with certain employees (19 percent)[6]

The importance of problem resolution

At the broadest level, customer-based problems can be categorized as either "isolated" or "recurring" in nature. An isolated issue could result from a misunderstanding between the account holder and teller or some other frontline personnel.

On the other hand, systemic or recurring problems are more pervasive throughout the organization. Common problems can develop from operational disputes, lost or stolen cards, surprise fees and charges, payment/deposit conflicts, processing delays, and denials of card purchases.

Whether isolated or recurring, even a single ignored complaint can create frustration and convert a once happy account holder into a disgruntled one.

[3] KPMG International, *Customer Experience Barometer*, 2014
[4] Ibid.
[5] Ibid.
[6] EY, *Global Consumer Banking Survey*, 2014

Delivering positive CX actually *reduces* the cost of serving customers over time.

Over a recent 12-month period, 34 percent of account holders reported a problem to their primary financial institution. Among them, 66 percent felt either "satisfied" or "very satisfied" with the actions their institution took to remedy the situation.[7] That's a pretty good average – but, again, there is work to be done to get the latter score closer to 100 percent.

Monetizing the value of customer loyalty

A growing body of research shows a high correlation between customer loyalty and revenue potential. In the U.S. alone, it's estimated that total revenue impact of CX is several billion dollars annually.[8] Companies that provide positive customer experiences generate the bulk of that revenue through more repeat business, more loyal clientele, and more word-of-mouth referrals.[9]

One recent study conducted by the *Harvard Business Review* showed that customers with the best experiences spent 140 percent more compared to those who reported poor experiences.[10]

There was also a strong correlation between customer experience and retention rates. Customers reporting positive experiences were 74 percent likely to remain a customer for at least another year. In contrast, customers who reported poor experiences were only 43 percent likely to stay for another year.[11]

Financial industry implications

Acquiring a new customer is 6-7 times more expensive than keeping an existing one.[12] For financial institutions with robust acquisition programs, a lack of corresponding onboarding or engagement programs sets the stage for an endless cycle of acquisition and attrition. They will likely have to pay exponentially more in acquisition costs to compensate.

It's critical to retain new account holders, otherwise the money spent attracting them will be for naught.

So what causes account holders to switch financial institutions?

[7] Ibid.
[8] Forrester, *The Business Impact of Customer Experience*, 2014
[9] Ibid.
[10] Harvard Business Review, *The Value of Customer Experience, Quantified*, August 1, 2014
[11] Ibid.
[12] *White House Office of Consumer Affairs*

Increasing customer retention rates by just 5 percent can help increase profits by 25-95 percent.

Surprisingly enough, customer experience can be more influential than fees and location. In fact, 41 percent of account openers and 33 percent of account closers claimed customer experience as the No. 1 factor in their decision.[13] It outranked branch location, convenience, rates and fees for both opening and closing decisions.[14]

If this isn't persuasive enough, the same *Harvard Business Review* study concluded that delivering positive CX actually *reduces* the cost of serving customers over time – in large part because unhappy customers are expensive to replace.

The study also estimates that increasing customer retention rates by just 5 percent can help increase profits by 25-95 percent. Those figures are supported by a McKinsey study that suggests positive CX can help raise revenue by 10-15 percent while lowering costs of service by 15-20 percent.[15]

Generating revenue through cross-selling

Keeping customers happy and active is essential to generating revenue for any business. That's because it's easier to sell to an existing customer than to a prospect. The probability of selling to an existing customer is 60-70 percent – compared to 5-20 percent to an outside prospect.[16]

This is especially true in the banking world. Dormant accounts are expensive because they cost more than they bring in. On average, "silent" attrition from an inactive account holder costs a financial institution $66 per year.[17]

On the other hand, fully engaged account holders – those who set up direct deposit, sign up for bill pay and use debit cards – generate $212 more per year than inactive account holders.[18] They are also more apt to purchase profitable financial products such as mortgages, credit cards, auto loans and home equity lines of credit.

Best of all, this isn't an "all or nothing" proposition. Even incremental progress can have significant impact on the bottom line. Moving an inactive account holder to active (defined as completing at least one of the activities performed by fully engaged account holders) adds $80 in annual profit. Moving an active account holder to fully engaged adds another $132.[19]

[13] EY, *Global Consumer Banking Survey*, 2014
[14] Ibid.
[15] McKinsey & Company, *Best of Both Worlds: Customer Experience for More Revenues and Lower Costs*, April 2014
[16] Parrish, Jon, *54 Loyalty And Marketing Stats to Change Your Strategic Game Plan, citygro.com*, March 20, 2015
[17] Javelin Strategy & Research, *Convert Silent Attrition Into Banking Engagement and Profits*, February 2015
[18] Ibid.
[19] Ibid.

How are your competitors preparing?

The financial industry has experienced a surge in CX activity since the Great Recession. There's reason to believe this will continue at least through 2020, when it's projected to overtake *price* and *product* as key brand differentiators.[20]

As a result, resources are being allocated in a variety of areas to improve the customer experience. These areas include:

- Measurement and metrics (84 percent)
- Web capabilities (78 percent)
- Customer management spending (68 percent)
- Staffing a centralized CX team (51 percent)[21]

Best practices

Almost every financial institution understands the importance of customer experience. But knowing and doing are two separate things. What can – and should – be done to improve it? Where does one start?

There are several best practices that support a CX plan and help build long-term relationships with account holders. We outline eight of them below.

[20] fonolo.com, *20 Important Customer Experience Statistics*, February 20, 2014
[21] Ibid.

1 Make banking accessible through multiple channels

Remote banking is at the forefront of everyday financial transactions, affecting 48 percent of all account holders.[22] Easy access to branches and call centers is also valued.

- ATM (58 percent)
- Online / Internet (57 percent)
- Mobile (30 percent)
- Branch or office (24 percent)
- Call center (12 percent)[23]

Clearly, while the ATM remains (for now) the number one channel for financial transactions, online and mobile are not far behind. Financial institutions should already have robust capabilities in these areas. If not, they need to address them as soon as possible, because the next generation of account holders (Generation Z) is starting to emerge and they overwhelmingly prefer these "virtual" channels to physical ones. [See the Harland Clarke white paper, *Exploring the Business Potential of Generation Z.*]

2 Upgrade mobile capabilities

The proliferation of mobile technologies continues to shape banking communications. With more than 2 billion smartphones in use today, financial consumers – led by Millennials and soon to be overtaken by their Generation Z counterparts – expect to connect to their primary financial institution any time of any day from any location.

In response, 84 percent of chief information officers at customer-centric companies say they would focus on improving their customers' mobile experience.[24]

At the same time, mobile devices are expected to generate 28 billion more customer-to-company inquiries than desktop searches.[25]

Is your financial institution prepared for this surge in mobile customer service?

[22] EY, *Global Consumer Banking Survey*, 2014
[23] Ibid.
[24] Fonolo.com, *Top 10 Customer Experience Trends for 2016*
[25] Ibid.

3 Make communication easy

Just as important as taking an omnichannel approach with banking transactions, financial institutions need to take a similarly holistic approach to communications.

Here are the average preferences for customers when interacting with organizations across industries:

- Phone (81 percent)
- Email (78 percent)
- Live chat (64 percent)
- Online portal (62 percent)[26]

The takeaway here is that it needs to be easy for account holders to access their primary financial institution via whatever means they choose. It's not a "one and done" scenario – it's an "all at once" scenario.

35 percent of all consumer inquiries eventually escalate to the need for an actual conversation with a customer service representative.

4 Clear a path to a live rep

Despite digital advances, and the rise in automated communications, there will always be the need for traditional "live" contact with company representatives. Indeed, 35 percent of all consumer inquiries eventually escalate to the need for an actual conversation with a customer service representative.[27]

Additionally:

- 6 in 10 customers say they abandon phone calls after being on hold for 1 minute[28]
- 61 percent prefer a call-back option versus continuing to wait[29]
- 67 percent of customers have hung up the phone in frustration at not reaching a live person[30]
- Call-back technology can reduce annual costs by $900 per employee (associated with lost productivity from extended customer service wait times)[31]

Do your existing communication channels provide a direct path to a real person? Consider adding a "click-to-call-back" feature on your websites, mobile apps and texts (SMS) so that account holders can reach a live rep in a more cost-efficient and less stressful manner.

[26] Ibid.
[27] Ibid.
[28] Ibid.
[29] Ibid.
[30] *Consumer Reports Survey*, 2011
[31] Fonolo.com, *Top 10 Customer Experience Trends for 2016*

5 Monitor social media

Twitter and Facebook are among the most popular venues for account holders to vent their displeasure. According to Touch Agency, roughly 80 percent of customer service-related Tweets are negative.[32]

There's good news and bad news here.

The bad news is that complaints are inherently negative – especially when aired in public. The good news is that, when made over social media, you have the opportunity to see and hear them and, most importantly, to respond. This can accomplish two things at once: alleviate the situation for the disgruntled account holder in real-time and do so in a transparent manner for everyone who saw or read the initial complaint. If it's possible to turn a negative into a positive with CX, social media provides the means for it.

6 Offer financial guidance

Account holders are increasingly seeking advice and education from their primary financial institution. Rather than paying a premium to financial advisers – or feeling anxious about approaching one – the average consumer would rather get their financial advice on a "retail" basis, at the same location they already bank.

More than 70 percent of account holders say they would increase their business with their financial institution if advisory services were available to help develop their long-term financial goals.[33]

The channels in which these account holders are "very" or "somewhat" interested in receiving advice include:

- In person (61 percent)
- Over the phone with someone I know at the branch during working hours (50 percent)
- Online financial management tool (49 percent)
- Phone with someone at a call center – any day, any time (48 percent)
- Video chat from home or work (31 percent)[34]

[32] Touch Agency, cited by Contact Centre Central, *Useful Facts and Figures*, March 29, 2016
[33] EY, *Global Consumer Banking Survey*, 2014
[34] Ibid.

These findings support what Harland Clarke has been saying for some time: the branch is moving from a transaction center to an education center.

As more and more account holders gravitate to the Internet and their mobile phones to conduct financial transactions, just as many are looking to their local branch to provide financial advice.

Unfortunately, not all banks and credit unions have gotten onboard with the trend. In fact, most are moving in the opposite direction. According to account holders, in 2014, 29 percent characterized the relationship with their financial institution as advice driven, while 71 percent said it was transaction driven. A year later, the gap had widened to just 21 percent saying it was advice driven and 79 percent transaction driven.[35]

This represents a clear business opportunity for financial institutions: invest in advisory personnel at brick-and-mortar locations while moving transactions to less expensive digital channels.

Direct feedback from account holders is key to understanding how to create a high-performance, customer-focused culture.

7 Exploit technology to take advantage of churn

Most account holders deposit paychecks and other benefits directly into checking accounts that are used to disperse monthly payments, such as mortgages, car loans and utilities, automatically. Shutting off the spigot at one location and turning it on at another in a timely fashion can be daunting.

Innovative data-transfer technology allows banks and credit unions to move assets and financial records seamlessly. The speed and efficiency of an automated bank-switching solution, combined with personalized communications, can provide an exceptional customer experience and promote brand loyalty.

It also gets new account holders off to a positive start, validating their decision to switch institutions, while putting the bank or credit union closer to achieving primary financial institution status, pursuing cross-sell opportunities and providing long-term revenue streams.

[35] Accenture, *Banking Shaped by The Customer*, 2015

8 Get account holders active

Automated bank-switching technology makes acquiring new account holders easier than ever. Keeping them – and gaining a greater wallet share – is the logical next step. But, although financial institutions spend a great deal of time and money to lure new business, fewer than half of all new checking accounts are activated after 90 days of acquisition.[36]

This represents not just a loss of investment, but a loss of potential revenue. Active account holders are four times more likely than non-active ones to identity their bank or credit union as their primary financial institution.[37] And 61 percent of active account holders report having opened multiple accounts with their primary financial institution.[38]

It's critical for the financial institution's engagement program to work hand-in-hand with the acquisition program in order to get new account holders up and running as quickly as possible.

Most financial institutions don't have the resources to implement and measure a customer experience program internally. They need a credible, reliable partner to help gather statistically relevant data at the account holder level.

Start with onboarding.
A positive onboarding experience helps raise checking account profitability an average of $212 per account holder per year.[39] And for financial institutions with onboarding support in place, first-year attrition rates drop to 16.5 percent for banks and 9.5 percent for credit unions.[40]

Nurture over the long haul.
Personalized service makes account holders feel appreciated. This appreciation translates into greater willingness to buy products and services.

Take a customer-centric approach.
Producing superior customer experiences consistently over time isn't easy in the best of circumstances. Add in potential roadblocks like economic downturns and regulatory burdens, and it can be especially challenging.

36 BAI, *With Onboarding, Cash Management Rules*, October 31, 2014
37 Accenture, *Banking Shaped by The Customer*, 2015
38 Harland Clarke, *Nine Reasons to Step Up Acquisition and Retention Marketing*, 2015
39 Javelin Strategy & Research, *Convert Silent Attrition Into Banking Engagement and Profits*, February 2015
40 Ibid.

Instilling a sense of "advocacy" or customer-centricity throughout the financial institution is key to a successful CX program. It ensures that no matter what the complaint, or the climate in which it occurs, there's a good chance it will be handled efficiently and transparently.

Engage the whole team.

Frontline personnel are brand ambassadors for financial institutions. The customer journey can be mapped through their interactions with account holders, identifying each organizational touchpoint – in-person, digital, call center – and handoff processes. Incentives along the way that encourage staff to focus on each customer's plight and concerns will prioritize the customer experience and help to create a culture that values it.

Clarify CX protocols.

If frontline personnel can't resolve an issue, what then? A major driver of poor customer experience is an unclear chain of command. A designated Client Advocate – a go-to person for sensitive customer matters – can help alleviate complex issues quickly and relatively painlessly. For smaller financial institutions, the Client Advocate may be a rotating role held by several people. Whatever the organizational structure, it's important to clarify CX roles and responsibilities and to disperse proper contact information. Achieving closure requires not only resolving issues in a timely and professional manner, but also seeking feedback to help prevent similar mishaps in the future.

Communicate internally.

It's also important to raise the status of a company-wide CX initiative. Sharing results via the company intranet, newsletter and departmental emails keeps employees in a "customer-first" frame of mind. Adding transparency can have the additional benefit of removing siloes within the organization. Large national banks, for example, may employ thousands of workers across dozens of departments, each with its own priorities, technology systems and success metrics. It's no surprise that resources can be wasted on redundant and/or uncoordinated programs that let some customers fall through the cracks.

Establish metrics that matter. What do account holders really think about their financial institutions? How can banks and credit unions create customer engagement? Where can they improve?

The answers to these questions can mean the difference between allegiance and indifference, satisfaction and discontent – and, ultimately, institutional growth and attrition.

Ultimately, however, financial institutions won't know the answers to these questions unless they ask their account holders. Direct feedback from account holders is key to understanding how to create a high-performance, customer-focused culture.

Whatever methodologies – in-person interviews and customer panels, web-based surveys, email, telephone, or direct mail – it's vital to define key metrics that impact the customer experience at the specific financial institution, and create benchmarks to track performance over time.

Generic metrics, such as activation and inactivation rates, checking account usage, recommendation frequency and churn or attrition rates, are useful measures that reflect possible outcomes of customer experience – but they don't measure the root causes of those outcomes. In order to maximize the results that impact revenue, metrics need to be measured at a much deeper level.

These include:

- Loyalty
- Net Promoter Score℠ (NPS®)
- Overall experience
- Performance with employee
- Satisfaction with employee
- Satisfaction with wait time

These so-called "soft" metrics are the most valuable as they come directly from the account holder. They provide actionable intelligence and pinpoint areas for improvement that will have a direct impact on the customer experience.

Don't go it alone. Most financial institutions don't have the resources to implement and measure a customer experience program internally. They need a credible, reliable partner to help gather statistically relevant data at the account holder level. This third party should also be able to identify key drivers of the customer experience at the individual financial institution and help develop and implement a comprehensive program to improve weak performing areas – and measure those areas over time.

Develop a dedicated CX calendar. It's easy to get overwhelmed and sidetracked along the way of implementing a program as extensive and overarching as customer experience. It's not achieved overnight. To keep track of the journey – and to ensure the financial institution is headed in the right direction – it's important to chart a roadmap in advance and use a calendar to prioritize and ensure targets are being met. All stakeholders should have visibility of the calendar to drive staff engagement, coordination and accountability. It's important, however, to allow flexibility and adjust as necessary to changing business conditions.

Chart your CX course.

In an increasingly competitive financial market, banks and credit unions that consistently place the account holder at the center of their business model will be better able to capitalize on:

- Account holder retention
- Prospect acquisition
- Operational efficiencies

For support in developing a customer experience program that engages your staff and integrates your existing technological capabilities, contact your Harland Clarke representative today.

Call **1.800.351.3843**

Email **contactHC@harlandclarke.com**

Visit **harlandclarke.com/VOC**