CFI Group

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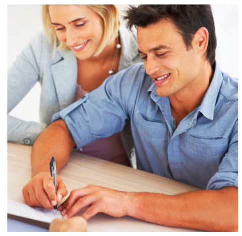
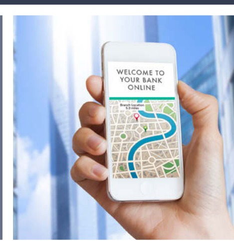
ABOUT THIS STUDY

In this fourth installment of the Bank Satisfaction Barometer, banking satisfaction is up slightly from the previous year. The 2016 score of 82 (on a 0-100 scale) is up three points from 2015 and is at the highest score since the start of this tracking program in 2013. Additional analysis on the results identify four opportunities for growth in 2017.



BANK SATISFACTION BAROMETER 2016 (BSB)



ABOUT CFI GROUP

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 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.

ACSI

Table of Contents

EXECUTIVE SUMMARY

The bank satisfaction barometer (BSB) is at a 4-year high of 82, as measured on a 0-100 scale, moving up 3 points from 79 in 2015. Customer satisfaction has improved from the previous year, as have the stated likelihood to remain a customer, use additional services, and recommend the bank to others. Analysis from the study shows that banks are generally better positioned than in the previous year, with stronger relationships with their customers.

To continue these strong relationships, we identify four opportunities for banks to continue to improve BSB in 2017.

1. **Engage Local Communities:** Increase efforts to be active and involved in local communities.
   Banks that are involved in the local community tend to have satisfied customers. 31% of the respondents say that their bank is "very involved" in the local community, and they give to these very-involved banks an exceptionally high BSB score of 90. Customers clearly perceive value when they see their bank active within their local community. Bank executives should think through their plans for local community involvement in 2017.

2. **Enhance Loyalty Programs:** Design a valuable loyalty program experience for customers.
   Banks that have a loyalty program experience positive results. In 2016, 46% said their primary bank has a loyalty program, up considerably from 32% in 2015. And BSB scores for banks with a loyalty program is 84, compared to 79 for banks without a loyalty program. It is important to note, however, that the loyalty program must be a genuine value to the customer. Offering a loyalty program that is not valuable will elicit lower BSB scores than no program at all.

3. **Promote Digital Experiences:** Encourage the frequent use of the available digital services.
   Customers are becoming increasingly comfortable with conducting their banking activities online. The 15% of respondents who conduct all of their banking electronically have a BSB of 88, which is 6 points above the overall score. Banks must continue to streamline the online and mobile banking processes to make it easier and smother for customers to conduct their banking, particularly for those conducting about half or more of their banking online who could do more online if encouraged to do so.

4. **Develop Millennial Customers:** Ensure the needs of Millennial customers are met as a segment for future growth.
   Millennials present an opportunity for banks to grow in the near future. 61% of Millennials plan to sign up for additional banking services within the next year, compared to 51% for Gen Xers and just 18% for Boomers. To capture this future revenue stream, banks need to focus on Millennials and deliver an exceptional experience.

Perhaps most importantly, banks should have a well-designed customer satisfaction measurement system that allows a bank understand where it might be falling short in its customer's eyes, enabling it to address issues before they impact financial metrics. As a bank closely measures and follows its customers, it can anticipate changes in the perspectives of its customers and preemptively act to retain its customer base.

Start with these four opportunities to strengthen customer satisfaction and continue to grow in 2017.

INTRODUCTION

Heading into 2017, banks face a tumultuous marketplace rife with new competitors and rapidly-developing technology. Relentless digitization is transforming the industry.[1] Banks must master new digital partnerships with fintech firms, while simultaneously developing close, personal relationships with their customers. The annual CFI Group Bank Satisfaction Barometer is designed to help banks stay in tune with these changing customer needs.

This study is the fourth edition of the CFI Group Bank Satisfaction Barometer survey designed to determine how well banks are faring in the current retail banking environment. The results show an environment that has improved over 2015. The overall Bank Satisfaction Barometer 2016 (BSB) score of 82 (on a 0-100 scale) is up three points from 2015 and is at the highest score since the start of this tracking program in 2013. The improved score points to a clearly improved customer environment.

During the month of August 2016, CFI Group asked 629 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 a majority of their banking). The Bank Satisfaction Barometer looks not only at overall satisfaction of bank customers, but also examines the key drivers of satisfaction and important business outcomes affected by satisfaction. The key drivers of satisfaction include: Branch Staff, Branch Convenience, Online & Mobile Banking offerings, ATMs, Products & Services, Rates & Fees, and Information & Communications received from the bank.

ABOUT THE ACSI METHODOLOGY

The American Customer Satisfaction Index (www.theacsi.org) is the only uniform, national, cross-industry measure of satisfaction with the quality of goods and services available in the United States. A key distinguishing feature of the ACSI methodology is its patented scientific approach to customer satisfaction measurement.

When applied to your organization, the unique cause-and-effect methodology of the ACSI shows how satisfied customers are today, and how satisfaction leads to desired results. This one-of-a-kind methodology also gauges satisfaction with specific elements of the customer experience that influence overall satisfaction and future success.

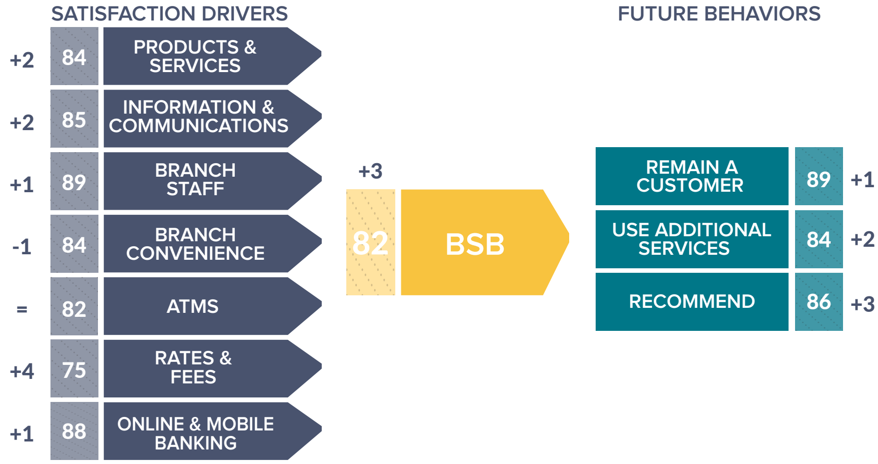
The ACSI is an important indicator of economic performance, both for individual firms and for the macro economy. As such, the national ACSI score has been shown to be predictive of both consumer spending and stock market growth, among other important indicators of economic growth. Perhaps most revealing, however, have been the linkages discovered between aggregate ACSI growth, aggregate corporate earnings growth (among S&P 500 companies), and average Market Value Added (MVA), which measures a firm's success in creating wealth for shareholders.

Based on the data, CFI Group applied the patented ACSI methodology to assign impact weights to each of the seven identified satisfaction drivers in order to determine which drivers have the most effect on satisfaction. Improvements to these drivers will lead to a higher overall Bank Satisfaction Barometer score which, in turn, will result in increased customer loyalty, more word-of-mouth recommendations, and an increased likelihood that customers will be more agreeable to the cross-selling of complementary products and services. An increasing BSB is a positive sign for the industry.

The Bank Satisfaction Barometer model is shown in Figure 1. The satisfaction drivers are listed on the left-hand side of the model. Driver scores are the aggregate respondent scores for each individual survey question (respondents were asked to rate each item on a 1-10 scale with 1 being "poor" and 10 being "excellent"). These scores are then converted to a 0-100 scale for reporting purposes. It is important to note that these scores are aggregate averages, not percentages. The score is best thought of as an index, with 0 meaning "the worst possible experience" and 100 meaning "the best possible experience."

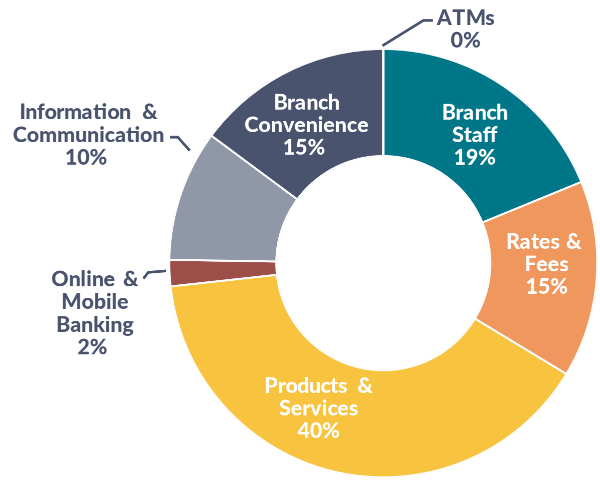
Going into 2017, banks are generally better positioned with stronger relationships with their customers. Expected behaviors of remaining with the bank, using additional services, and recommending the bank to others are all up 1, 2, and 3 points, respectively. Meanwhile the largest year-over-year increase among the satisfaction drivers is *Rates & Fees*, up 4 points from the previous year. *Products & Services* and *Information & Communication* are both up 2 points over last year. *Branch Staff* and *Online & Mobile Banking* are up just a point, while *ATMs* stayed flat. Only *Branch Convenience* slipped a slight 1 point from 85 in 2015 to 84 in 2016.

Figure 1: Bank Satisfaction Barometer (BSB) model 2016



CFI Group's patented methodology calculates the influence (or "impact") that each driver has on customer satisfaction. Impacts quantify the extent to which further investment and improvement in these areas will yield higher levels of satisfaction and revenue-driving outcomes such as customer loyalty and advocacy. Figure 2 shows the relative impact the seven drivers have on overall customer satisfaction 2016.

Figure 2: Relative driver influence on customer satisfaction 2016



Products & Services continues to have a substantial effect on the BSB score. Entering 2017, *Products & Services* now has the largest influence on BSB among the drivers measured. Part of this increased role for *Products & Services* can be attributed to increased competition and innovative offerings by fintech companies and new entries. Customers have more choices than ever before for financial products and services. The good news is that banks are competing well so far, as evidenced by the 2-point increase in *Products & Services* from last year.

Branch Staff and *Branch Convenience* continue to play important roles, though slightly less than in 2015. *Branch Convenience* is the only driver to dip slightly from 2015, but that did not stop the overall BSB score from increasing 3 points. Meanwhile, *Branch Staff* is up a slight point, even as its role diminishes a bit to 19% in 2016. The branch experience will play a key role in customer satisfaction for some time to come.

Information & Communications has a larger role this year compared to last year. Our assessment is that as the market shows turbulence and change, customers have more questions about the products and services offered at the bank. Fortunately for banks, *Information & Communications* is up 2 points from 2016. Banks seem to be adapting well to changing expectations in this area, particularly for frequency and relevancy of the communications banks have with customers.

The *Online & Mobile Banking* experience has improved to a point where it is not an an area of priority for 2017. Its share of influence over customer satisfaction softened to just 2% in 2016. Improvements in online banking have played a role in the overall 3-point increase in BSBfrom last year, but further development in online and mobile banking unrelated to any innovation in products and services will have only a nominal impact on overall customer satisfaction.

While *ATMs* reflect low impacts on BSB, the area remains important to a bank's value proposition as low driver impact does not necessarily imply low importance. ATMs continue to be highly valued by bank customers, but most ATM needs for bank customers are simply being met. As a result, the impact analysis shows that investment in ATMs would not likely yield significant changes in satisfaction at this time.

It should be noted that components of the banking experience driving satisfaction are subject to change over time. Also, the relative impacts for each institution can vary greatly based on a variety of factors, such as the makeup of the customer base and the current local competitive environment.

OPPORTUNITIES FOR BANKS

Our analysis of the 2016 results outlines four opportunities for banks to grow. Each of these opportunities involves a managerial shift that involves continuing current practices while simultaneously developing new practices.

1. **Engage Local Communities:** Increase efforts to be active and involved in local communities
2. **Enhance Loyalty Programs:** Design a valuable loyalty program experience for customers
3. **Promote Digital Experiences:** Encourage the frequent use of the available digital services
4. **Develop Millennial Customers:** Ensure the needs of Millennial customers are met as a segment for future growth

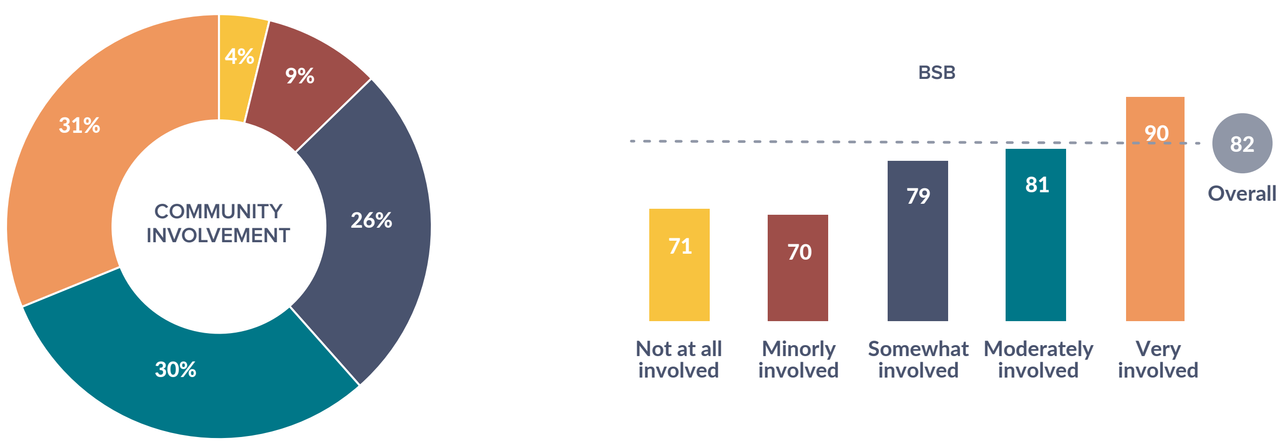
Start with these four opportunities to strengthen member satisfaction and continue to grow in 2017.

1. ENGAGE LOCAL COMMUNITIES

Increase efforts to be active and involved in local communities.

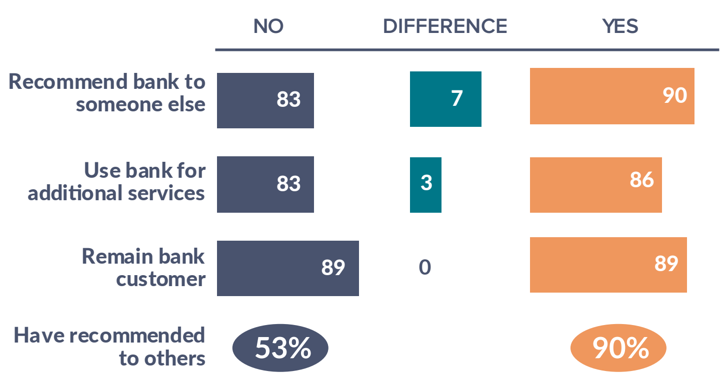
Banks that are involved in the local community tend to have satisfied customers. A full 31% of the respondents say that their bank is *Very Involved* in the local community, and they give these very-involved banks an exceptionally high BSB score of 90. The other 69% who say their banks are not very involved with the local community have below-average BSB scores.

Figure 3: Current institution involvement in your local community



Customers who recall that their bank is involved in the community are more likely to recommend the bank (7 points higher) than those who do not recall their bank's involvement in the local community. And 90% have already recommended their bank to someone else, compared to just 53% of those who do not recall their bank's local community involvement.

Figure 4: Recall bank's community involvement



The lesson here is that customers perceive value when they see their bank active within their local community. Bank executives should think through their plans for local community involvement in 2017.

2. ENHANCE LOYALTY PROGRAMS

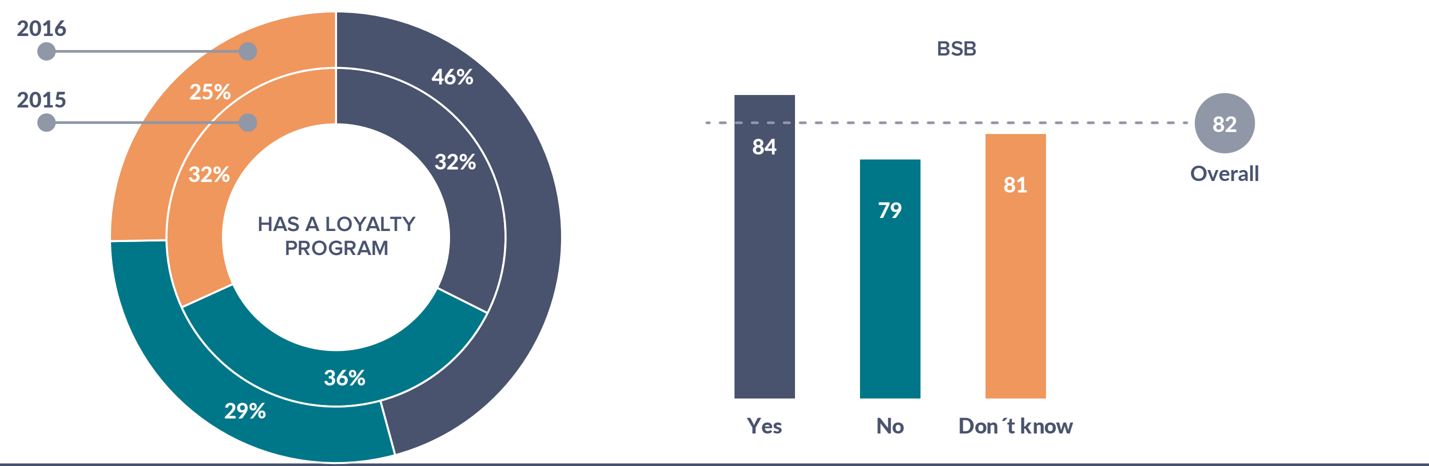
Design a valuable loyalty program experience for customers.

The percentage of customers indicating that their bank has a customer loyalty program has continued to grow since 2009. Among 10 industries measured, banks had more customer participation than all other industries except retail.[2]

A growing percentage of banks appear to be offering loyalty programs, and more customers are aware of whether their bank has a loyalty program. In 2016, 46% said their bank has a loyalty program, up considerably from 32% in 2015. And while one in four (25%) do not know if their bank offers a loyalty program, that number is down from 32% in 2015.

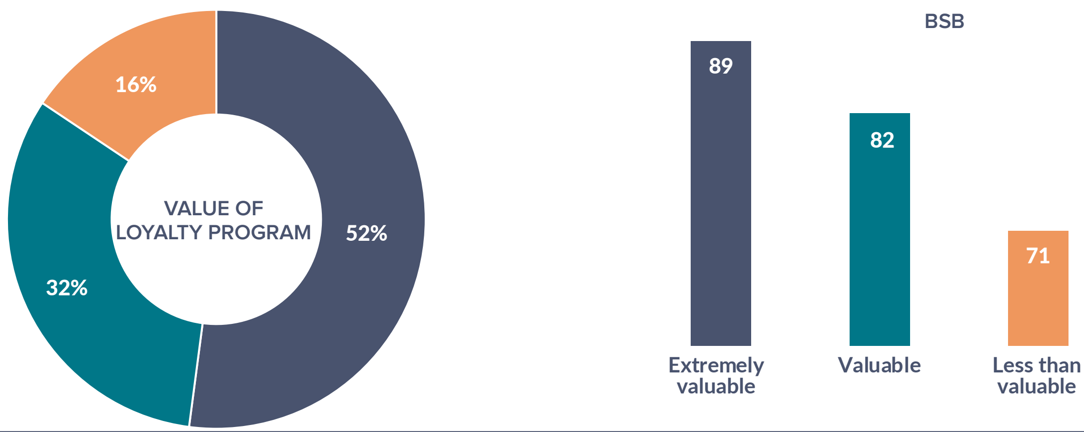
Banks that have a loyalty program experience positive results. The BSB score for banks with a loyalty program is 84, while those without one are at 79, a full 5 points lower. Customers who are unaware of whether a loyalty program is offered have a BSB score of 81, which is close to the overall score of 82.

Figure 5: Bank has a loyalty program



It is important to note, however, that the loyalty program must be a genuine value to the customer. Programs not viewed as valuable elicit low BSB scores from customers. Fortunately, roughly half (52%) of the respondents say that the bank loyalty program is *Extremely Valuable*, while 32% more say it is at least *Valuable*. For the 16% who say the program is *Somewhat Valuable, Of Little Value*, or *No Value at All*, the BSB score is a low 71.

Figure 6: Bank's loyalty program is valuable



If a bank has a loyalty program, it must, by all means, work to enhance the program to ensure that customers see value in it. Otherwise, customers may be quietly complaining of the weak program and expressing their frustrations to their networks and contacts. The lesson is clear. The best option is to offer a great loyalty program. The second best option is none at all. The worst option: a mediocre program.

3. PROMOTE DIGITAL EXPERIENCES

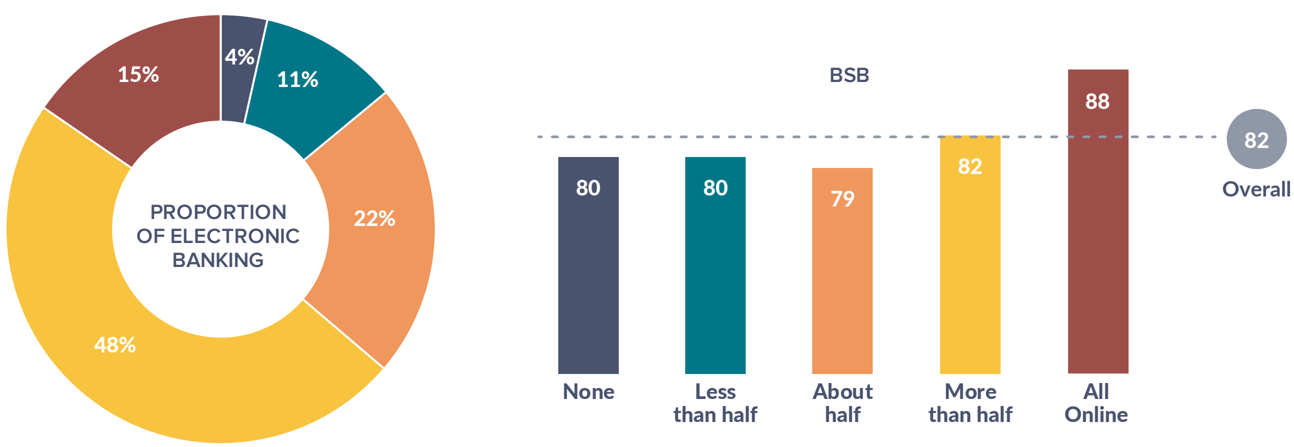
Encourage the frequent use of the available digital services.

Customers are becoming increasingly comfortable with conducting their banking activities online. Beyond just checking balances or transferring money between accounts, customers are growing more comfortable using their phones to deposit checks, pay bills, and even apply for loans. Banks are generally not prepared for this seismic shift in digital banking. In fact, 85% of global retail banks indicated that their infrastructures are insufficient to support the continued shift in digital banking services led by active competition by fintech firms.[3]

For the short term, banks are doing quite well in delivering a fairly solid digital experience for customers. The challenge seems to be to get customers to take advantage of the available digital capabilities.

About one in three (33%) customers completes half or less of their banking in person rather than electronically, and a small portion (4%) do not conduct any electronic banking at all. The BSB for this 37% is below the 82 overall. Meanwhile, the 15% who conduct all of their banking electronically have a BSB of 88, which is 6 points above the overall score.

Figure 7: Proportion of banking completed electronically



Banks are keenly aware of the ongoing challenge to continually improve the experience, but there also seem to be opportunities to further promote the digital offerings to current customers, particularly for those conducting about half or more of their banking online. Other research shows that many customers would be willing to conduct more banking digitally if banks would provide the guidance and support to make the shift.[4]

4. DEVELOP MILLENNIAL CUSTOMERS

Ensure the needs of Millennial customers are met as a segment for future growth.

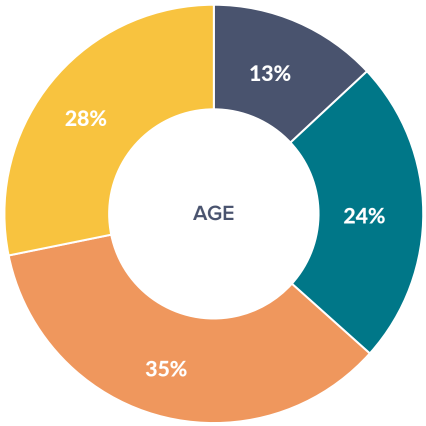
Bank executives should think carefully about generational segments in designing products and services. Each generational category is in a different life stage and has different needs and expectations for a bank.

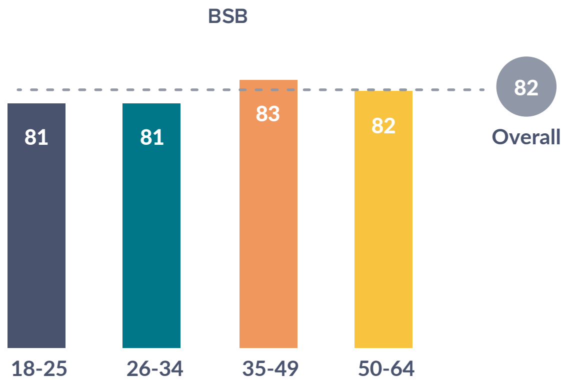
Millennials, however, make up a particular growth area for banks. Millennials are digital natives who have high expectations for what they can accomplish with a mobile device, and they would rather visit the dentist than visit a bank.[5] This group of roughly 92 million is the largest generational group in US history, larger even then the Boomer generation. They tend to have less money to spend at their age than previous generations, and are burdened with large amounts of debt, particularly student loan debt.[6] But they represent an important segment for banks.

In our analysis we look at four primary generational segments:

- Younger Millennials (age 18-25)
- Older Millennials (age 26-34)
- Gen Xers (age 35-49)
- Boomers (age 50-64)

Figure 8: Respondents by age

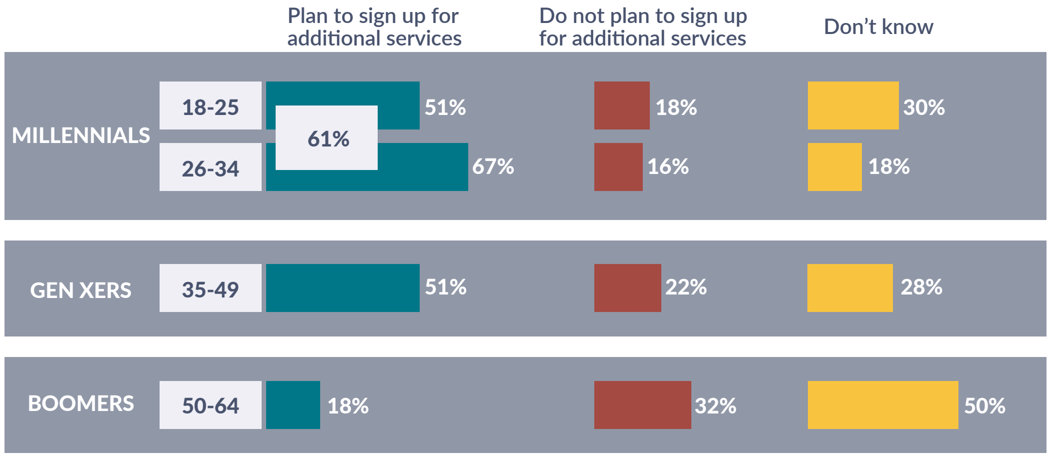




All four generational groups are similarly satisfied with their banks. The two Millennials groups each have a BSB of 81 and combine to make up just over one third (37%) of the respondents. Gen Xers and Boomer members make up about two thirds (63%) of the bank respondents and have BSB scores of 83 and 82, respectively.

But Millennials present an opportunity for banks to grow in the near future. 51% of Younger Millennials and 67% of Older Millennials (61% combined) plan to sign up for additional services within the next year, compared to 51% for Gen Xers and just 18% for Boomers.

Figure 9: Do you plan to add products next year?



The top services Millennials plan to add include a checking account, savings account, credit card, debit card, or CD. Banks should work with Millennials to add these services in 2017, particularly checking and savings accounts, since these accounts tend to peak at the upper edge of Millennials. As Younger Millennials (18-25) become Older Millennials (26-34), the average balance of the checking or savings account grows and peaks before edging down as a Gen Xer or Boomer.

Figure 10: Deposit account average balance

To capture this future revenue stream, banks need to focus on Millennials and deliver an exceptional experience.

CONCLUSION

2016 was a good year for banks. And the 3-point bump in the overall BSB score is encouraging. For the short term, 2017 banks can expect continued success as they enter the year with strong customer relationships. In the longer term, however, banks are facing seismic shifts in the industry as consumers grow more comfortable with cloud banking and alternate banking models such as Bitcoin and blockchain solutions.

If banks closely measure and follow their customers, they can anticipate changes in the perspectives of their customers and preemptively act to retain their customer base. In addition, a well-designed satisfaction measurement system allows a bank to get an early read on the impact of a policy change without having to wait until the change impacts the financial metrics.

In this report we have identified four initiatives banks can pursue in order to boost customer satisfaction and grow: engage local communities, enhance loyalty programs, promote digital experiences, and develop millennial customers.

Next year when we conduct the CFI Group 2017 Bank Satisfaction Barometer we hope to see customer satisfaction levels remain strong.

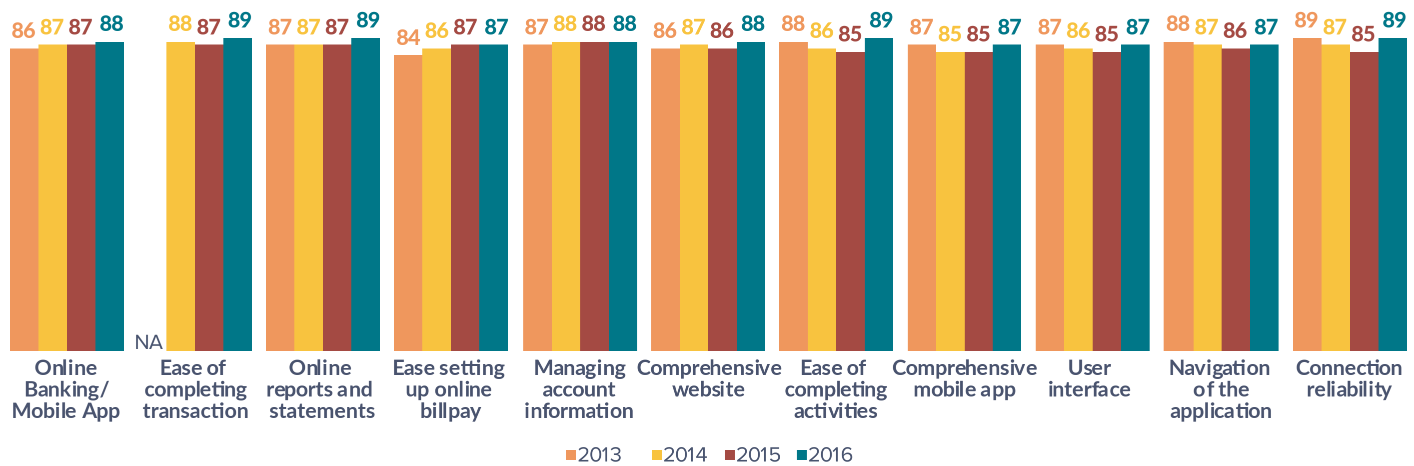
APPENDIX

BANKING CHANNELS

Online and Mobile Banking

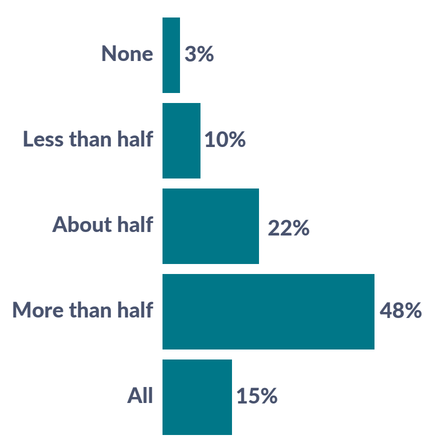
For 2017, *Online & Mobile Banking* takes a diminished role as a driver of customer satisfaction. Scores are even or up from 2015 across the board. Customers expect their bank to offer online and mobile banking services that are convenient, reliable, and easy to use. The *Online & Mobile Banking* score of 88 is up a point from last year. In particular, *Ease of Completing Activities* is up a full 4 points from 2015. Customers generally feel better about being able to get their banking done online or with an app. *Connection Reliability* is also up 4 points, suggesting that connections through wifi and mobile data are more reliable and have better coverage. All other measures are either steady with last year or up slightly.

Figure 11: Online & Mobile Banking scores 2013-2016



Usage of apps has steadily grown since 2013. Mobile app usage has increased 8 percentage points from 35% in 2013 to 43% in 2016. Meanwhile, bank website usage stays steady with 76% of respondents reporting they visited their bank's website in the last 90 days, up just 1 percentage point from 2015. Despite the drop in bank website usage, 63% of respondents indicate that they do more than half of their banking without interacting with a person. This is a small decrease of 5 percentage points from 2015.

Figure 12: Proportion of banking completed electronically



In order for customers to expand the breadth and depth of electronic bank services, mobile and online banking applications need to focus on ease of conducting the online and mobile banking activities. In doing so, customers may more readily accept electronic banking as part of their overall banking experience.

Branches

Even though bank customers are increasingly embracing online offerings, the mere fact that a bank offers these products and services does not yet appear to be a reason for a customer to begin doing business with that particular bank. Only 4% of respondents said they chose their bank based on its website or mobile app capabilities, while almost one-third (32%) cited a convenient branch location as the reason for choosing a particular bank.

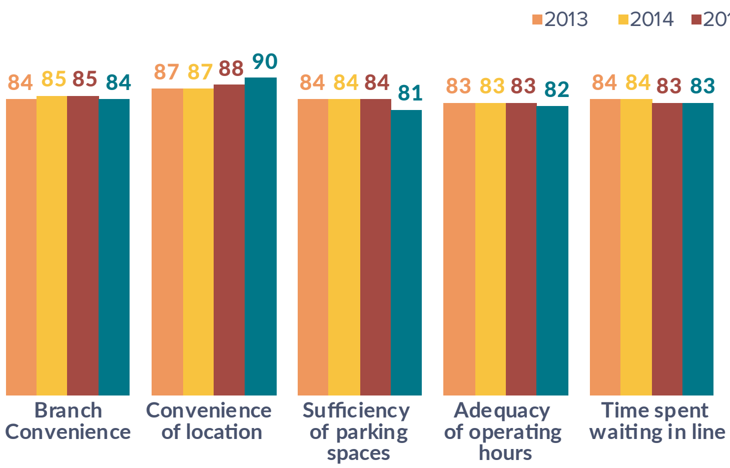
When asked how important it is to have a branch nearby, 76% said it was either *Important* or *Very Important*, up from 67% in 2015. Only 6% of bank customers told us the branch location was of *Little or No Importance*. Furthermore, 72% of respondents told us that their closest bank branch was no further than three miles from their home.

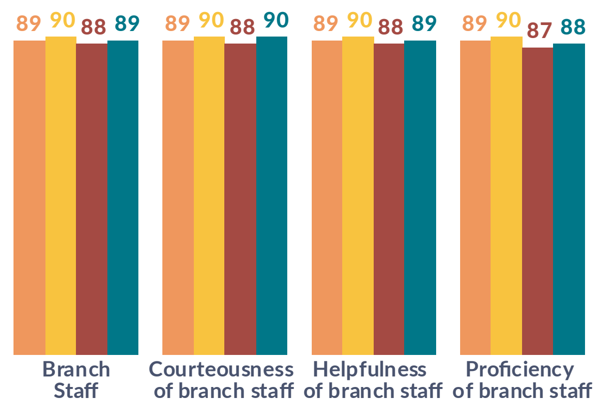
Branch Convenience has a modest impact on driving higher levels of customer satisfaction, but combined with impact of the *Branch Staff*, the branch makes up for about one-third (34%) of the driver of customer satisfaction. *Branch Convenience* remains a key factor in how a customer chooses a banking institution. For 2016, the only score that increased is that for *Convenience of Location*. Overall *Branch Convenience* is down just a point, from 85 in 2015 to 84 in 2016.

Once consumers choose their bank, however, we expect they then shift their focus to other aspects of the branch such as *Branch Staff*. *Branch Staff* had the most leverage in driving customer satisfaction, after *Products & Services*. It was also the highest rated area with a score of 89. The *Branch Staff* score of 89 is up a point from the 88 last year, with all three attributes of courteousness, helpfulness, and proficiency all up 1-2 points as well.

Figure 13: Branch Convenience scores 2013-2016

Figure 14: Branch scores 2013-2016





The staff in the branch play a vital role for a bank. Almost 1 out of every 5 customers (18%) come in to a local branch at least one time each week. And only 3% never visit a branch.

One-third (33%) of customers enter the branch less than once per month. These results underscore the idea that while branches are significant factors in customer acquisition, branches alone are not going to dictate ongoing customer loyalty as they had in the past.

Figure 15: Frequency of branch visits

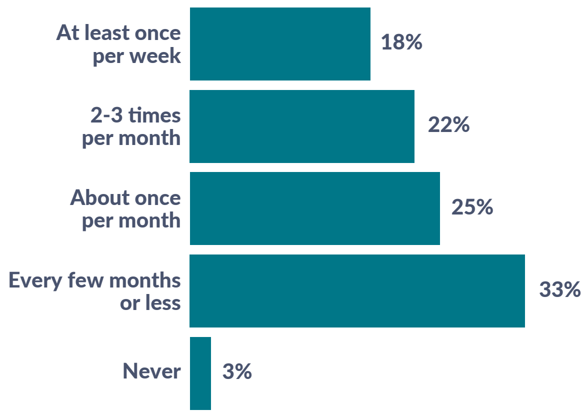
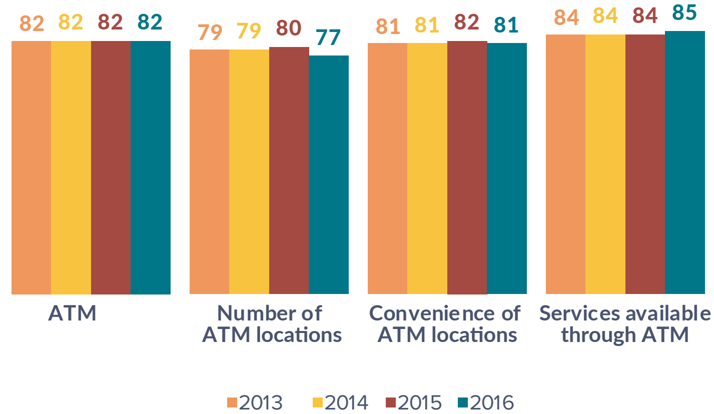


Figure 16: ATM scores 2013-2016



ATMs

While ATMs are not currently a significant driver of satisfaction when compared to other aspects of the experience such as *Branch Staff*, *Online & Mobile Banking*, or *Products & Services*, they are an important component of overall service delivery, so their importance should not be marginalized. *ATMs*' score has held at a steady 82 for all year 2013 through 2016.

ATM usage has shown a slight increase in overall usage over the last three years. In 2014, 70% indicated that they used an ATM at least once a month. That percentage inched up to 74% this year. Despite the minimal role that *ATMs* play in overall bank satisfaction, ATMs remain a vital and expected service from any banking institution.

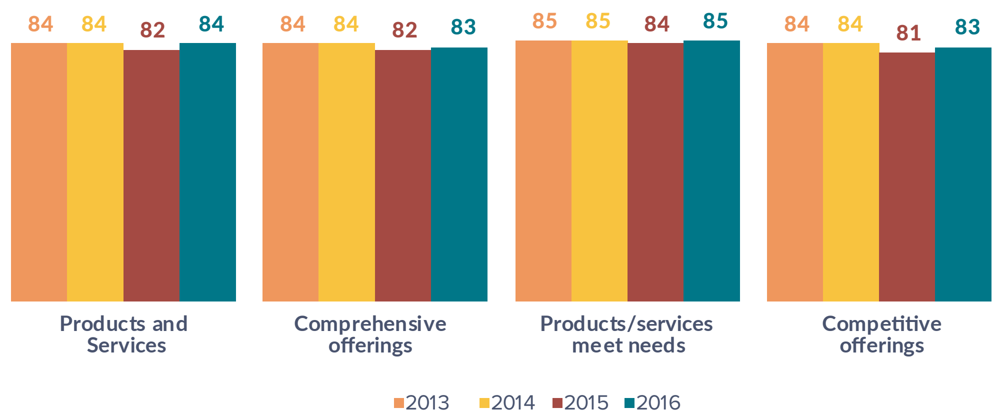
PRODUCTS AND SERVICES

Products & Services

Many bank products and services are now being offered by non-bank entities, although only banks retain their ability to offer a wide range of financial products and services in one location. This is a convenience that other entities cannot match. By better understanding the customer, banks can be sure to match the right product and service to the right customer and remain a one-stop-shop for a multitude of financial products and services.

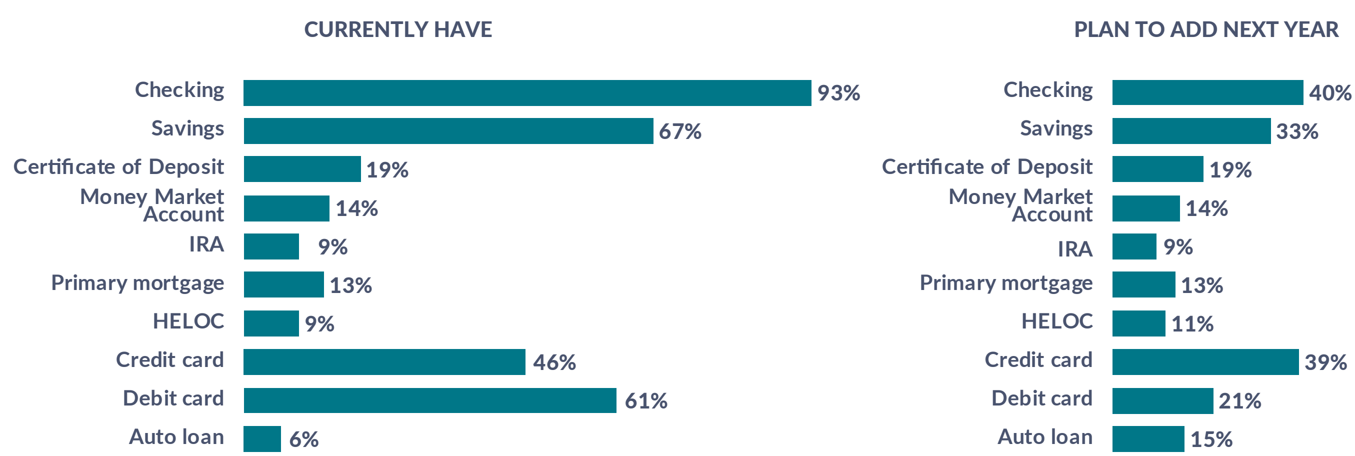
Products & Services overall score of 84 is up 2 points from last year and back even with the 84 for 2013 and 2014. Bank customers are pleased with the *Comprehensiveness of Offerings* (83), the *Competitiveness of Offerings* (83), and the *Ability of Products & Services to Meet Needs* (85). Banks may want to continue to simplify their products and allow customers to custom build products that suit their specific needs to help combat the intrusion of non-bank entities into the traditional banking product arena.

Figure 17: Products & Services scores 2013-2016



Checking accounts are still by far the most popular bank product, with 93% of respondents reporting having a checking account. *Savings* (67%) and *Debit Cards* (61%) are also widely used. The mix of bank offerings found in the 2016 study was not significantly different from the 2015 totals. *Checking* (40%), *Savings* (33%) and *Credit Card* (39%) were most often cited as products customers expected to add within the coming year.

Figure 18: Products & Services



Obviously, any bank's product mix will depend on the community in which its branches are located, making it important for institutions to measure customer satisfaction across their product and services offerings. Those banks that can understand and connect to their consumers will be viewed not only as providers of financial services, but also as trusted advisors in financial matters.

Rates & Fees

Interest rates and bank fees have traditionally been areas where customers are least satisfied and, once again, this year is no exception. *Rates & Fees* is again the lowest scoring item in the customer satisfaction model. This year, however, *Rates & Fees* moved up 4 points, from 71 in 2015 to 75 in 2016. In particular, bank customers show strong increases in scores for *Deposit Interest Rates* (up 6 points) and *Loan Interest Rates* (up 5 points).

Perhaps part of the reason for the low score in *Rates & Fees* is the proliferation of other lending options such as peer-to-peer (P2P) lending firms. Since these organizations do not have the infrastructure and operating costs of traditional banks, they are able to offer higher rates of return and lower interest rates to borrowers. While banks will never be able to compete solely on rates compared to these organizations, any effort to provide better clarity on the value-added service banks can offer should improve consumer perception of *Rates & Fees*. For 2016, it appears banks did well to adjust to the market pressures.

In 2016, *Information & Communications* has an increased impact on the overall BSB score. *Information & Communications* plays an important part in the overall customer experience. Customers require clear, accurate and relevant information. The increase in scores from 2015 to 2016 for all *Information & Communication* measures indicates that customers are generally satisfied with the quantity and quality of information they receive from their banking institutions.

Figure 19: Rates & Fees scores 2013-2016

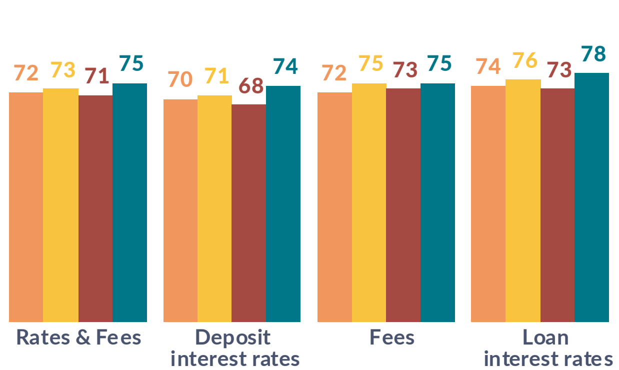
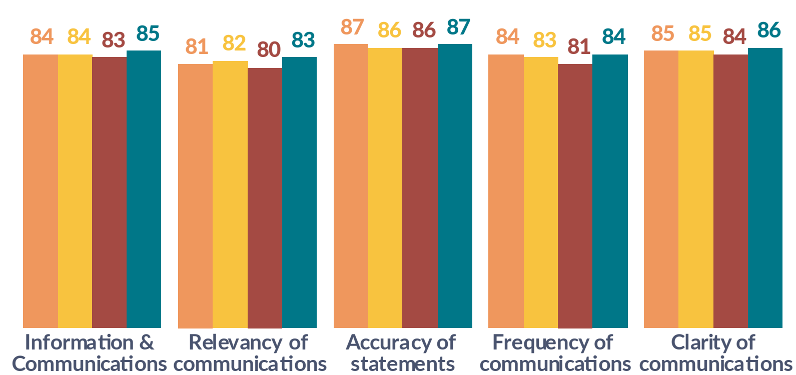


Figure 20: Information & Communications scores 2013-2016



2013 2014 2015 2016

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