digital scientists®

Optimizing to Capture Referrals

Turn Engaged Account Holders Into Active Advocates

Executive Summary

Consumers gather information about financial institutions and their products in myriad ways and much current research focuses on the impact of digital channels on the customer life cycle. While there's no denying the ever-escalating growth of all things digital, referrals still remain the top way in which consumers learn about a financial institution.

Rather than becoming less influential in the highly digitized marketplace, personal referrals are more important than ever. Consumers can now broadcast their opinion about an experience instantly, and reach virtually limitless numbers of your current and potential account holders. It is more important than ever for financial institutions to successfully manage experiences, perceptions, and promotional behaviors.

To explore what influences the behavior of consumers, and to better understand how financial institutions can leverage those behaviors to gain referrals, Deluxe commissioned Digital Scientists to conduct in-depth, online interviews with 1,013 consumers, ranging in age from 18 to 54. Conducted in December 2014 and released in June 2015, the survey focused on consumers who held checking accounts with a bank or credit union and participated in household finances.

The survey sought to answer key questions, including:

- What makes consumers feel satisfied with their banking relationships?
- Why do people become dissatisfied with their financial institution?
- What should banks and credit unions do about consumer satisfaction and dissatisfaction?
- Which consumers are most likely to refer?
- What makes consumers want to refer?
- How do referrals affect loan activity?

This report seeks to answer these questions, provide financial institutions with a clearer understanding of the value of referrals, and propose strategies to help banks and credit unions secure more referrals.

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The Importance of Net Promoter Scores

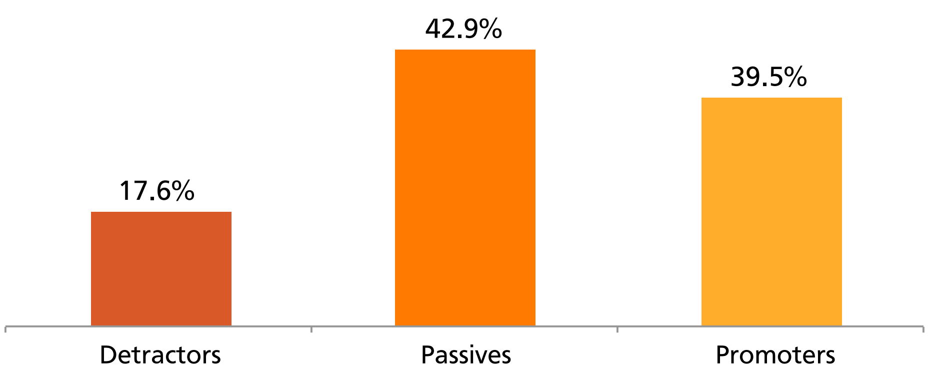
Net promotor score (NPS) is an index that helps financial institutions measure the willingness or reticence of consumers to recommend an institution’s products and services to other consumers. For the purpose of this report, “promoters” are consumers who awarded their financial institution a score of nine or 10. “Passives” gave scores of seven or eight, and ”detractors” logged scores between six and zero. This report also assumes that every consumer must fall into one of these three categories, and illustrates how a higher percentage of net promoters can positively influence a financial institution’s bottom line.

Digital Scientists’ research found that 40% of all account holders qualify as promoters, 43% can be categorized as passive and 17% are detractors (see Figure 1). Opportunities to improve market share emerge by further enriching relationships with current promoters and nurturing more satisfying interactions with passives. Financial institutions should focus on engaging promoters, making it easy for them to promote and even rewarding them for referrals.

Figure 1

Net Promoter Score For All Consumers

Financial institutions should be focused on engaging promoters, enriching passives, and quieting detractors.



Source: Digital Scientists, June 2015

Passives represent the greatest opportunity for growing referrals. While detractors are likely too entrenched in their negative perceptions to be effectively converted to promoters, passives already give their financial institutions relatively high scores (ratings of seven or eight). Passives merely lack the emotional engagement that leads to referrals. Enriching their experience to achieve true engagement is the most cost-effective investment financial institutions can make to grow referrals. By converting passives, a financial institution can improve its ratio of promoters. A 50% or greater share of promoters builds brand momentum, and market share grows as referrals increase.

In order to evolve the 43% who are passive into promoters, financial institutions must examine what satisfies your account holders about their banking experience, as well as what dissatisfies them. Banks and credit unions must implement strategies to address the consumer pain points that most contribute to dissatisfaction.

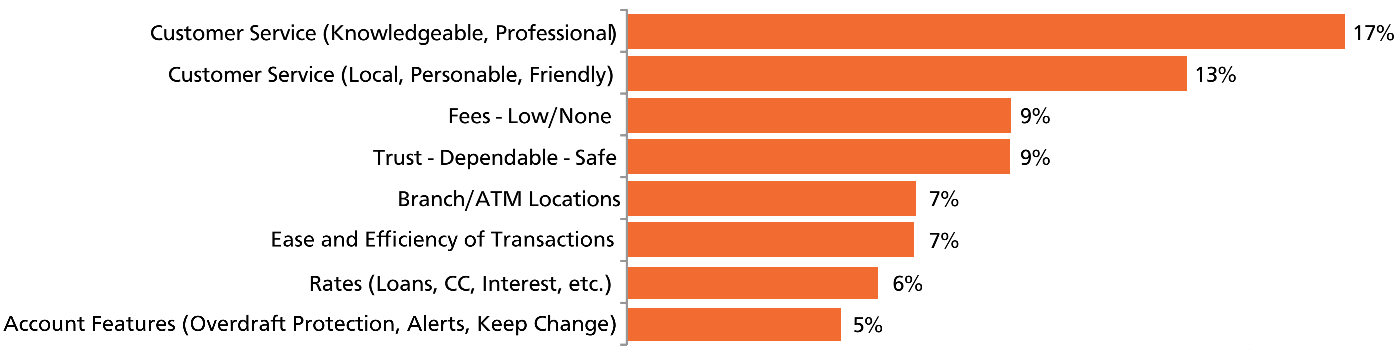
Factors That Determine Satisfaction

Comprehending what causes consumers to become dissatisfied is simple: Poor customer service and bad experiences top the list of reasons why consumers become disillusioned with their primary financial institutions. Understanding what drives satisfaction is, in many ways, more complex.

Figure 2

Top Reasons Promoters Recommend Their Primary Financial Institution

Top scores include customer service, minimal fees, and a sense of trust and dependability.



Source: Digital Scientists, June 2015

Digital Scientists found that a range of factors influenced promoters to offer referrals, including:

- **Superior customer service:** Knowledgeable and professional customer service was the number one answer with 17% of promoters listing it as a factor. In addition to professionalism and knowledgeability, promoters also highly valued customer service that was local, personable, and friendly, with 13% citing those qualities as reasons to offer referrals. As banks and credit unions become more digital in response to evolving consumer preferences, it will be more vital—and more challenging—than ever to maintain high levels of customer service (see Figure 2). As one customer put it when asked what they liked about their financial institution: "There are no fees, they're very helpful whenever I need them."

- **Trust that they're getting a good deal and being well cared for:** Nine percent of promoters said the trustworthiness of their financial institution made it worth recommending to others. An equal percentage placed emphasis on having low or no fees, and six percent valued good rates (see Figure 2). Fees and rates speak directly to perceptions of trust; consumers want to feel that their financial institution isn't taking advantage of them. Consumers who feel they are being treated fairly by their financial institution, and those who perceive their financial institution as being trustworthy, dependable and safe, are more likely to have the kind of loyal banking relationship that leads to valuable referrals.

- **Superior convenience and ease of use:** Consumers crave banking interactions that are quick and easy. Among the polled promoters, seven percent cited ease of transactions and convenient branch and ATM locations as reasons for recommending their financial institutions (see Figure 2).

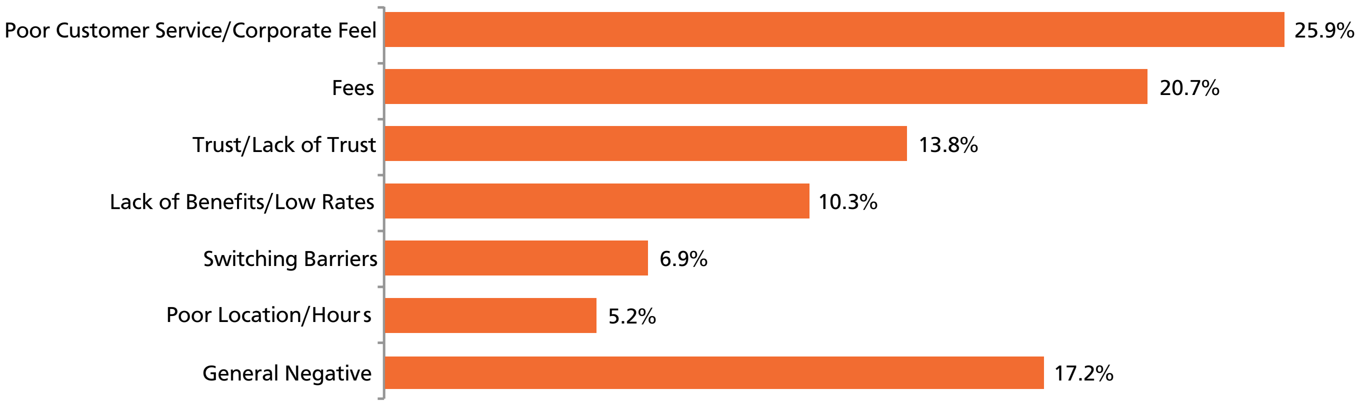
Factors That Determine Dissatisfaction

While looking at what drives your promoters is very helpful, studying your detractors can also be helpful. As you might expect, the factors that drove people to become detractors were the inverse of those that inspired others to be promoters, including:

Figure 3

Top Reasons For Low Promoter Scores

Poor customer service, high fees, and a lack of trust lead the way for detractors.



Source: Digital Scientists, June 2015

- **Poor customer service:** Nearly 26% of detractors said poor customer service and the corporate feel at their financial institution pushed them to become a detractor (see Figure 3). Growth and consolidation are a double-edged sword for consumers. Some of the feedback included "too many fees and too corporate" and "they are impersonal. I am just another number, not a person or name." While a bigger financial institution may provide greater access to products and services, consumers also become more likely to feel slighted or perceive customer service as too impersonal.

- **A lack of trust:** Trust is a vital element of every relationship, but when it comes to money trust can become a divisive element. Unfortunately consumer trust in the banking industry has been substantially eroded over the past decade. Nearly 14% of detractors said they didn't trust their bank or credit union, so while financial institutions have historically been "pillars of the community" this study is showing that this perception has changed or is changing (see Figure 3). The study shows that losing the trust of your account holder has a much stronger negative affect on the relationship than maintaining their trust.

- **Rates and fees:** While 20.7% and 10.3% were dissatisfied with fees and interest rates/benefits, respectively (see Figure 3), a higher percentage of detractors than promoters placed emphasis on these qualities. This implies that a bad experience in these areas can have a greater detrimental impact than a good experience can have a positive impact. The relatively low number of promoters who felt negatively about fees also implies financial institutions can mitigate negative perceptions of fees and rates by meeting or exceeding expectations in other areas of their experience.

- **Barriers to switching:** While only 6.9% cited difficulty switching as a reason they would not recommend their financial institution, it's important to note that consumers are frustrated (see Figure 3). Financial institutions have made switching financial institutions a more challenging experience which feels like a positive but in an era where consumers can so easily broadcast their distaste, it may be a dangerous strategy.

Those that make it difficult for unhappy account holders to leave may succeed at forcing them to stay, but they are creating an even more negative perception—one that consumers will share. One detractor summed it up: "I'm in no position to change my financial institution at the moment, but I wouldn't recommend it to others." It's vital that financial institutions make every phase of the customer experience as pain-free as possible, even the departure. Consumers who have a hard time leaving will have even more negative feedback to share with their friends.

Creating a Clear Picture of the Most Likely Promoters

While opportunities exist for financial institutions to create brand loyalty among a range of consumers, Digital Scientists' research found that certain factors were more likely than others to define promoters: (see Figure 4)

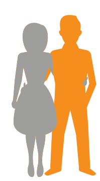
Figure 4

A probable promoter is:

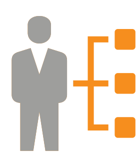
- **The presence of children in a household:** Among households with children, 39.5% said they were likely to recommend their financial institutions, and the younger the children were the more likely the parents would be willing to give referrals. Parents of children under 18 were also less likely to be detractors.

- **Marital status:** In general, single people are more unhappy with their banking experience. While the number of passive single or divorced consumers was comparable to the number of married passives, unmarried consumers were significantly more likely to be detractors. In fact, 23.8% of single consumers and 22.4% of divorced people were detractors, as compared to just 14.6% of married people.

- **Income:** The more consumers earned, the less likely they were to be happy with their financial institution. People with annual incomes of $200,000 or more were most likely to be detractors (25%). In fact, detractor scores only begin to fall at incomes less than $150,000. These numbers could indicate that financial institutions are not doing a good job at tailoring customer experience to this audience.



- **Age:** While the differences between Millennials (those in the 18–34 age group) and Generation X (ages 35–50) are negligible, the survey shows that people in the 18–24 age group have very mixed opinions of banks and credit unions. They have the highest number of passives and a low number of promoters. The sheer number of passive Millennials makes it essential for banks and credit unions to win the loyalty of this group.



- **Length of tenure with a financial institution:** The newest account holders and the longest-standing ones were most likely to be willing to recommend their financial institutions. Nearly 49% of account holders who had been with their bank or credit union for less than three months were promoters, while those who had a relationship of more than 10 years constituted the second largest percentage of promoters (47%). After three months with a financial institution, the percentage of promoters falls dramatically from 49% to 32%, and passive scores climb to 50% between three months and three years.

Source: Digital Scientists, June 2015

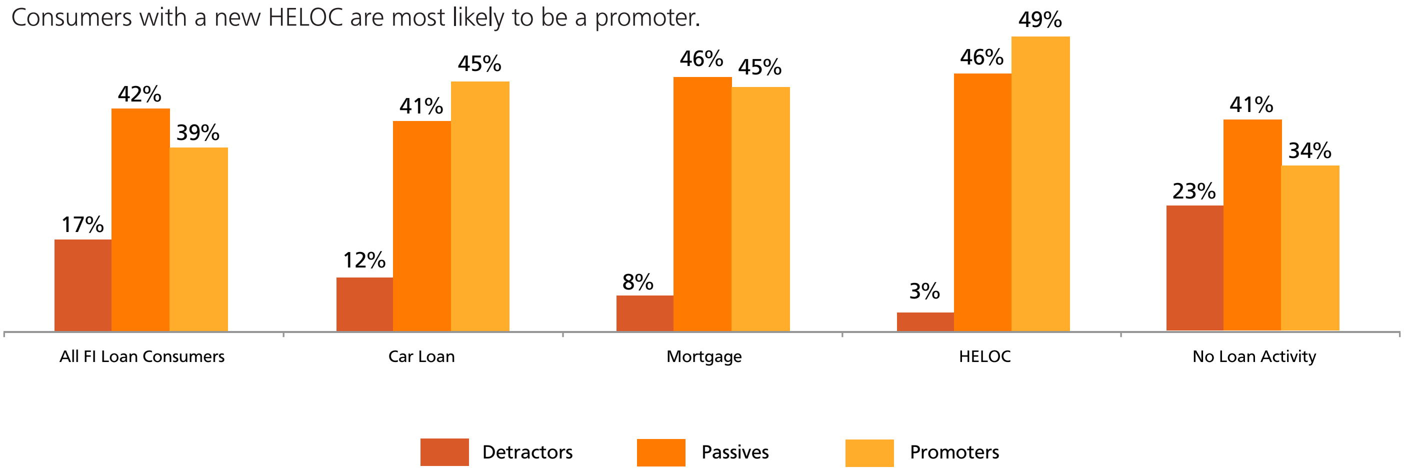
The Correlation of NPS to Loan Activity

Loans are not only income drivers for financial institutions, they are powerful engines for generating referrals. In this survey, consumers with high loan activity logged nearly double the NPS of the average bank or credit union customer. Those with higher loan activity were significantly more likely to be promoters or passives than groups with no loan activity—42.7% versus 10.3% (see Figure 5). Further, those with loans were far less likely to be detractors; just 3.6% of consumers with home equity lines of credit were detractors, while nearly half were promoters (see Figure 5).

Figure 5

Net Promoter Scores Among Consumers with Car, Mortgage, HELOC or No Loan Activity

Consumers with a new HELOC are most likely to be a promoter.



Source: Digital Scientists, June 2015

This noteworthy proclivity to be promoters may be directly tied to customer experience during the borrowing process. Factors that promoters cited as heavily influencing their positive perceptions—fees, rates and customer service—are integral elements of the loan process. Satisfaction with these aspects of a consumer's interaction with loan officers may contribute to a borrower's willingness to recommend his or her financial institution to others.

Key takeaways emerge from this examination of Net Promoter Score, including:

- Satisfied consumers are a financial institution's greatest source of referrals.
- Good service, trust, convenience, and good rates/fees drive satisfaction.
- Barriers to switching may keep some unhappy account holders in place, but they also create detractors whose negative perceptions can have far-reaching impact on potential account holders.
- New account holders —who are often young, unmarried, educated and earning less—have great potential to be cultivated into promoters.
- Converting passives into promoters is the easiest, most cost-effective way to increase referrals.
- By successfully cross-selling your new accounts into a loan product, you will be improving the likelihood that the customer will become a promoter.

Conclusion and Recommendations

When looking to drive new account acquisition opportunities, referral marketing presents a great opportunity for financial institutions. It's not enough to just allow referrals or even passively promote them, financial institutions need a well thought out plan that encourages and even rewards account holders for their efforts. By doing this, promoters can be engaged to work for you and passives will see an incentive to become promoters. Below are a few key areas of focus for financial institutions interested in driving referrals:

1. Take a look at what drives satisfaction. Customer service still leads the way for consumers when it comes to their satisfaction levels with a financial institution. Fees were a distant third. If you aren't delivering top notch service, you are going to struggle with creating referrals or having a successful referral program. In this social-influenced world, nothing will create detractors faster than a bad experience (branch, phone, or online) and they'll want the entire world to hear about it.

Look at your staff, do you have the right people in the right positions to deliver the kind of experience your account holders are looking for? Are account holders greeted and served in a friendly manner every time they come in your doors? Don't be afraid to bring in outside support to help train your staff and to help you understand how to properly motivate your support team to deliver a great experience.

2. Build a strong onboarding program for new account holders. After joining a new financial institution most consumers have a very strong promoter score, which shouldn't come as a surprise, but this research shows how quickly this can change. Banks and credit unions need to look to their onboarding programs. An effective onboarding program will introduce new account holders to key programs and services that will engage the account holder and endear them to their new financial institution. It also positions them for cross-selling and referral opportunities.

3. Build a referral programs to fuel referrals from promoters. Referral programs are gaining a lot of popularity with banks and credit unions throughout the United States. They are a key driver for Millennials and give your promoters a voice and platform to share about their experiences. If your financial institution doesn't have a referral program in place you may be missing out on proven and affordable strategy to drive new account holders into your financial institution.

You need to have a plan for promoters, passives, and detractors to engage them appropriately. Here are a few recommendations:

- **Promoters:** Empower promoters to give more referrals by rewarding them for their actions, and incentivize them to share their experiences with friends and family. Find a vendor who can help you construct a referral program specific to your needs and the preferences of your targeted passives and promoters.
- **Passives:** Communicate with passives to determine why they are not emotionally engaged with your brand, and listen carefully to their feedback. Make improvements

based on what you hear and check in regularly to see how they feel about the changes. Work with a partner who can help you target this audience to cross-sell them into other products which will further engage them.

- **Detractors:** Keep an open dialogue with detractors and do your best to keep them off social channels and engaged with your best customer service professionals whenever possible.

4. Commit yourself to listening. No one becomes an industry leader without listening to the customer. Customer-perceived quality is the leading driver of business success. Effective voice of the customer programs allow you to connect and engage with customers at key points in the customer journey. Bringing in a voice of the customer (VOC) program will help your financial institution learn the areas where you excel, as well as where you are falling short of customer expectations. These programs may include secret shoppers, surveys, and customer focus groups that will help you engage your account holders.

Consumers and businesses like to be heard, however, consuming their time and then failing to act on their input will infuriate them. If you don't have time or resources to review and act upon the customers' feedback, don't ask for it. There's nothing worse than asking for input and then ignoring it.