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Lender Services

HOW BANKS AND CREDIT UNIONS CAN USE TECHNOLOGY TO IMPROVE CONSUMER LOYALTY

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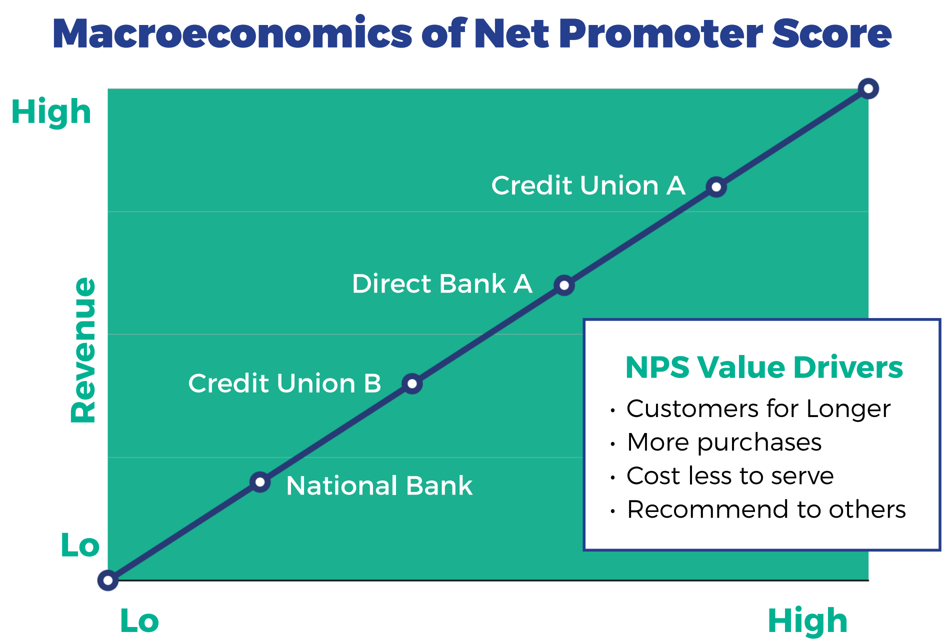
Many executives at retail banks and credit unions have already embraced the Net Promoter Score (NPS) developed by Satmetrix, Fred Reichheld and Bain & Company, as the best methodology for measuring consumer loyalty. They have first-hand experience on how improving the NPS can result in increased profitability.

Indeed, there are substantial rewards for banks and credit unions that consistently improve consumer advocacy, which is what the Net Promoter Score measures (for a detailed background on the Net Promoter Score, see Appendix 1).

Consumers who are more loyal are likely to remain customers for longer, cost less to serve since they complain less frequently, purchase more products and encourage other people to become customers, generating strong word of mouth. Bain & Company found that the cumulative effect of an average affluent consumer who is a promoter is almost $10,000 more in net present value over the lifetime of that consumer, compared with a consumer who is a detractor[i]. This is consistent with their findings that the lifetime value of a retail banking consumer who is a promoter is an estimated 2 to 2.5 times higher than that of a detractor[ii].

Loyalty, which supports retention, is critical for credit unions as well, considering the average cost to acquire a new member can range from $300 to $400 and the average profit per year is approximately $70[iii]. That equates to a payback period on acquisition costs of over 4 years, and so reducing the number of detractors—which are 2.3 times more likely to leave a company than a promoter—is important[iv].

Clearly there is strong financial motivation for banks and credit unions to understand how they can improve their loyalty and Net Promoter Score, and Figure 1 demonstrates the correlation between revenue and Net Promoter Score.



Pictured graph adapted from SatMetrix

Perhaps the strongest evidence of this correlation is that bank branches with a Net Promoter Score greater than 60 experience growth in operating income that is 26% higher than branches with a Net Promoter Score below 60[v]. Sean Risebrow, a recognized expert at helping organizations increase profitability through the improvement of their NPS, commented:

> **Improving the loyalty of their consumers is one of the most impactful ways banks can improve lifetime value of their consumers.**

Which Net Promoter Score Elements Are Most Important?

While a high Net Promoter Score is important, what matters most to a retail financial institution is how its NPS compares relative to its peer group, and whether their score is improving or declining. This context is indicative of overall competitiveness.
For example, in Q4 of 2014, the average NPS for credit unions was 58, similar to their score in 2013. The average NPS for banks, however, increased from 28 to 34 in 2013, meaning banks on average gained ground on credit unions. It could be concluded that banks, though improving, continue to struggle to compete with credit unions, which have more of a reputation for delivering exceptional service to their members.

However, a deeper examination of the numbers generates some insights. For example, within the retail banking segment, there was significant divergence in NPS depending on the type of bank, with direct banks scoring 64 (notably higher than the average credit union), regional banks 21, and national banks 16. Within the credit union segment of retail lenders, however, only half increased their NPS in 2014[vi]. This should be a concerning trend, since credit unions often rely on service as one of their key differentiators.

How Technology Can Improve the NPS of Banks and Credit Unions

Technology is transforming the way banks and credit unions operate, compete and grow, with far-reaching effects on the industry and its participants. Smart utilization of technology and digital media also represent one of the more impactful pathways to dramatically improving the loyalty and consumer advocacy for banks and credit unions, based on findings from Info-Pro's 2015 survey of over 190 credit unions.

A close examination of the trends driving the adoption of digital banking can illuminate some important insights as to how executives at banks and credit unions can improve loyalty and their NPS, along with how to develop a differentiated consumer proposition.

Digital Banking Offers Opportunities to Delight Consumers

Digital banking is continuing to build momentum as it consistently creates value for consumers in terms of convenience and speed. Today, online interactions exceed the combination of both branch and ATM interactions, and mobile interactions now exceed those occurring on landline phones. Overall, interactions conducted with banks via digital channels account for the majority of total interactions.[vii] While online banking has been around for a while, mobile banking is only recently gaining momentum, so this trend toward digital interaction will continue. Research that Info-Pro conducted with executives at credit unions in 2015, not surprisingly, highlighted that consumers have embraced mobile phones as the primary way of interacting with their credit unions. Research from Bain & Company shows that offering mobile banking is more likely to increase a US consumer's likelihood of recommending the bank than any other channel interaction.

According to Jignesh Patel, a renowned technology expert and professor at the University of Wisconsin,

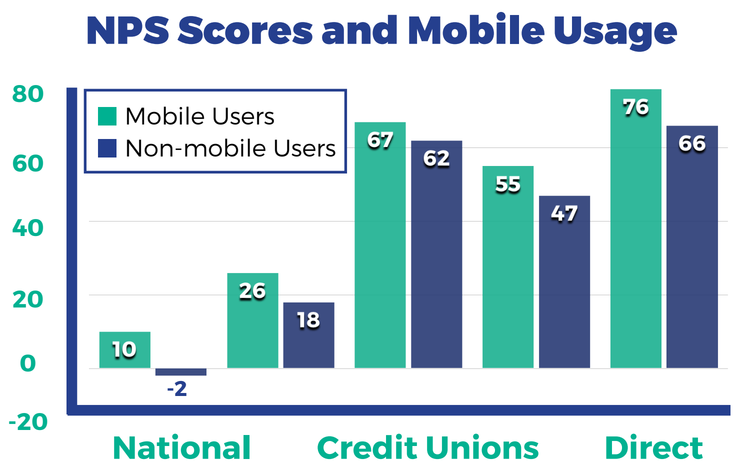
> **“Credit Unions and banks need to recognize that their mobile phone presence is perhaps their most important touch point.”**

Mobile banking adoption and the functionality it offers to consumers has not reached maturity. As such, there remains an opportunity for banks and credit unions to gain market share by offering a differentiated offering before mobile banking becomes a feature that consumers simply expect from their financial institutions. Mobile banking will not be novel or special for much longer, so it is important that executives are proactively investing in this area if they want to be leaders. Research conducted by Info-Pro in 2015 indicates that understanding the relative strength of their product proposition relative to competition was highly important to 84% of credit union executives surveyed, and not being a laggard in the area of mobile banking is likely a key part of this concern.

Everyday Activities via Mobile: The bulk of transactions and interactions with banks and credit unions, especially routine transactions, are now being carried out by mobile devices, based on research conducted by Info-Pro and Filene in 2015. Indeed, US consumers who are using mobile banking identify routine activities as those on which they place the highest value. Notably, according to Bain & Company, they place the highest value on being able to check their balances via mobile (64%), remotely deposit checks through a digital image (41%), and pay their bills (26%)[vii]. Other activities of interest, based on consumer enthusiasm, include making an in-store purchase, paying a credit card bill or mortgage, purchasing products through the mobile web, and sending money to another person. Enabling these activities can improve loyalty, as evidenced by the fact that transactions conducted using the mobile phone have the highest propensity to delight US banking consumers.[ix]

Regional Banks and Credit Unions Lag in Adoption

There are important differences in NPS across larger banks, smaller credit unions and regional banks. Bain & Company research shows that consumers of regional and community banks and credit unions lag in mobile adoption, relative to direct banks (over 50%) and national banks (41%), which have invested heavily in mobile banking[viii]. This is consistent with findings from Info-Pro research that, in general, credit unions seem to be far behind in terms of their use of technology, the changes technology has unleashed, and the competitive urgency to rethink how technology can change the way credit unions work. Urgency is needed, especially in the area of mobile banking, as it is fundamental to remaining competitive and building loyalty.



Source: Bain & Company

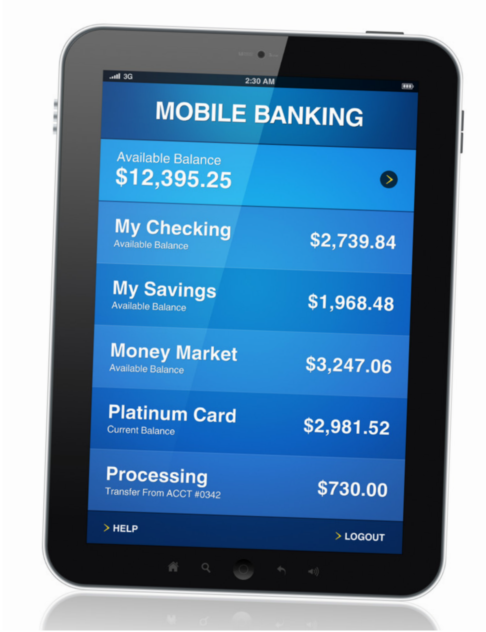
Important Demographic Trends

It is not surprising that younger people represent the largest segment of mobile users, with 31% of US respondents aged 36 to 55 banking through smartphones, 12% of the segment over 55, and 49% for those under the age of 35. However, adoption of digital banking is proliferating, as represented by the fact that utilization of mobile banking by consumers aged 36 to 45 rose from 22% to 38% from 2011 to 2012. This trend is likely to continue with middle generations as mobile banking becomes easier and more practical to use, enabling it to cross the chasm of technology adoption[ix].

Fixing the Basics: While digital banking is generally an advantage for consumers, it can also reduce loyalty when it comes to more complex interactions, such as servicing an account and opening a new account. These interactions are more likely to cause disappointment for a consumer when conducted digitally, so

investing in ease of use and simplification of these types of interactions could generate improvement in loyalty. Inversely, taking the steps needed to make sure interactions via digital channels surpass expectations of consumers can lead to positive word of mouth. Investing to ensure that the digitized front-end and associated customer journeys follow best practices will not only improve loyalty and advocacy, but can reduce overall costs by 15%, according to research conducted by Strategy[x].

While Mobile Banking is Key, Other Channels Remain Important: Growth in mobile banking has reduced the number of interactions consumers have with banks through other channels such as at branches, via phone calls and using ATMs, with the share of consumers using these channels declining by 5, 3, and 5 percentage points respectively, between 2012 and 2014. However, this does not mean that other channels are not important. In 2014, most banking consumers (60%) used a combination of physical and digital channels to conduct their banking. Mobile banking does not replace other channels, but fundamentally changes how consumers use the other channels. Understanding this trend is important, since consumers who embrace interactions through multiple channels typically have Net Promoter Scores 16 percentage points higher than consumers who interact solely through digital channels, and 22 points higher than consumers who interact solely through physical channels[xi]. This insight doesn't dilute the importance for banking executives to ensure they have a compelling mobile offering, but instead highlights the importance of a cross-channel strategy for engaging consumers, based on their individual preferences, as it can lead to greater loyalty and increased product usage. Ensuring a consistent brand experience across the cross-channel customer journey is a critical step toward improved NPS.



Social Media Amplifies Net Promoter Scores: Social media enables real-time communication, and for banks and credit unions with a strong presence on social media, it enhances their ability to respond to consumers in a timely, intuitive, and personalized manner. This could improve the consumer experience and overall loyalty. For example, if a credit union is able to identify a consumer who is complaining on Facebook about a recent poor experience with securing an auto loan, that union can proactively reach out and address the problem, thereby reversing a negative experience into a positive one. Additionally, social media allows banks and credit unions to interact with their consumers via interactive campaigns, and increases the perceived overall responsiveness of the respective financial institutions. An effective social media presence can create strong advocates that will fuel word of mouth. Considering that 40% of banking consumers with a positive Net Promoter Score will use word of mouth to promote their bank, ensuring such positive sentiments are amplified via a robust social media presence is very important[xii].

Better Personalization Enabled by Big Data: Historically, many banks and credit unions have segmented their consumers based on household and related household attributes, and such a surface level approach can easily lead to a "one size fits none" outcome. Existing and prospective consumers are much more likely to respond to communication and marketing offers presented to them by their banks or credit unions if the messages are personally relevant to them. Furthermore, consumers who feel that their bank or credit union understands them are more likely to be loyal and have a high NPS. Banks that apply analytics to consumer data have 4% more market share than banks that do not. Moreover, banks that specifically apply data analytics to consumer retention issues have a 12% lead in market share over banks that do not[xiii].

The rapid penetration of individual mobile devices, as opposed to household devices such as the television, has created this ability to reach individual consumers. What is not yet up to speed is the ability to harness the insights to deliver targeted and personalized messages to individuals that are highly relevant. Indeed, Info-Pro research has identified that better consumer segmentation is important to over 80% of executives surveyed, while only 50% of those same executives were satisfied with their current ability to effectively segment consumers.

The good news is that the advent of big data, one of the most transformational technologies to impact financial institutions, now enables significantly better segmentation and personalization of messages to consumers. The bad news is that outside many larger financial institutions, credit unions and banks have struggled to realize the powerful benefits that big data unlocks. For example, research highlights that fewer than 50% of banks analyze consumers' external data, such as social media activities and online behavior. According to Cap Gemini, only 29% analyze consumers' share of wallet, one of the most important metrics measuring the quality of a bank's relationship with its consumers. Irrespective of where a bank or credit union sits on the spectrum of big data adoption, it is imperative moving forward that they embrace big data technologies. Indeed, 90% of executives at financial institutions believe that "successful big data initiatives will determine winners of the future".[xiv]

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Financial institutions have more consumer information than any other sector, so it is vitally important that they use this information to develop an in-depth understanding of consumers they service and the markets in which they operate. Success in this will result in improved consumer loyalty and advocacy, which there is certainly room for, since today only 37% of consumers believe banks understand their needs and preferences adequately.[xv]

Technology Enabled Outsourcing Can Transform Operating Models: Given the hyper-competitive environment in which banks and credit unions are operating, it is imperative that their executives understand what activities matter most to their consumers, and focus their resources accordingly. Advances in technology have enabled many banks and credit unions to outsource non-core activities, and the market for outsourcing banking operations is forecasted to grow by over 5% annually through 2018, according to HfS Research[xvi]. Executives that do not leverage business process outsourcing will jeopardize their competitive position, as many of their peers will be focusing their resources on the few core banking processes that have the greatest impact on their business, thereby reducing costs, enhancing service and improving consumer loyalty.

How Changes in the Consumer Experience Impact the Net Promoter Score

There has been significant literature about the general strategies and programs that companies can deploy to improve their Net Promoter Score. Some key principles to keep in mind when considering any change include:

- How will consumers perceive the change? Lenders are encouraged to view any change from the perspective of consumers, since they drive the business. The member experience may be enhanced in the long-term but in the short term there could be negative impact. For example, if a retail lender migrates to a more modern online banking platform, there could be many short-term teething problems that negatively impact NPS.

- How many consumers will be impacted? Changes to the consumer experience that impact a large percentage of the overall consumer base will have the most significant impact on NPS.

- How long will it take for a consumer's experience to be impacted? Some changes to the end-to-end consumer experience will be felt more rapidly, such as upgrading the online website. On the other hand, some changes may take more time for a consumer to experience, such as extending Saturday open hours or moving from a free to paid checking account.

Banks and credit unions are operating in an incredibly competitive environment as they cope with new and unprecedented challenges, ranging from increased regulatory obligations to addressing problems related to fraud. Arguably, the most significant challenge they face is in keeping up with technology and the disruptive innovation that it has unleashed in the banking sector. While potentially daunting, especially for banks and credit unions lacking the scale and resources to lead with technology, embracing the opportunities presented by the digitization and datafication of banking can provide the foundation for competitive differentiation.

In contrast, falling behind in technology adoption will surely mean a bank or credit union will lack the basic features that an increasing number of consumers will expect as components of the basic value proposition. This would likely lead to declining growth. As this whitepaper highlights, one of the most impactful and tangible ways in which technological innovation can be leveraged to create value for credit unions and banks is in the area of improving consumer loyalty and advocacy. The Net Promoter Score system has consistently demonstrated leads to superior profits relative to competitors with lower Net Promoter Scores. Fortunately, there are some rather straightforward and not overly complicated approaches for banks and credit unions to improve their Net Promoter Scores, and it would be wise and prudent for those that have not already done so to explore these opportunities.

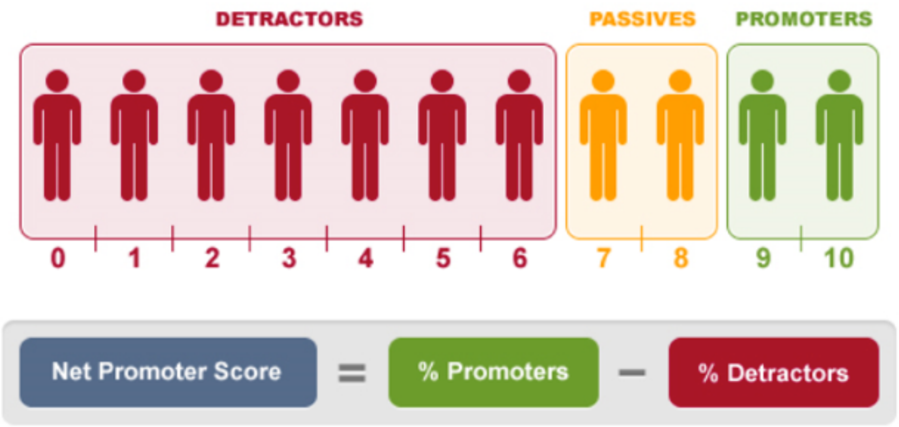
Appendix I

What is the Net Promoter Score?

Many executives at retail banks and credit unions have already embraced the Net Promoter Score (NPS), developed by Satmetrix, Fred Reichheld and Bain & Company, as the best methodology for measuring consumer loyalty. They have experienced how improving one's NPS can result in improved profitability. Today, 65% of the top 200 global companies, according to SatMetrix, use NPS. While a seemingly simple metric, extensive research has established a high correlation between the NPS and the sales and profitability of banks and credit unions, so it can be a useful approach for improving performance.

Net Promoter Scores are derived from responses to two key questions:

- On a 0-10 scale, how likely is it that you would recommend us (or this product or service) to a friend or colleague?
- What is the primary reason for your score?



Responses are rated on a 0-10 scale and divided into three groups:

- Promoters: consumers highly likely to recommend the company in question
- Passives: consumers somewhat likely to recommend the company in question
- Detractors: consumers less likely to recommend the company in question
- The percentage of detractors is subtracted from the percentage of promoters to calculate a Net Promoter Score.

Appendix II

[i]Bain & Company. Customer Loyalty in Retail Banking: Global Edition 2014. 2014
[iiii]Bain & Company. Customer Loyalty in Retail Banking: Global Edition 2014. 2014
[iii]Keane Consulting Analysis
[iv]SatMetrix. The ROI of NPS. 2014
[v]Sat Metrix. The Power of a Single Number. 2014
[vi]CU Insight & Satmetrix, February 12, 2015 (www.cuinsight.com)
[vii]Bain & Company. Customer Loyalty in Retail Banking: Global Edition 2014. 2014
[viii]Bain & Company. Customer Loyalty in Retail Banking: Global Edition 2014. 2014
[ix]Bain & Company. Customer Loyalty in Retail Banking: Global Edition 2014. 2014
[x]Bain & Company. Customer Loyalty in Retail Banking: Global Edition 2014. 2014
[xi]Bain & Company. Customer Loyalty in Retail Banking: Global Edition 2014. 2014
[xii]Strategy&. Transform your bank's operations model. 2014
[xiii]Bain & Company. Customer Loyalty in Retail Banking: Global Edition 2014. 2014
[xiv]SATMETRIX. Net Promoter Score Drives Word of Mouth Across Industries. 2014
[xv]Capgemini Consulting. Big Data Alchemy: How can Banks Maximize the Value of their Customer Data? 2014
[xvi]Capgemini Consulting. Big Data Alchemy: How can Banks Maximize the Value of their Customer Data? 2014
[xvii]Capgemini Consulting. Big Data Alchemy: How can Banks Maximize the Value of their Customer Data? 2014
[xviii]HfS Research, Ltd. Business Services Outsourcing in Banking and Financial Services. 2013

Info-Pro Lender Services

Info-Pro Lender Services offers a variety of products that would complement the product mix banks and credit unions are looking to achieve. Their primary services include real estate tax monitoring, escrow processing, flood determination, homeowners insurance monitoring services.

Info-Pro already uses technology that this paper has proven as crucial to staying competitive in today's marketplace. Some examples of this technology include systems to identify delinquent taxes, a successful track record working with the Loan Origination Systems, and the ability to reduce foreclosure risks and audit problems.

The Info-Pro Advantage feature offers the combination of passionate consumer service and unmatched technology to protect your financial portfolio.

For more information, visit www.info-pro.com.
Contact Info-Pro Lender Services at 888-393-0393 or info@info-pro.com.