THE CARTESIAN GROUP

Delivering on a Customer Relationship Strategy
Measure what Matters – the Customer!

A strategic focus on growing customer relationships is widespread across financial service companies. One of the largest U.S.-based banks states that the "Customer is at the center of everything we do" and notes that their top strategic priority is to "acquire, deepen, and retain customer relationships by offering compelling value propositions." Another indicates that its mission is "…to serve as a trusted partner to our clients by responsibly providing financial services that enable growth and economic progress." Yet another institution leads with the statement "Growing One Customer at a Time" on the cover of their most recent Annual Report, and then proceeds to note that "Retail Banking's core strategy is to acquire and retain customers who maintain their primary checking and transaction relationships with us." Clearly, a commitment to a customer centric, relationship strategy is central to defining success across many large financial service institutions.

Given the importance of a customer-focused strategy to many financial institutions, one might expect to see a concurrent use of customer-related metrics to demonstrate their success in achieving these strategic objectives, both over time and versus competitors. However, in reviewing Annual Reports, Earnings Releases, and Investor Presentations of numerous Banks, there are few institutions that consistently report customer metrics externally. Why is there a gap between what is stated as an explicit strategy versus the critical success metrics being reported? The following article examines this question, outlining:

- How do banks currently report (or not) customer metrics externally?
- Have any banks used customer metric reporting effectively in the past?
- What barriers exist to more extensively report customer metrics?
- What is a path forward for banks wanting to further leverage customer metrics externally?

How do banks currently report customer metrics externally?

In reviewing the Investor Relations materials across the largest U.S. banks, one finds a wide range of approaches as to how banks use customer metrics to convey success in delivering against their customer relationship strategies. These approaches range from 'situational', where customer metrics are used as illustrative, but one-off, proof points of success to 'persistent', where the same metrics are reported consistently, period to period.

Situational Reporting

Situational uses of customer metrics serve to provide specific examples of where the customer strategy has achieved a differentiated result. In this context, they serve almost as an exclamation mark of achievement at a point in time rather than a consistent view of progress over time. Often, these metrics are sourced from third parties, serving to validate the bank's performance in delivering on its customer strategy. For example, one bank notes that J.D. Power reported that they were the "#2 National Bank in Consumer Bank Customer Satisfaction." Another institution notes that they received the "#1 rating in customer satisfaction across the retail banking industry from the American Customer Satisfaction Index." Using these metrics brings credibility as they offer recognition from a respected, independent, third party. However, when used situationally they do not provide an ongoing view of relative progress over time.

In addition to third party metrics, certain institutions use internally generated, proprietary customer metrics to highlight their success in managing some aspect of the customer lifecycle, from acquisition through growth and retention. One institution in an Investor Day presentation notes that "Customer Retention is >95% for Primary relationships". Again, as with the third-party metric example, this singular datapoint notes a relative success at a point in time, but is not reported regularly as a persistent metric to convey ongoing progress and success.

Persistent Reporting

In contrast, certain institutions report the same customer metrics consistently, period to period. The power of this approach is the potential to convey progress over time in achieving results against the institution's customer strategies. This is comparable to reporting, period to period, Net Income Margin or the Efficiency Ratio; by using a common metric period to period, an institution demonstrates its effectiveness in managing an important lever of the business over time and also versus its competition.

The most common customer metrics reported across the largest banks relate to customer adoption of digital and mobile strategies. Examples of this include 'Active Mobile/ Digital Customers as a Percentage of Total Active Customers' or similarly 'Active Digital Consumer Customers, defined as % of consumer checking relationship', each of which are reported consistently in each Earnings Release (see Exhibit 1). While undoubtedly these metrics reflect customer-related activity, they provide only a limited view of how well the Bank is meeting the broader needs of its customers and delivering on its customer strategy. Also, while there is some ability to evaluate performance across Banks, this is limited by the definitional differences across institutions. As reflected in the above example, one Bank has chosen to measure the percentage of digital channel adoption based only on its active checking customers vs all customers – clearly, challenging the ability to compare competitors.

Exhibit 1

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Retail Banking (Unaudited) (Continued)

Dollars in millions, except as noted	Three months ended December 31 2019	September 30 2019	June 30 2019	March 31 2019	December 31 2018	Year ended December 31 2019	December 31 2018
Other Information (b)							
Customer-related statistics (average)							
Non-teller deposit transactions (e)	58%	58%	56%	57%	55%	57%	55%
Digital consumer customers (f)	71%	70%	69%	68%	67%	69%	66%
Credit-related statistics							
Nonperforming assets	$ 1,046	$ 1,056	$ 1,074	$ 1,109	$ 1,126		
Net charge-offs	$ 154	$ 128	$ 120	$ 132	$ 112	$ 534	$ 420
Other statistics							
ATMs	9,091	9,102	9,072	9,112	9,162		
Branches (g)	2,296	2,310	2,321	2,347	2,372		
Brokerage account client assets (in billions) (h)	$ 54	$ 52	$ 52	$ 51	$ 47		

Source: PNC Financial Services Group, Inc Fourth Quarter 2019 Earnings Release Supplemental Financial Information

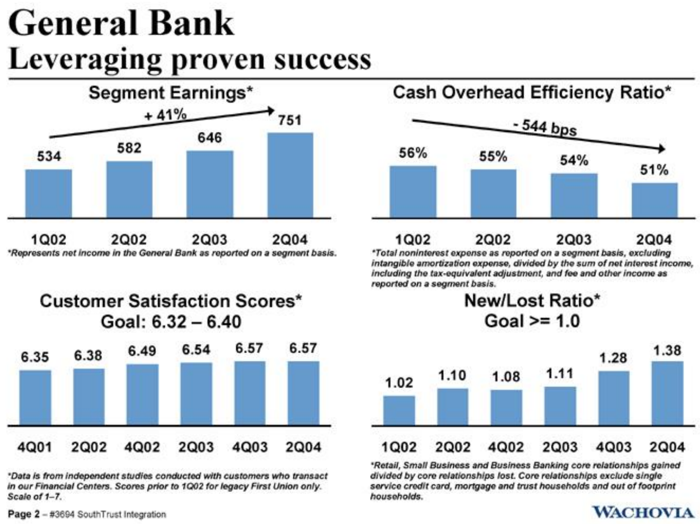
Beyond the more common use of 'Active Mobile/ Digital customers', few examples exist across institutions where customer metrics are consistently used to convey broader success in attracting, growing, and retaining customer relationships. Basic metrics such as Number of Customers or Households, Customer Acquisition Rates and Customer Retention Rates might be expected to be reported, affording a simple yet powerful means to convey whether the institution is growing its overall customer base, or in other words, is it winning more customers than it is losing. However, there was not a single bank among the largest U.S. banks reporting this view at the start of 2020, notwithstanding the stated customer relationship strategy of these same institutions.

How have Banks used customer metrics externally in the past?

Case Study – First Union/ Wachovia

One legacy institution that did leverage customer metrics extensively in its external reporting to stakeholders was Wachovia Corporation and its predecessor First Union Corporation. Wachovia regularly reported internally generated, proprietary customer metrics. The genesis of this reporting was the Bank's need to demonstrate its strategic commitment to service quality and its customers following a series of disruptive merger integrations where the customer experience suffered. These proprietary metrics included customer attrition, customer new/ loss ratio (simply the number of new customers to the institution in a quarter divided by the number of attrited customers), and customer satisfaction and loyalty, generated in concert with Gallup, Inc. (see Exhibit 2).

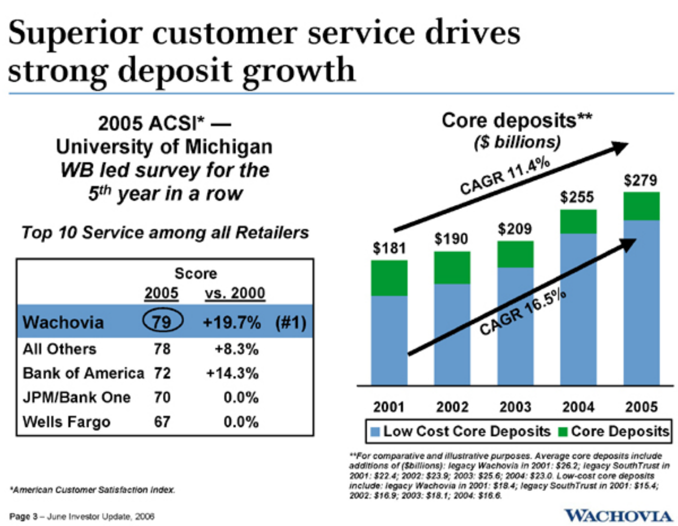
Exhibit 2



Source: Wachovia Corporation Investor Presentation, 2004

Additionally, Wachovia utilized third party benchmark data, namely the University of Michigan's American Customer Satisfaction Index (ACSI@) to report its relative performance versus major competitors (see Exhibit 3). These metrics were consistent, integral elements of not only the company's earnings and investor presentations but also their internal management reporting and incentive systems. The continual focus on these metrics for nearly a decade provided a fact-based approach to running the company and ultimately differentiating Wachovia's customer experience. Increasingly Wachovia gained third party recognition for this differentiation, leading all Banks for eight consecutive years in the ACSI@ ranking, which became an integral element in building brand equity and ultimately attracting new customers.

Exhibit 3



Source: Wachovia Corporation Investor Presentation, 2006

Case Study – Wells Fargo

One notable, more recent example of where a major Bank has used persistent metrics to convey its progress in managing customer relationships is Wells Fargo. Interestingly, Wells Fargo acquired Wachovia in 2008 and, rather than continuing Wachovia's external customer metrics reporting, maintained use of its own, well-established approach of reporting the number of products cross-sold to its Consumer customers. However, following revelations of new accounts being opened without the consent of customers and the resulting negative impact on its brand and reputation, Wells discontinued its traditional cross-sell reporting.

In its place, in January 2017, Wells launched monthly reporting of Retail Banking Customer Activity including a wide range of customer metrics encompassing the customer lifecycle (see Exhibit 4). Among the persistent customer metrics reported were:

- Consumer Checking account opens and customer-initiated account closures
- Primary Consumer Checking customers and related Year over Year Growth
- Customer Loyalty
- Customer Satisfaction with most recent branch visit

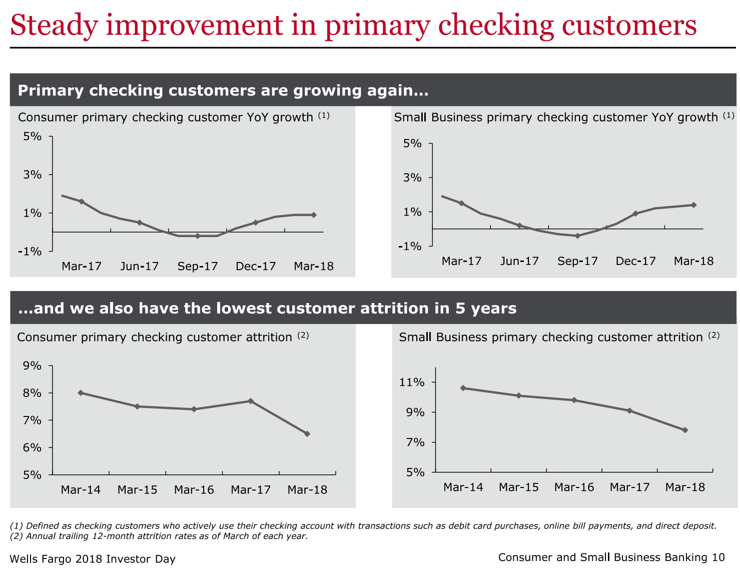
Exhibit 4

(in millions, unless otherwise noted)	*Jan 2017*	*Dec 2016*	*Jan 2016*	*Dec 2016*	*Jan 2016*
Customer Interactions [1]					
Total Branch Interactions	48.9	55.3	50.9	-12%	-4%
Teller Transactions	46.0	52.3	47.5	-12%	-3%
Branch Banker Interactions	2.9	2.9	3.4	0%	-14%
Total Phone Banker Interactions	9.2	9.6	8.5	-5%	8%
Total Digital (Online and Mobile) Secure Sessions	469.9	479.2	459.0	-2%	2%
Total Digital (Online and Mobile) Active Customers [2]	27.6	27.3	26.8	1%	3%
Consumer Checking Account Opens	0.3	0.3	0.5	18%	-31%
Consumer Checking Account Customer-Initiated Closures [3]	0.2	0.2	0.2	1%	4%
Deposit Balances and Accounts					
Consumer and Small Business Banking Deposits *(period end, $ in billions)* [4]	$ 750.4	$ 760.6	$ 709.9	-1%	6%
Consumer and Small Business Banking Deposits *(average, $ in billions)* [4]	$ 754.0	$ 753.8	$ 706.2	0%	7%
Primary Consumer Checking Customers [5]	23.4	23.5	22.8	0%	3%
Primary Consumer Checking Customers YoY Growth [5]	2.6%	3.0%	5.1%		
Debit Cards (Consumer and Business)					
Point-of-Sale Active Cards	25.7	26.2	25.6	-2%	1%
Point-of-Sale Transactions	630.5	698.0	598.1	-10%	5%
Consumer Credit Cards [6]					
Point-of-Sale Active Accounts	7.7	8.0	7.2	-4%	6%
Applications	0.2	0.2	0.4	8%	-47%
Balances *(period end, $ in billions)*	$ 27.6	$ 28.3	$ 25.7	-2%	7%
Purchase Volume *($ in billions)*	$ 5.4	$ 6.6	$ 5.0	-19%	7%
Customer Experience Survey Scores with Branch					
Customer Loyalty	56.9%	55.5%	61.1%		
Overall Satisfaction with Most Recent Visit	77.2%	76.4%	77.8%		
Business Days	20	21	19		

Source: Wells Fargo Corporation; Wells Fargo Reports January Retail Banking Customer Activity, February 2017

Wells continued this reporting for nearly two years and also leveraged the metrics in selected Investor Presentations (see Exhibit 5). Ultimately, the consistently reported metrics were reduced to Primary Consumer Checking, Active Credit Card Customers, Customer Loyalty and Branch Visit Satisfaction, the latter two which were dropped in 2020. Despite the challenging circumstances under which these metrics were introduced, they provided a fact-based approach to convey to multiple stakeholders the relative success in managing one of its most important assets – its customers.

Exhibit 5



Source: Wells Fargo Corporation Consumer Investor Day, May 2018

Case Study – Humana, Inc.

While Wachovia and Wells leveraged customer metrics to convey their progress in delivering on customer commitments, as noted above, they were also both banks experiencing major reputational challenges. This raises the question as to whether customer metrics have been used externally on a consistent basis under less difficult circumstances. One recent example from the Insurance industry is Humana. While not Retail Banking, Health Insurance is a service business, also vital to consumers' wellness.

Through its external reporting, Humana conveys its commitment to a customer centric strategy and then regularly leverages customer metrics to demonstrate success against that strategy. A clear example of that is in Humana's most recent Annual Report which leads off with the statement 'Healthy Customer, Healthy Business' and then proceeds to note:

> "Regarding our strong 2019 results, we delivered above target Adjusted earnings per share (EPS) growth of 23 percent, while growing our individual Medicare Advantage (MA) membership by over half a million members, or 17 percent, our highest in a decade and far exceeding industry growth. We also saw strong improvements in quality as reflected in our industry top-tier Star scores,

> with 92 percent[1] of our MA members in 4-star or higher plans, a meaningful increase in our Net Promoter Score®, or NPS, and improved clinical outcomes, including continued reductions in inpatient hospital admissions per thousand members."

Importantly, through this statement, Humana is linking it financial success to its having made tangible experience in growing its customer, or membership, base and in satisfying its expectations as reflected by the NPS improvement. Notably, the growth in membership is a persistent metric, with results shown for the previous five years (Exhibit 6).

Exhibit 6 Humana, Inc Financial Results

	2019	2018	2017	2016	2015
MEMBERSHIP (IN THOUSANDS)					
Medical	16,667.2	16,576.7	14,003.1	14,230.2	14,222.8
Specialty	5,425.9	6,072.3	6,986.0	6,961.2	7,221.8

Source: Humana, Inc. Annual Report 2019

In addition to its Annual Report, Humana regularly references its foundational customer metrics of membership growth and NPS when communicating externally, including references to its 9 point NPS score improvement from 2016 – 2018 in its 2019 Investor Day materials. Perhaps most notably, and similar to Wachovia, Humana improved its ACSI@ Client Satisfaction score to an industry leading position, with an improvement from 71 to 79 from 2015 through 2019. This result was similarly highlighted in its most recent Investor Day presentation. As with Wachovia and Wells, this consistent use of specific customer metrics powerfully conveys Humana's commitment to a customer centric strategy, and in their case, an important driver of repeatable, strong financial performance.

What Stands in the Way?

With so many institutions defining their strategic mission as attracting and serving customers, why do not more banks regularly report customer metrics? Wachovia's success in leveraging customer metrics to differentiate its performance versus its competitors clearly demonstrated the power of this approach.

Several factors contribute to the limited utilization of customer metrics externally, including:

- ***Reliability of data*** – publishing customer metrics on a consistent basis requires reliability and confidence in a company's customer data. However, unlike financial reporting data that is generated by well-tested, general ledger systems with ongoing third-party audits, customer data is often less robust. In many organizations, customer data is the domain of the Marketing department versus Finance and used for customer outreach versus persistent reporting. Given the dynamic nature of a customer relationship, the view of the customer is continuously evolving versus being stable and consistent, often creating challenges in reliable reporting.

- ***Commonly accepted metrics and standards*** – related to the above, unlike Financial data, there is not a GAAP reporting equivalent for customer metrics. While many institutions use proprietary metrics for internal reporting, these are not standardized across the Banking industry. Even a foundational element such as the definition of a customer relationship varies widely across institutions, challenging the basic unit comprising most customer metrics. As such, publishing a customer metric does not provide the opportunity to equally benchmark while presenting the additional challenge of addressing variability in the metric, either from instability in the underlying data or from actual performance.

- ***Risk vs Reward*** – making commitments to stakeholders related to specific customer metrics affords an institution the opportunity to demonstrate differentiated performance and the prospective earnings power of its customer franchise. Concurrently, it clearly presents the risk of demonstrating an institution's failing to meet a performance commitment, reflective of its overall strategic positioning. Coupled with any underlying data challenges, it raises a risk that many Banks may feel outweighs the opportunity to credibly demonstrate outperformance. Notably, at both First Union/ Wachovia and Wells Fargo, the customer metrics were instituted following a highly publicized, negative customer experience, making for a greater reward in providing a fact-based approach to showing progress in recovering the confidence of their customers.

A Path Forward

Can the reward outweigh the risks? What would an effective customer metric approach be? As demonstrated by Wachovia, there is a path to effectively balancing the risks and rewards. What needs to be in place in order for an institution to confidently leverage customer metrics externally to highlight its performance on delivering on its customer relationship strategy?

Prior to publishing externally, an effective customer metric reporting program must be:

- Reliable
- Leveraged internally
- Few but Comprehensive
- Balance internal, proprietary and third party, independent

Each of these dimensions is outlined more fully below.

Reliable

Foundational to robust customer metrics is reliable customer data, both within and across reporting periods. Reliability has two important, related dimensions: accuracy and timeliness. Critical to accuracy is the stability in the number of customer relationships period to period as well as the activity related to each of those relationships. An inherent challenge is the underlying dynamic nature of a customer relationship. For example, if an existing household adds a new address to an existing account, is it still one relationship or perhaps a child of the original household has moved on to start a new household? Does the institution count that as a newly acquired relationship or not? As previously noted, many institutions have neither inspected customer data consistently with the same rigor as financial data nor instituted rigorous rules for reporting. An important first step in instituting basic customer behavioral metrics is determining the authoritative source for the metrics, designating clear guidelines and accountability for generating the metrics and validating the underlying data. A production mindset is essential, with well-defined processes and timelines in place to ensure the consistent and timely generation of validated metrics.

Leveraged Internally

Metrics need to be based on fact, not fiction. The best way to validate and build confidence with them as fact is to start using the metrics internally in running the business. Consistently reporting metrics internally either exposes data incongruities that need to be remedied or highlights performance outliers. Evaluating performance outliers provides an important basis for identifying drivers of performance that can be tested, working to improve performance and increase value. As confidence builds, it is critical to integrate the customer metrics into management reporting systems and routines, and prospectively incentive compensation. This all leads to a path for the customer metrics to be ‘ready for prime time’ as part of external reporting.

Few…but comprehensive

Without a banking industry standard for customer metrics, which metrics should be reported? While there may be an interest in a single metric, this fails to truly convey the performance of the underlying customer base. In fact, as certain banks have shown, reliance on a single customer metric can result in the unintended consequence of pursuing that metric at the expense of others. Conversely, multiple metrics can create undo complexity and make interpretation of results challenging to stakeholders. The resulting balance needs to be the critical few metrics that best reflect the customer base asset, namely, is it growing and is it likely to continue to grow. These metrics would include a view of:

- Customer wins/ losses (Acquisition vs Attrition) – is the net base of customers growing
- Customer expansion – is the depth of their relationships growing?
- Customer Loyalty – what is customers’ attitude toward the institution and future likelihood to stay, grow and recommend

Again, critical to selecting the specific metric to report each dimension would be the reliability of the underlying data and the internal adoption and confidence in the respective metric.

A balance of persistent internal, proprietary and third party, independent metrics

Finally, the reported metrics should balance internal, proprietary metrics with third party, benchmark type metrics. Internal, proprietary metrics convey the actual performance of the Bank's customer base, their behaviors and attitudes. As the internal metrics are based largely on the institution's regularly generated customer data, they can be disaggregated at the geographic or business unit basis and readily integrated with internal reporting systems on a frequent basis. While reflecting the performance of the customer base for specific institution over time, it can be difficult, however, to compare with other institutions.

Alternatively, third party benchmarks afford the opportunity to compare performance across institutions. These benchmarks such as J.D. Power's Retail Banking Client Satisfaction Index or the University of Michigan's American Customer Satisfaction Index (ACSI@), also bring the credibility of being an independent view versus one generated internally. In contrast, as many benchmark studies are based on a limited sample of bank customers, the ability to disaggregate the results internally is challenged given limited sample size. This limits the actionability of the results, making it difficult to drive performance internally as with proprietary metrics.

Accordingly, the critical, but few, customer metrics should include both the proprietary customer metrics reflecting the performance of the customer base and also an external third-party benchmark metric.

Conclusion

The past two decades have witnessed unprecedented change in the banking industry, including the Financial Crisis of 2008 and its aftermath and the ongoing technology-driven transformation. What has not changed over this time is the centrality of customer relationships to most banks and their strategies. Paradoxically, few institutions have adopted a consistent set of customer metrics to convey to stakeholders their effectiveness in achieving success with customers relative to their competitors. While there are clear challenges in instituting a customer view into external reporting, past examples highlight that it can be done successfully, ultimately becoming a basis of clear differentiation for a bank that does it well. What is critical in doing so is ensuring that the external metrics are based on reliable metrics, instituted internally and used consistently in managing the business. Demonstrating the growth of the customer base and its engagement, from both internal and benchmarked metrics, becomes a powerful basis for differentiation and making a customer relationship strategy real for both investors and, as importantly, customers. With customers enjoying increasingly easier access to a wider set of financial providers, the reward for demonstrating a loyal and growing customer base is potentially greater than ever.