

A New Day in Retail Banking Customer Satisfaction?

In an industry where competitors regularly speak of the importance of a relationship strategy to their long term success, customer satisfaction is one of the most critical performance measures in retail banking. While all banks can point to their relative financial performance on a quarterly basis, comparing their success in satisfying customers versus their competitors can be more challenging. Given that challenge, the annual release of the J.D. Power Retail Banking Satisfaction StudySM is highly anticipated, offering a snapshot into the relative performance of banks on this important indicator of competitive success. Given the profound impact of the pandemic on consumers across industries, an even greater focus than usual has been placed on the most recent study, published in April 2022. Two years after the onset of the pandemic, and, with it, consumers' accelerated adoption of digital capabilities, which banks have been most successful in sustaining, if not improving levels of customer satisfaction? More broadly, has the pandemic materially changed the competitive landscape among banks as they vie for customers?

Is "smallness" still a virtue?

On the surface, it appears that the traditional pattern continues of smaller banks, with a singular regional focus and a greater reliance on in-person interaction, achieving higher levels of customer satisfaction. Of the 15 regional geographic markets reported by J.D. Power, 10 of them are led by banks with less than \$50 billion in assets and competing in only one of the regions (see Exhibit One). In contrast, institutions with assets exceeding \$500 billion consistently perform below the regional average, having the lowest score in all but two regions. So does that indicate that larger institutions have failed to leverage their long term investments in digital capabilities to make inroads in better satisfying customers? Interestingly, certain large banks are demonstrating the ability to consistently achieve higher levels of customer satisfaction across each of their markets. Most notably, Chase's customer satisfaction was above the average in each market, and actually leading in the Upper Midwest region. Similarly, PNC enjoys above average satisfaction in all but one of the regional markets where it competes and also leads all other competitors in one region, the Mid-Atlantic. Size clearly does not preclude a bank from satisfying its customers.

Why is there so much variability?

So, what leads to the variability in customer satisfaction, particularly across larger competitors? Why does a Chase or PNC consistently and materially outperform Wells Fargo, Truist and Citibank in satisfying customers across multiple regions? In reviewing the most recent results for the nations' largest, multi-regional banks (see Exhibit 2), a few trends emerge, among them the impact of either a recent merger or an adverse reputational event.

A recent merger

Truist, the result of the merger of SunTrust and BB&T, consistently underperforms the regional average across all of its markets in the 2022 study. Notably, while the merger was originally announced in 2019, the merger integration proceeded into 2022 with all customers ultimately transitioning to a new brand. Moreover, given the significant geographic overlap of the two organizations, branch consolidations are widespread with 800 branches ultimately targeted for closure. Correspondingly, Truist had its lowest levels of satisfaction in those regions where the overlap between SunTrust and BB&T was most prevalent, namely the Mid-Atlantic, South Central, and the Southeast.

Perhaps the impact of a merger on customer satisfaction is best highlighted in the case of PNC Financial. As previously noted, PNC enjoys above average levels of customer satisfaction in each reported market region, except for the South Central where, as the lowest rated competitor, it trails the Region Average score by 42 points. What is unique about the South Central region? That region served as the core market area for BBVA Compass Bank which PNC acquired in 2021, converting its branch network in October 2021. As the J.D. Power Retail Bank Study was conducted in the aftermath of that conversion, it reflected customers' degree of satisfaction with their new bank coincidental with the merger conversion. Only future surveys will tell if that was a passing reflection of the acquired customers' satisfaction with the merger process or a fundamental change in their underlying satisfaction with their primary bank.

Can a bank overcome the aftermath of a merger? Are depressed levels of customer satisfaction a short-term reflection of the impact of change on the customer base or are they a longer lasting issue that might lead to lower levels of engagement and ultimately attrition? The most recent J.D. Power Satisfaction results would suggest that both outcomes are possible. Chase is the ultimate example of an institution, built from decades of serial mergers, now delivering a customer experience consistently yielding above average levels of customer satisfaction. Notably, Chase's customer satisfaction score averages nearly 20 points above the regional average across the 11 markets where it competes. In contrast, KeyBank, which completed the merger integration of First Niagara Financial five years ago, continues to lag competitors in customer satisfaction in most all markets. Most significantly, Key has its lowest levels of satisfaction in the New York Tri-State and Pennsylvania regions where the First Niagara customer base was concentrated.

An adverse reputational event

One of the most striking results of the 2022 study was the continued low level of customer satisfaction with Wells Fargo. Not only does Wells consistently hold the lowest level of customer satisfaction across regions (scoring the lowest in 8 out the 12 regions where it competes), the scores are materially lower than most any other competitor. Across its 12

regions, Wells' customer satisfaction averages 30 points below the regional average and is nearly 50 points, on average, below Chase. Interestingly, the two regions where Wells performs relatively better are Florida and the Southeast where it is the successor organization to Wachovia which had been an industry leader in customer satisfaction. While Wells' low levels of customer satisfaction are not new, stemming back to the revelation of unauthorized account openings in 2016, they demonstrate the significant challenge of changing customers' perceptions once they are adversely impacted.

What can you conclude?

Given the 2022 Study results, several conclusions emerge:

- For smaller organizations, don't assume that you'll continue to enjoy higher levels of customer satisfaction. The pandemic has changed customers' preferences and expectations, particularly related to remote banking, with convenience and proximity being profoundly redefined. Several larger, national banking organization are demonstrating the ability to consistently build higher levels of customer satisfaction, leveraging their distinctive technological capabilities. Your local presence and longstanding market familiarity may no longer suffice in engaging and retaining your customers versus those competitors offering a great digital environment providing easy and seamless access to a wide range of services.
- For larger organizations, don't rely on outspending your competitors on technology, new products, and branding without keeping the client and their needs and preferences front and center. As is becoming evident in multiple retail industries, consumers are returning to a more balanced use of on-line and in-person experiences as the impact of the pandemic ebbs. Obsessing about the client experience and consistently delivering on a clear value proposition across each customer interaction, both virtual and physical, can be a true differentiator as demonstrated by selected large bank competitors.
- Mergers are a moment of truth...and one that comes with significant risk. While cost savings can be easily identified and valued, the opportunity cost of a diminished or attrited customer can be less clear in the near term. The survey results clearly highlight the real peril, both short term and, in selected cases, long term, of a merger integration on customer satisfaction.
- Your organization's reputation can be fragile and, once damaged, it can be difficult to regain the full faith and confidence of your customers. As most clearly demonstrated by Wells Fargo, having an extensive branch network, and a wide array of products, all supported by advanced technology cannot offset the perception, let alone the reality, of an institution not acting in the best interests of its customers.

What can you do?

As evidenced by the variability in the most recent J.D. Power Study results, a bank can differentiate itself on customer satisfaction, regardless of their size or level of merger activity. Regardless of your organization's size and scale, what actions might you consider to help ensure that your bank better satisfies your customers, and that you too can differentiate versus your competitors on this important measure?

- *Build a foundation of data and insights* – J.D. Power is a helpful external benchmark to highlight a bank's relative performance in satisfying customers. However, as an annual benchmark based on limited sample size, it does not provide deeper, more timely insight into the specific drivers of customer satisfaction, both overall and across the customer journeys that matter. Building a robust, ongoing measurement system that provides for an actionable view of customer satisfaction across your organization is foundational to identifying specific opportunities to enhance satisfaction and to track improvement over time.
- *Engrave customer satisfaction into your operating model* – while a foundation of data and insights are critical, alone it is insufficient to drive change. Organizations that excel at differentiating on customer satisfaction and delivering an excellent experience have embedded the focus on the customer into their operating model and culture. A notable best practice is establishing a regular cadence and forum for reviewing performance on critical satisfaction measurements, spotlighting improvement opportunities, and celebrating successes. Bottom-line is ensuring that there is comparable management shelf-space dedicated to understanding how well you are satisfying customer and holding critical stakeholders accountable to achieving commitments.
- *Build with the customer in mind* – ongoing measurements coupled with management focus are essential to managing your current customer experience more effectively, but they alone do not position your organization to differentiate with your customers in the future. Increasingly, those retail banks that are committed to customer excellence are adopting techniques such as customer journey mapping and design thinking into developing new products and processes. Informed by the established foundation of customer insight, these practices actually bring customers into the design of new bank capabilities, better ensuring that the end result aligns with their expectations.
- *Keep customers at the center of any merger integration* – bank mergers will remain an important part of the competitive landscape as organizations look to reach new markets through growing their physical presence. Past experience, however, highlights the significant value at risk from a merger integration that focuses on rapidly achieving cost savings versus retaining and expanding the acquired customer relationships. A critical consideration going forward is ensuring that the merger integration focuses on

the well-being of the acquired customer base from its earliest planning through execution. Among the best practices deployed in successful merger integrations is setting an upfront customer retention goal for the merger and establishing a timely measurement system to track progress toward that goal, spotlighting any signs of customer attrition.

While there is no singular formula for success, focusing on the above practices can help your organization in better satisfying its customers and ultimately delivering upon your relationship strategy. Even as the pandemic has changed customer preferences and expectations, starting with a strong foundation of customer insight and then leveraging it into how you run your organization will position you well to compete successfully in a future of continual change.

Exhibit One

Source: 2022 J.D. Powers Retail Banking Satisfaction StudySM, April 7th 2022

California	Index	+/- Average	Florida	Index	+/- Average	Illinois	Index	+/- Average
US Bank	669	44	Regions Bank	697	38	Wintrust	733	68
Bank of the West	653	28	Fifth Third Bank	687	28	PNC	683	18
Chase	646	21	Chase	684	25	Chase	676	11
Union Bank	644	19	PNC	676	17	First Midwest	669	4
Region Average	625	0	TD Bank	666	7	Region Average	665	0
Citibank	620	-5	Region Average	659	0	BMO Harris	662	-3
Bank of America	606	-19	Citibank	658	-1	US Bank	653	-12
Wells Fargo	599	-26	Wells Fargo	652	-7	Fifth Third Bank	652	-13
			Truist	643	-16	Bank of America	647	-18
			Bank of America	636	-23	Citibank	631	-34
Lower Midwest	Index	+/- Average	Mid-Atlantic	Index	+/- Average	New England	Index	+/- Average
Central Bank	685	35	PNC	684	39	Bangor Savings	722	88
Capitol Federal	682	32	Atlantic Union Bank	668	23	Rockland trust	722	88
FNBO	682	32	Bank of America	652	7	Eastern Bank	701	67
Bancfirst	676	26	Region Average	645	0	TD Bank	650	16
Arvest Bank	670	20	Capital One	644	-1	Region Average	634	0
Bank of Oklahoma	662	12	M&T Bank	642	-3	Citizens Bank	630	-4
Commerce Bank	660	10	TD Bank	636	-9	Santander	628	-6
UMB Bank	654	4	Truist	627	-18	People's United	617	-17
Region Average	650	0	Wells Fargo	611	-34	Bank of America	612	-22
Bank of America	647	-3						
Regions Bank	640	-10						
Bank of the West	637	-13						
US Bank	636	-14						
Wells Fargo	611	-39						
North Central	Index	+/- Average	Northwest	Index	+/- Average	NY Tr-State	Index	+/- Average
City National Bank	706	39	Banner Bank	685	51	New York Community	690	42
Bank of America	704	37	Umpqua Bank	675	41	NBT Bank	686	38
Huntington	701	34	Chase	639	5	PNC	685	37
Chase	688	21	US Bank	636	2	Chase	670	22
Region Average	667	0	KeyBank	634	0	Bank of America	669	21
Fifth Third Bank	665	-2	Region Average	634	0	M&T Bank	665	17
Woodforest National Bar	660	-7	Bank of America	626	-8	Community Bank	658	10
PNC	659	-8	Wells Fargo	589	-45	Citizens Bank	657	9
Flagstar	658	-9				Capital One	655	7
Truist	657	-10				Webster Bank	648	0
WesBanco	655	-12				Region Average	648	0
KeyBank	653	-14				Valley National Bank	646	-2
US Bank	652	-15				TD Bank	645	-3
Citizens Bank	651	-16				Santander	644	-4
First Merchants	640	-27				Citibank	631	-17
Pennsylvania	Index	+/- Average	South Central	Index	+/- Average	Southeast	Index	+/- Average
S&T Bank	675	30	Hancock Whitney	694	29	United Community Bank	730	71
Northwest Bank	658	13	Chase	692	27	Synovus Bank	698	39
Citizens Bank	657	12	Arvest Bank	690	25	First Citizens Bank	692	33
PNC	657	12	Trustmark	680	15	Woodforest National Bar	692	33
Fulton Bank	653	8	Bank of America	665	0	Chase	689	30
Bank of America	650	5	Region Average	665	0	TD Bank	673	14
M&T Bank	650	5	BancorpSouth	663	-2	Bank of America	672	13
First Commonwealth Bar	647	2	US Bank	663	-2	Regions Bank	672	13
Region Average	645	0	First Horizon Bank	658	-7	Fifth Third Bank	671	12
TD Bank	642	-3	Capital One	655	-10	PNC	671	12
First National Bank	635	-10	Regions Bank	654	-11	Region Average	659	0
Truist	634	-11	Truist	635	-30	Wells Fargo	647	-12
Santander	630	-15	Wells Fargo	630	-35	Truist	640	-19
KeyBank	626	-19	PNC	623	-42	Southstate	630	-29
Southwest	Index	+/- Average	Texas	Index	+/- Average	Upper Midwest	Index	+/- Average
FirstBank	680	45	Frost	755	89	Chase	661	30
Chase	655	20	Capital One	684	18	US Bank	653	22
Region Average	635	0	Woodforest National Bar	678	12	Associated Bank	650	19
Bank of America	634	-1	Chase	670	4	BMO Harris	635	4
Zions Bank	632	-3	Prosperity Bank	668	2	Region Average	631	0
US Bank	626	-9	Bank of America	667	1	Wells Fargo	594	-37
Bank of the West	608	-27	Region Average	666	0			
Wells Fargo	606	-29	IBC Bank	661	-5			
			First National Bank Texa:	650	-16			
			Wells Fargo	645	-21			

Black Bold Italic = Top/ Bottom Ranked Bank >\$50B in Assets

Blue Bold Italic = Top/ Bottom Ranked Bank <\$50B in Assets

