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Will Mobile Banking Kill Customer Advocacy?

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Over the past few decades, remarkable changes have occurred in the retail banking industry. What started with ATMs in the late 1960s has evolved into a multitude of alternative channels that handle transactions outside the bank branch. Customers benefit from the convenience and 24/7 availability of online banking, telephone banking, mobile banking, etc. But as banks strive to improve their infrastructure in an effort to meet customers' ever evolving expectations, they may be overlooking how these changes will challenge their long-term relationships with customers.

TRACKING THE TRENDS

According to a national study of retail banking consumers, a concerning trend is occurring: people who use only alternative channels have a significantly lower level of advocacy/loyalty compared to those who visit a bank branch. The study, conducted quarterly by The MSR Group, tracks the level of advocacy among retail banking consumers. Figure 1 (below) displays the annual Net Advocacy Rating (NAR)* of bank customers by channel usage (ratings are based on a 100-point scale).

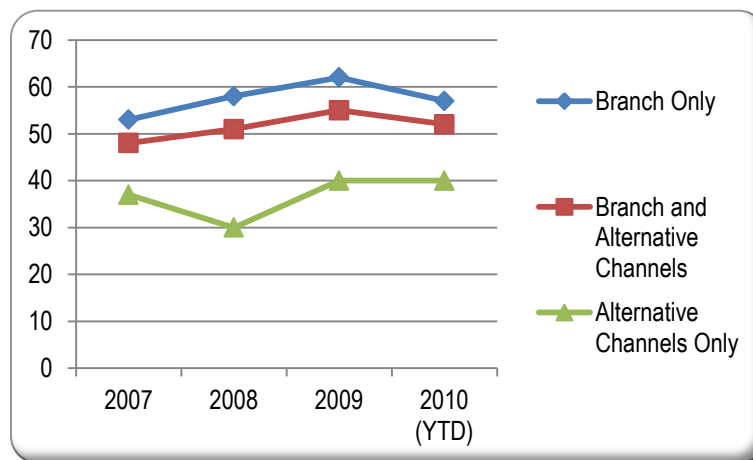


Figure 1. Net Advocacy Rating by Channel Usage 2007-2010 (YTD Q3)

In 2007, the NAR of the alternative-channels-only group was 16 points lower than that of branch-only and 11 points lower than customers who used both the branch and alternative channels. The gap widened in 2008 and 2009 and, although they recovered slightly in 2010, ratings continue to be notably lower.

It isn't just advocacy that is at risk. Banks are capturing a smaller share of wallet from the alternative-channels-only customers. These consumers tend to use multiple banks to meet their financial needs, while customers who incorporate branch visits into their usage mix tend to rely more strongly on a single bank.

So what can banks do? As banks offer more channels for services, the challenge will be to use them in an integrated way for maximum impact. Until technology advances to the point when it is able to replicate the branch experience, the retail location should be a key part of a combined communications by the bank. The branch is the primary place where relationships are built.

ESTABLISHING TRUST

There are two facets of consumer banking relationships. First is the professional relationship in which customers expect accurate transactions and quality service from their bank. This eventually leads to customer trust, which becomes an intangible asset for the bank. Customer perception of a bank's trustworthiness is influenced by its employees' integrity, behavioral consistency, communication and demonstration of concern. While this type of trust can be built through reliable alternative channels that

consistently perform transactions as customers expect without breaking down, it is the nature of digital channels to lean toward transactional rather than interpersonal communication. Interpersonal communication is what is truly imperative in the trust equation. The values of a bank are best communicated through the actions and conversations of its employees. Employees who habitually endeavor to deliver quality service and fulfill their promises will gain customers' trust.

BUILDING PERSONAL RELATIONSHIPS

The second facet of the consumer banking relationship is the personal relationship between bank employees and customers. This relationship can only be developed through frequent interactions with each other. Based on The MSR Group's study, the employee-customer relationship has an independent impact on customer advocacy apart from customers' level of satisfaction and their perceived value of the bank's services. Employees can establish rapport by making the interaction enjoyable and ensuring the customers feel appreciated. The harmonious relationships may evolve into a feeling of personal connection in which both parties know and care for each other. Either the rapport or personal connection can motivate customers to reciprocate by being helpful and generate business for the bank's employees.

In fact, when asked, "Thinking about your most recent branch office visit, what was the main reason you chose to visit the branch rather than use an ATM, the telephone or bank online?" one-fifth of all consumers said on an unaided basis that they prefer the personal touch. This is true for both young and old, although it is cited more often by individuals who are aged 50 and above. While young people who actually visit a bank branch still like the personal touch, banks are missing out on opportunities to cultivate relationships with those who use alternative channels only.

UNDERSTAND THE OPPORTUNITY

Knowing who comprises this customer segment is extremely important. The MSR Group study indicates that alternative-channels-only customers tend to be men under age 50 living in urban or suburban areas. These individuals have a higher level of household income than branch-only customers, but a similar income level to those who use both the branch and alternative channels.

Forward-looking banks will continue to provide flexibility to customers through alternative channels while identifying innovative ways to motivate their new and alternative-channel-only customers to visit the branch. In addition, these organizations will invest in advanced methods to track advocacy among all customer groups.

According to The MSR Group's national survey, advocates (customers who are engaged enough to promote their bank to others) are much more likely to consider their bank first for future financial needs. Moreover, advocates are less prone to switching banks, less sensitive to fees, and easier to be appeased if they experienced problems during banking transactions.

** In the national study, a Net Advocacy Rating (NAR) is computed by subtracting the percentage of At Risk and Dissatisfied customers from the Advocates. The MSR Group National Banking Survey is a rolling tracking study. At any given time the study has a minimum of 2,400 data points. Each quarter, the oldest quarter of data is dropped off and an equal number of new data points are added. An equal number of surveys are conducted within each of the four quadrants of the US as defined by the US Census Bureau (West, Midwest, South and Northeast).*

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