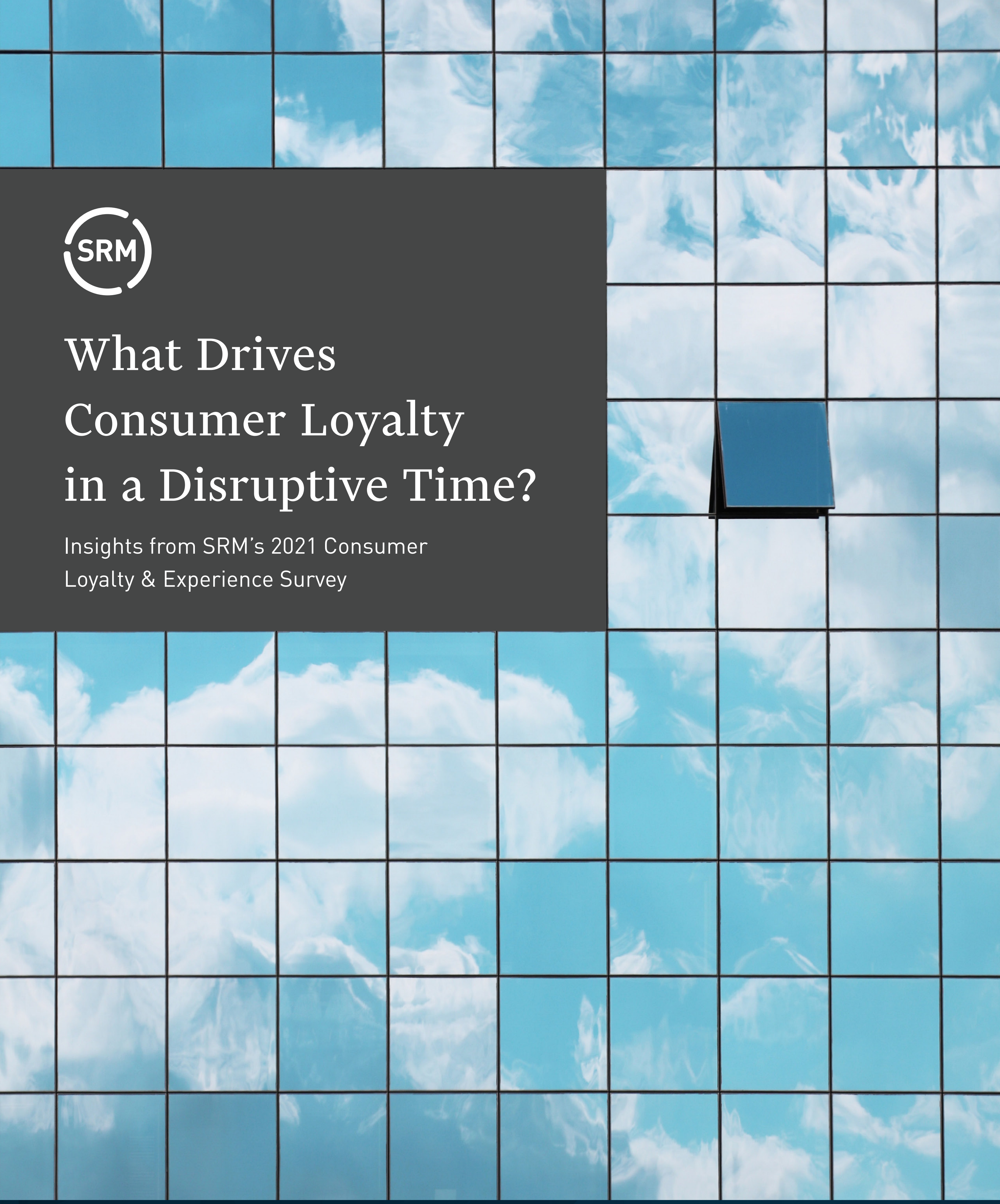
What Drives Consumer Loyalty in a Disruptive Time?

Insights from SRM's 2021 Consumer Loyalty & Experience Survey



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The ongoing shift toward digital delivery of products and services has altered the rules of engagement for virtually all business sectors. Although retail banking is certainly not alone in this regard, its sheer magnitude and role as the economic lifeblood of communities in countries across continents make its transformation even more essential to understand.

The global pandemic further accelerated consumer migration to digital channels, driving more e-commerce adoption and diminishing the reliance on branch networks and cash. It also triggered new, perhaps unexpected, behavior such as a dramatic influx of bank deposits and a decline in credit card balances.

Conducted **July 2021**

2,433 Responses Collected

Sectors Include **Retail Banks, Credit Unions, Credit Cards**

To set effective growth strategies and operating models, leaders must determine which of these behavior shifts are permanent and which will likely revert at least partially to past patterns. Given the market upheaval, it's equally important to explore whether the fundamental drivers of consumer loyalty have permanently changed as well.

Our detailed survey, conducted in July 2021, offers a snapshot of consumer attitudes at a particularly compelling juncture: 16 months of dealing with COVID's realities had created some degree of equilibrium while thoughts of a return to "normal life" had begun to enter the conversation. This cross-section provided a view into the likely permanence of consumer mindsets.

The results provide valuable insights into why consumers choose a financial institution, why they stay with one, and why those two sets of motivations are not identical. They also shed light on the value of a purpose-driven brand, the relative strengths of banks, credit unions, and digital banks, and how the perceptions of each stack up against nonbank brands. This data can inform individual bank/credit union strategies, refining both marketing messages and operational models to gain advantages over local and national competitors.

It's worth noting this was not a pandemic study. Our methodology aligns with earlier research cycles dating back to 2012, and the resulting insights will continue to apply well beyond any temporary market disruptions. Nonetheless, the timing of our study provides a fascinating snapshot of a consumer mindset that will influence banking behaviors for years to come.

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Reasons for Joining & Reasons for Staying

Much of SRM's analysis is predicated on the dual factors of Engagement and Loyalty. These are more specifically defined as follows:

Engagement

TRUST: Do you trust the brand to do the right thing for its customers?
CARE: How would you rate them for caring about your individual needs?
EFFORT: Overall, considering all your interactions past and present, how easy is it to do business with the brand?

Loyalty

CONTINUE: How likely are you to continue purchasing from or doing business with them in the future?
ADDITIONAL PRODUCTS: How willing are you to purchase additional products and/or services from them?
RECOMMEND: How likely is it that you would recommend them to a friend or colleague?

Although these dimensions are highly correlated, the match is not perfect. Interestingly, retail (nonbank) brands perform better on loyalty than engagement, relative to financial institutions.

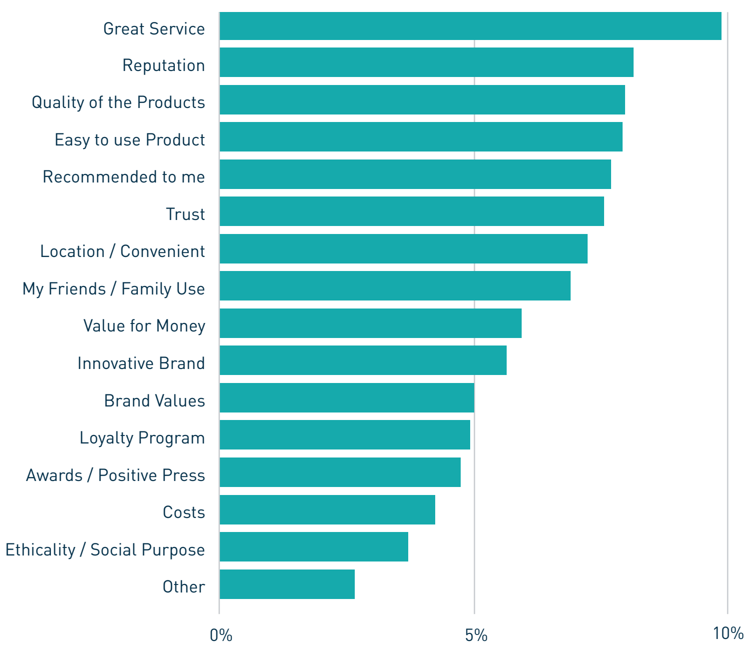
An encouraging takeaway is that, in aggregate, US financial institutions perform well on both dimensions. Less surprisingly, credit unions lead the pack on both measures as a group. Additionally, an analysis of individual nameplates shows credit unions dominating the top quadrant. Although the roughly 5,000 credit unions in the US comprise a small amount of overall banking assets (8% based on June 30 data from the NCUA and the FDIC), its member ranks remain exceptionally engaged and loyal.

Other institutions – and some community banks enjoy similarly high ratings – would be wise to examine whether credit unions' "secret sauce" appeals to a select demographic or whether certain aspects can be applied to advance their own standing with consumers.

Notably, strong performers in our research include The Golden 1, PSECU, and Mid-Florida Community CU. Other standouts include American National Bank of Texas among community banks and Truist, which generated significantly better perceptions than other large bank brands in our study.

Customer service is still king when it comes to winning and retaining customers. When asked for their number one reason for choosing and staying with a given institution, the concept of Great Service led the pack, outpolling product quality, ease of use, and personal recommendations. Beyond the top spot, subtle yet interesting differences emerged. Location, Value for Money, and Loyalty Programs move up the pecking order when the decision is made about staying with a provider. Reputation and Trust/Doing What They Say swapped

MAIN REASONS FOR CHOOSING



positions – arguably because a consumer can now assess the FI's behavior firsthand rather than relying on reputation. This may also explain why Brand Values also gained prominence in the research.

Truist's impressive performance offers an interesting case study. The product of a 2019 merger between BB&T and SunTrust, the bank has embarked on a significant brand awareness campaign that emphasizes financial wellness and a holistic level of care for the customer's financial life. Due to the recency and visibility of this message, Truist ranked particularly highly on perceptions of Care, Value for Money, and Understanding Consumer Needs. While the largest banks often excel in resources and digital tools, they are frequently viewed as more transactional in nature. By contrast, Truist's ratings imply an emotional connection more commonly associated with credit unions or community banks.

Other Influencers of Loyalty and Trust

Despite the need to temporarily shutter branches, financial institutions solidified consumer perceptions during the pandemic. SRM's Pandemic Index considered brand performance on three key measures:

1. Acted in a way that valued me
2. Able to maintain the level of service I expected
3. Communicated relevant information to me in a timely manner

Banks and credit unions fared well on all three dimensions, outranking overall retail brands on the first and third while trailing only slightly on service levels. This result is encouraging given banks' general reputation for trailing other industries in the rollout of next-generation digital offerings. It reflects well on the value of existing relationships and communication capabilities in preserving bonds over the long term, with appropriate adjustments.

Another surprising takeaway is that despite the massive advertising budgets deployed by card networks, the credit card brands themselves generated little loyalty or engagement. Their promotional spending may be effective in spurring product usage and ensuring network reach; however, the card brand does not appear to factor into the loyalty equation. This may be because the primary engagement is between the consumer and financial institution rather than via the card brand.

The Retail Benchmark

Increasingly, customer expectations for financial services are not influenced by their experience with related products but by a fuller

scope of digital and physical buying experiences. This trend will continue, as the notion of embedded finance blurs the line between financial activities and the broader customer journey, as evidenced by new checkout processes pioneered online and in-store by the likes of Amazon and Sam's Club. For this reason, it's essential to benchmark attitudes against not only a peer group of banks and credit unions but also the broader universe of retail brands.

The takeaways are a pleasant surprise on this front. Overall, FI perceptions hold up well, even compared to a commerce giant like Amazon. Most credit unions tend to outperform Amazon on SRM's key measures. Large national bank brands trail Amazon, though perhaps not to the extent many might expect. Another interesting data point is PayPal, which was classified as a Retail brand for this analysis. PayPal's performance more closely resembles those of the large US banks, although, like Amazon, it tends to overperform on Consumer Loyalty. Trust and Value for Money have the strongest influence on loyalty; in those regards, Amazon consistently excels at perceived value, and PayPal, which is viewed as "free" by most consumers, has established itself as a reliable vehicle for money movement.

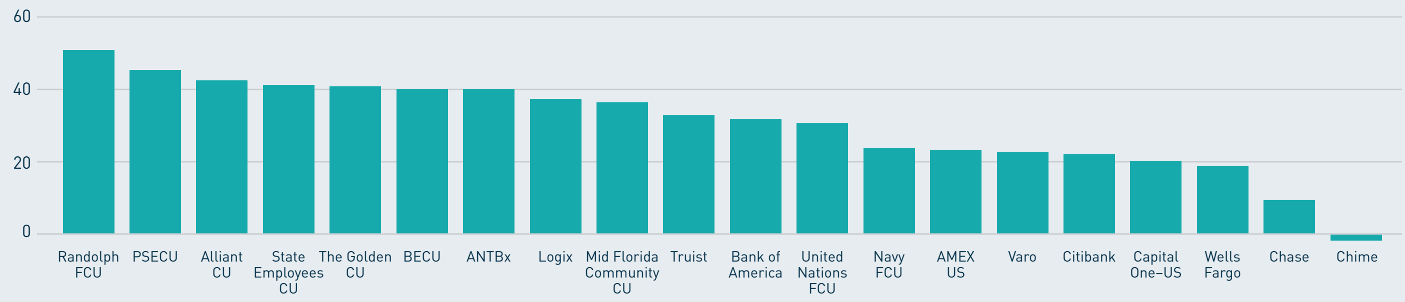
Neobanks Rate Poorly, But Can't Be Ignored

One notable result is the weak ranking assigned to Chime on engagement and loyalty. Although we have chosen to avoid citing underperforming brands in general in this report, Chime's status as a proxy for the overall neobank category is particularly instructive. Other digital brands lagged as well, but Chime ranked at the bottom of both dimensions. And contrary to retail brands, digital banks underperformed on loyalty relative to engagement.

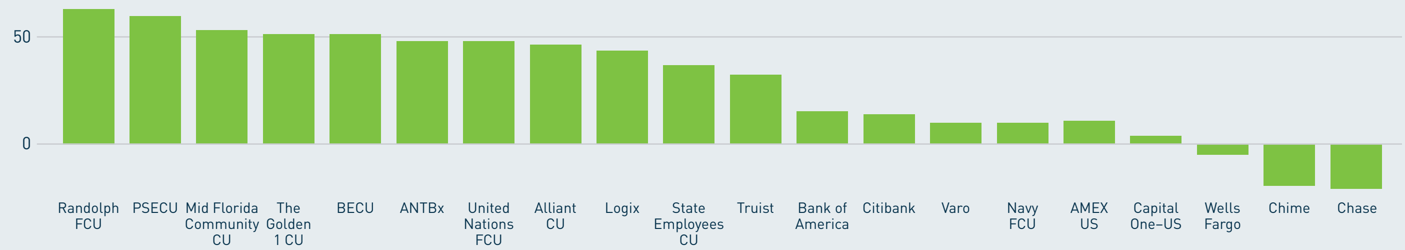
This result is clearly at odds with the company's public perception and its market valuation. Chime has done an excellent job of building market awareness and initial enrollments. To date, however, they have not successfully converted those enrollments into deeper relationships. Few customers treat Chime as their primary transaction account, and the absence of a branch network may play a role in this barrier. Unlike PayPal, Chime has not yet had the benefit of time to demonstrate its capabilities as a reliable partner. Recent adverse publicity surrounding unwanted account closures may have damaged such perceptions.

It would be shortsighted to dismiss the threat posed by Chime and other neobanks. Remember that in its early days, Kia ranked last by wide margins among US car buyers in overall satisfaction, partially due to its high defect rates. The automaker responded by deftly executing on several initiatives to build a successful brand in less than a decade. One of its tactical levers was to institute a full 10-year

URGENCY OF CLIMATE CHANGE TO CONSUMERS



BRAND COMMITMENT TO CLIMATE CHANGE



warranty, neutralizing quality concerns. Although error rates do not appear to be a primary issue, Chime could attempt to shift perception with a similar satisfaction guarantee. By partnering with a brick-and-mortar presence – mimicking PayPal's approach in partnering with Discover to achieve point-of-sale ubiquity – Chime might overcome concerns about access.

Evolving Channel Preferences

SRM's survey findings on consumers' channel preferences are the most surprising relative to commonly held perceptions. Yes, consumers' desire to place a call or visit a branch to perform banking functions continues to decline. However, the desire for such resources has not evaporated to the extent commonly believed.

SRM asked respondents for their first and second channel preferences, and the data revealed some surprises. The first is that the website narrowly outranks mobile apps as the top choice for interaction. However, phone and branch still rank third and fourth, remaining the preferred channel for nearly one-quarter of those surveyed, easily outranking web chat, video calls, and virtual assistants. Despite stereotypes, these overall preferences do not change much when viewed across age brackets.

The second surprise is equally telling. Email and phone both moved ahead of apps as the backup communication preference – web/video chat and virtual assistants also spiked upward from their muted popularity as first options. A logical interpretation would be that, while vehicles like mobile apps are valued for routine queries and interactions, consumers continue to prefer more personalized – and mostly live – support for more complex queries.

Despite widespread discussion of the waning importance of the branch, our research reveals it continues to play a meaningful role in consumer perceptions. The data implies that the branch network may be central to an implicit brand promise and that closure of nearby locations is perceived as a loss of access, even if they were not visited regularly. If branches function as a security blanket for rare but urgent situations, leaders must determine the optimal balance between that value and the cost of operating an extensive network. In aggregate, the research proves the need for an agile CX management capability that uses data to enable responsive service.

The Purpose-Driven Firm

SRM's research further probed the factors influencing consumer loyalty to isolate opportunities for banks and credit unions to move the meter on this essential attribute for a long-term relationship. Two of the key drivers are intuitive – an incremental improvement in the Net Promoter Score (NPS) for "Does the company care about your individual needs?" yields the greatest return on loyalty, while the NPS for "easy to do business with" also rates highly.

The second most effective lever to increase consumer loyalty may be surprising. The NPS for the perception of a company's "commitment to climate change" ranked second only to "cares about individual needs." As with other measures, a commitment to climate change seems to resonate most strongly with customers of credit unions and community banks. Customers of the large national banking brands (and, oddly, the neobanks) tend to place less importance on this factor, and not coincidentally, these nameplates receive lower climate commitment ratings.

> "Customers self-selected concerning the importance they place on a company's commitment to social impact. There is a correlation between brand perception on this attribute and the importance of social impact."

On a similar note, customers seem to have self-selected concerning the importance they place on a company's commitment to social impact. There is a strong correlation between brand perception on this attribute and the importance of social impact.

Interestingly, improvements in website ease of use do not generate the same payback in loyalty. This may be because the website is considered a means to an end, with its benefits captured in the overall "easy to do business with" reading.

Using the Data to Create Brand Advantage

SRM's robust data set can be leveraged to inform a variety of strategic goals. Presumably, every bank or credit union's objective is to attract and retain customers. The output from SRM's survey quantifies performance on each of these dimensions for a given institution and its key competitors – locally, nationally, and digitally. By comparing performance over multiple categories, banks and credit unions can identify their relative strengths and opportunities to improve and differentiate their offerings. Developing a data analytics culture will be especially important for community banks and credit unions looking to evolve.

Our existing sample sheds light on the performance of 46 banking brands. SRM can supplement this data with customized analyses for your institution and additional competitors to provide even more tailored insights.

About SRM's Consumer Loyalty & Experience Survey

SRM has been conducting primary research on this topic since 2012, enabling insights on the evolution of consumer perceptions and loyalty over time. For the 2021 edition, SRM interviewed nearly 7,000 financial institution customers across the US and UK, with a supplemental focus on recruiting a sufficient sample to shed light on the performance of 46 banking brands. Particular attention was paid to neobanks, a rapidly growing group of digital-first upstart brands that have drawn significant attention as potential disruptors cannibalizing traditional banking models. The survey also queried impressions of a set of high-profile nonbank entities as a benchmark since consumer expectations are set increasingly by their experiences beyond banking.

About the Authors

JEHAN SHERJAN, INSIGHTS DIRECTOR

Jehan has over 20 years of experience in the operations of financial services organizations and has been instrumental in developing and delivering SRM's Insight & Data Analytics services to over 50 clients. He has played a central role in over 20 insight and research products and services, including the Small Banks Study, the Digital Adoption Research Benchmark, and the Customer Loyalty & Experience Index (CLIX) research. Jehan has been involved in the development and delivery of a broad range of research and insight reports since 2006, working with financial services firms to deliver tailored executive reports that represent a range of commercial, business, service, and customer metrics.

DAVID ROYLE, MANAGING DIRECTOR

David is a digital transformation and data innovation specialist, advising and supporting his clients as they transform. Over the last 25 years, he has supported firms of all sizes, across international and national brands through to the start-up community. His work has been highly commended by the British Banking Authority and the Management Consultancy Association, for digital innovation and customer engagement. For the last five years, David has worked with two national banks to design and build their data innovation labs to support their transition into data centric organizations, with the associated emphasis on skills development, culture, process, and architecture.

PETE BAINBRIDGE, OPERATIONS MANAGER

Pete is an experienced project manager and researcher with over 20 years of experience in various consulting and operations roles in the financial services industry. He has helped Retail Banks and Building Societies deliver strategic change and research in digital, IT, and operations using a variety of agile and traditional project management techniques, interviews, workshops, and focus groups. Pete has also managed dozens of benchmarking projects to help the C-suite understand their operations and provide actionable insights to facilitate their decision-making processes.

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SRM (Strategic Resource Management) has helped financial institutions, manufacturing, retail, and other industries across the US and Europe add $5+ billion of value to their bottom line in areas such as payments, digital transformation, core processing, artificial intelligence, and operational efficiency. SRM's decades of experience have lowered costs, grown revenues, increased productivity, and provided a competitive edge for clients in an environment of constant and accelerating change. Visit **www.srmcorp.com** for more information and follow us on **LinkedIn** and **Twitter** for timely and relevant insights.

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