



The decay in customer loyalty observed in J.D. Power and Associates' financial studies conducted in 2009 and 2010 is beginning to translate into higher levels of defection. In the J.D. Power 2011 survey of consumer financial holdings,<sup>1</sup> the percentage of customers who left their bank in the previous 12 months to start a primary relationship with a new bank has increased to 8.7% from 7.7% in 2010. On the one hand, the increased churn is good news, in that more consumers are coming into the market and represent more opportunities to acquire additional customers. On the other hand, the increased churn makes customer retention a pressing area of concern for financial institutions. Given the significant financial investment that banks undertake to increase acquisition through advertising spend, promotional gifts/cash awards, and promotional rates, it could be argued that it is more financially prudent to lower attrition rates than to increase acquisition rates by the same percentage.

To assist banks with understanding the drivers of attrition, J.D. Power conducts an annual *Retail Banking Satisfaction Study*, which is now in its sixth year of publication. The 2011 study provides analyses of retail banking experiences of more than 50,000 customers across more than 130 of the largest financial institutions in the United States.

Overall, according to findings from the upcoming 2011 study, there is a strong relationship between a bank's overall satisfaction index score and the percentage of their customers who report that they "definitely will not" switch banks in the next 12 months. (Figure 1)

***In 2010, the percentage of customers who left their bank in the previous 12 months to start a primary relationship with a new bank has increased to 8.7% from 7.7%.***

### Retail Banking Satisfaction by Intended Retention



**Figure 1**

Source: J.D. Power and Associates 2011 Retail Banking Satisfaction Study<sup>SM</sup>  
Note: Each data point represents one of the 130 banks profiled

While this data finding is to be expected, it is not expected that customer satisfaction and the propensity to switch to another financial institution in the next 12 months is largely associated with the tenure of the customer. That is, one would expect that new customers who switched banks within the past 12 months would be content with their decision and will have a lower level of intended future attrition. However, the opposite is in fact true: satisfaction among switchers is not only significantly lower than among customers who have been with their financial institution for 2 years or more (723 vs. 752, respectively, on a 1,000-point scale), but even more alarming is the fact that switchers have a higher level of intended attrition than do customers with a longer tenure (28% vs. 10%, respectively). (Figure 2)

### Intended Attrition by Customer Tenure

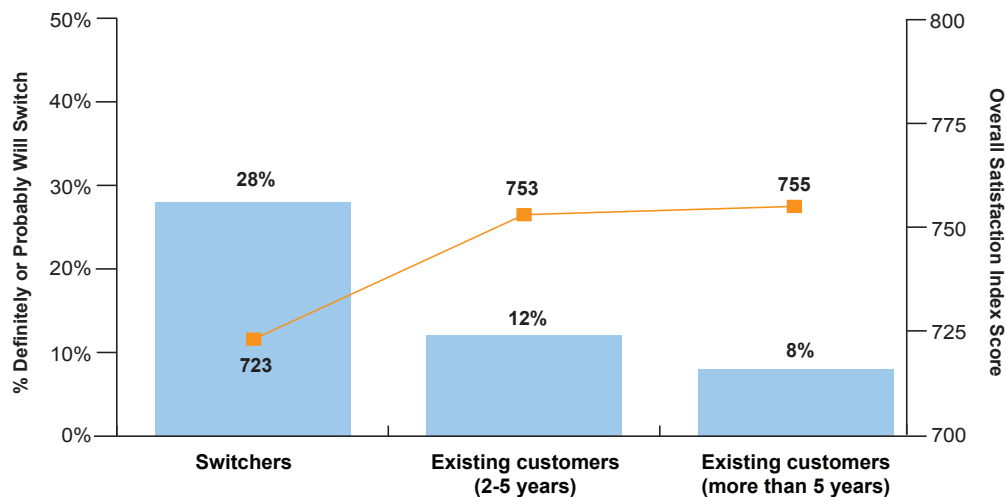


Figure 2

Source: J.D. Power and Associates 2011 Retail Banking Satisfaction Study<sup>SM</sup>

Having recently changed banks, switchers often view their new bank with a particularly critical eye, as it is important to them how their new primary bank compares with their previous primary bank. Among switchers who say they “definitely will” or “probably will” switch financial institutions in the next 12 months, the most-often-cited reason for future switching is poor service (40%), followed by high fees (37%). (Figure 3) As a bank executive, it may be disconcerting to learn that a poor service experience is the leading driver of attrition, as perception is that employees should not need to be coached in being personable, courteous, and empathetic. However, improving these skills of front-line staff is more financially feasible than building new brick-and-mortar branches or modifying interest rates.

## Reasons for Intention to Switch Primary Bank

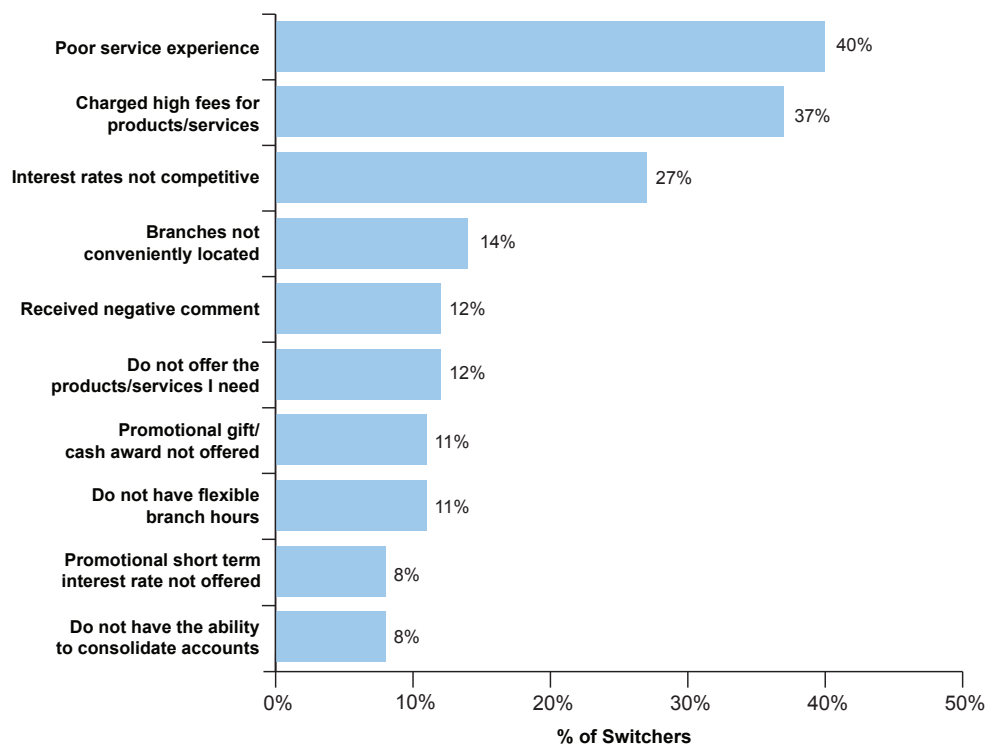


Figure 3

Source: J.D. Power and Associates 2011 Retail Banking Satisfaction Study<sup>SM</sup>

Note: Multiple responses were allowed. Responses of less than 8% are not shown above.

In order to retain these new customers who have switched banks, financial institutions need to focus on providing them with a satisfactory on-boarding experience as well as meeting their expectations during their first year with the new financial institution. To fully address this issue, the 2011 Retail Banking Satisfaction Study includes analysis on satisfaction among switchers in two segments: those who have high satisfaction and those who have low satisfaction. The study will then analyze and report on the differences in both customer service and fee/problem resolution experience between switchers in both satisfaction segments. Lastly—and arguably the most important—the study includes industry-wide best practices on how to limit attrition through maximizing the on-boarding experience.

## Appendix

1. J.D. Power and Associates 2011 Financial Services Screener, for which approximately 100,000 customers were interviewed regarding their financial services relationships.

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