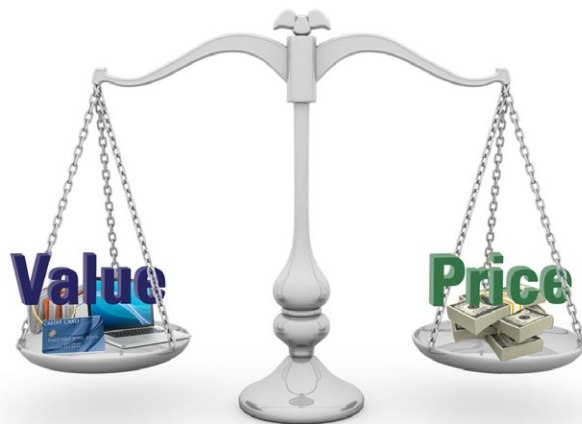




As the percentage of banks offering free checking continues to decrease, the pressure on bank executives to clearly articulate their value proposition to customers and prospects alike has dramatically increased. To assist banks in understanding value proposition, J.D. Power and Associates provides insight based on its unique capability to analyze customer trends and preferences across financial services industries, such as credit card and investment services, to identify best practices. Findings are provided from studies J.D. Power conducts in each of these industries, in addition to a preview of analysis that will be included in the *2011 Retail Banking Satisfaction Study*. The 2011 study provides analysis of retail banking experiences from more than 50,000 customers across more than 130 of the largest financial institutions in the United States. This is the sixth year of publication of this annual study.

J.D. Power defines value proposition as the alignment of customer awareness of the products and services they receive in return for the price they are charged. The most frequently used and most easily understood example of this trade-off in financial services is in the credit card industry. The average cardholder may be charged for the offering of credit through interest rates on revolving payments (i.e., monthly bills that are not paid in full) and an annual fee. Conversely, the average credit card includes a standard set of associated benefits, such as fraud protection and zero liability, purchase protection, and auto rental collision damage waiver. The more benefits cardholders are aware of, the more satisfied they are with their credit card issuer, based on findings in the *J.D. Power and Associates 2010 Credit Card Satisfaction Study*.SM That is, satisfaction is significantly higher among customers who are aware of benefits offered by their primary card issuer than are customers who are not aware of such benefits (scores of 734 and 689 points, respectively, on a 1,000-point scale). Furthermore, as the number of available benefits increases, so do satisfaction levels, to an average index score of 790 among customers who report awareness of seven or more benefits. Yet, only 61% of credit card customers are aware of the benefits available to them, with wide variance in levels of awareness from issuer to issuer.

J.D. Power defines value proposition as the alignment of customer awareness of the products and services they receive in return for the price they are charged.



Credit Card and Investment Services Case Studies:

American Express, the perennial leader in overall satisfaction in the Credit Card Satisfaction Study, is a notable case study of a clear value proposition. American Express has the highest customer-reported rate of annual fee incidence in the industry (48% vs. 22% industry average), yet customer satisfaction is not negatively impacted because there is a high rate of customer awareness of products and services offered. Specifically, 53% of American Express customers cite four or more benefits offered to them, compared with only 24% at the industry average. Additionally, American Express' strong communication efforts are not exclusively limited to benefits—that is, American Express also outperforms the industry in

regard to advanced communication of term (pricing) changes: 69% of customers became aware more than 30 days in advance of such changes, compared with the industry average rate of only 58%. (Figure 1)

Value Proposition Best Practices—American Express

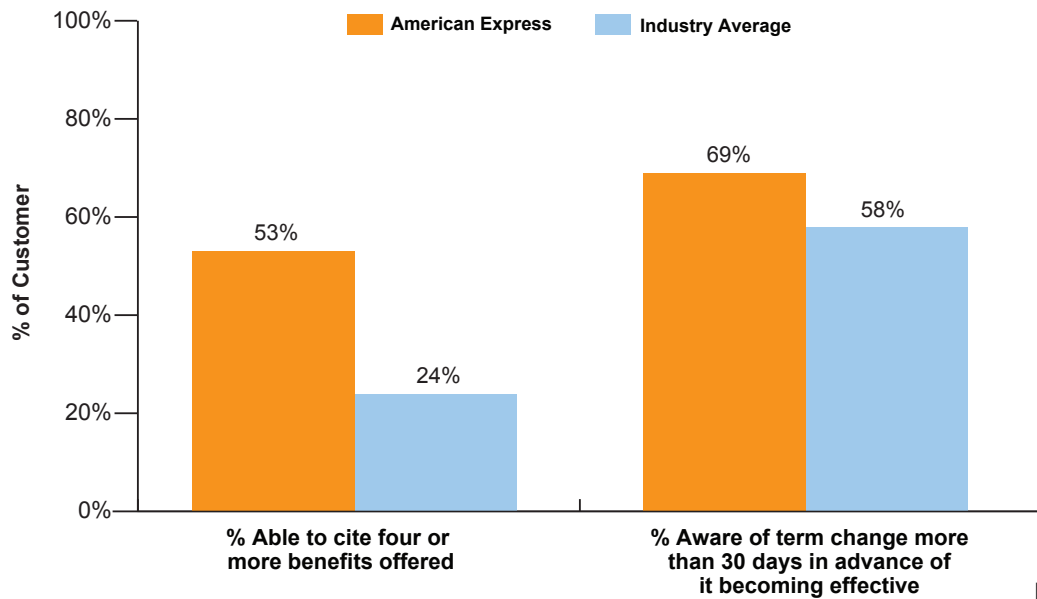


Figure 1

Source: J.D. Power and Associates 2010 Credit Card Satisfaction StudySM

Two self-directed investment firms, Scottrade and TD Ameritrade, provide additional case studies of a clear value proposition in financial services. According to the J.D. Power and Associates 2010 Self-Directed Investor Satisfaction Study,SM these two investment firms have the highest customer-reported incidence of charging a per-trade commission fee (90% and 91%, respectively). However, the satisfaction of customers of both Scottrade and TD Ameritrade is significantly higher than the industry average because these firms provide a higher level of value through communication of fees, educational seminars, and the use of real-time quotes. (Figure 2)

Value Proposition Best Practices—Scottrade and TD Ameritrade

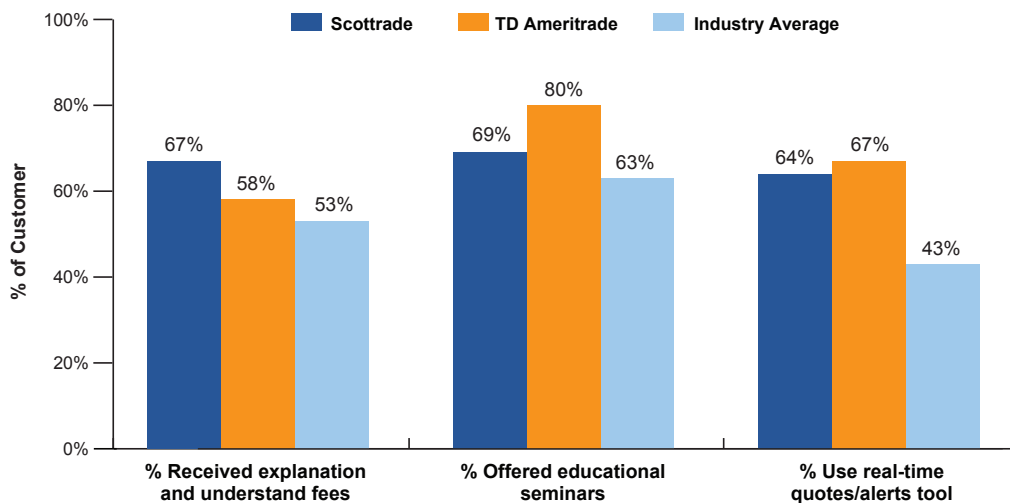


Figure 2

Source: J.D. Power and Associates 2010 Self-Directed Investor Satisfaction StudySM

To summarize, American Express, Scottrade, and TD Ameritrade clearly demonstrate a strong value proposition not only through excelling in customer awareness of products and services, such as card benefits, educational seminars, and real-time quotes, but also in communicating prices. In addition, it is important to note that these financial institutions are by no means the most inexpensive for customers to do business with, which eliminates the perception that competitive pricing is the single silver bullet of satisfaction. In fact, it is the ability of these firms to effectively balance customer awareness of the products and services they provide in return for the price they charge that sets them apart from their respective competition.

Cross-Industry Perspective:

The ability to provide a clear value proposition is not exclusive to financial services, as other industries have their own respective examples, which are discussed in the *J.D. Power and Associates 2011 Achieving Excellence in Customer Service Special Report*.SM Several examples of service industry companies that deliver value through their people, presentation, product, and process without solely competing on price are detailed below:

- **Amica Mutual:** Supports its claims product by ensuring customers are fully debriefed and that details are clearly explained during their claims process.
- **Auto-Owners Insurance:** Representatives provide advance notice on changes in the look of customer statements before such statements are sent out.
- **Health Mart Pharmacy:** Provides a private meeting room for consultations with the pharmacist.
- **Zappos:** Provides a one-year return policy with no exceptions.

Insights into Analysis from the 2011 Retail Banking Satisfaction Study:

With the revision to Regulation E, leading to banks scrambling to recoup revenue, it could be argued that understanding how to deliver value by not solely competing on price is the most pressing customer retention issue in the banking industry today. This begs the question: With the end of the free checking era, what are the key experiences on which banks must deliver to demonstrate a strong value proposition to their customers?

To fully answer this question, analysis included in the *2011 Retail Banking Satisfaction Study* will segment customers that pay a maintenance fee into two groups: those who have high satisfaction and those who have low satisfaction. Second, J.D. Power will analyze and report on the differences in experience between customers who pay a maintenance fee yet remain highly satisfied and those who pay a fee but have low satisfaction. Third—and arguably the most important—the study will include industry-wide best practices to create a clear value proposition, similar to those previewed in this article for American Express, Scottrade, and TD Ameritrade.

For more information about our products and services, please contact:

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