



The banking industry is currently in the middle of a technological innovation wave not experienced since the mass adoption of the Internet. Unlike the long time frame for the adoption of the Internet or even for ATMs, banks must now adapt at a much faster pace to innovations such as mobile banking and to trends such as social media. To put the current environment into perspective, it took a full 16 years from introduction to reach 50 million ATM users and 7 years for the integration of the Internet, compared with only 3 years for the integration of Facebook.¹ Furthermore, current forecasts for mobile banking indicate that usage will increase from roughly 10 million users in 2010 to leading the interaction channel by 2015.² Given the fast-paced environment that is now the norm, banks must not only be aware of what their customers' preferences are, but also how to respond to them, and quickly. To that end, J.D. Power and Associates suggests that banks intensely focus on mobile banking adoption and integrating social media as a customer service channel.

To assist banks with understanding ever-changing customer expectations, J.D. Power conducts an annual *Retail Banking Satisfaction Study*, which is now in its sixth year of publication. 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.

Mobile Banking Adoption

Based on findings from the upcoming *J.D. Power and Associates 2011 Retail Banking Satisfaction Study*,SM mobile banking usage has increased from 7% to 16% among all customers since January 2010. (Figure 1) Not unexpectedly, mobile banking usage is heavily skewed toward younger customers. That is, 27% of Generation Y customers report mobile banking usage, compared with only 10% of Boomers and 5% of Pre-Boomers.³ What's even more telling about future potential usage is the finding that 45% of Generation Y customers who currently do not use a mobile banking application would be interested in doing so if it were offered by their primary bank.

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Retail Banking Account Activities Channel Usage

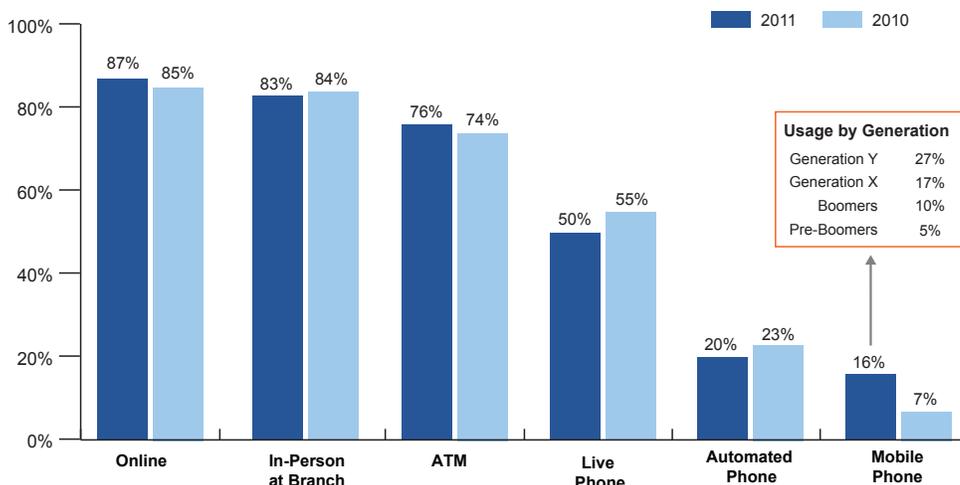


Figure 1

Source: J.D. Power and Associates 2011 Retail Banking Satisfaction StudySM

Given this intended behavior finding, it can be assumed that offering a mobile banking app will soon become the price of entry in the banking industry. As a result, there is a short window of opportunity for banks to capitalize on offering mobile banking as a branding differentiator in the market.

According to findings from the *2011 Retail Banking Satisfaction Study*, differentiation can only be realized if customers who use a mobile banking app with their primary bank completely understand the product. To provide more detail, customers who use a mobile banking app with their primary bank were asked how well they understand the mobile banking products that their bank offers. Interestingly, only 47% of these customers state they have a complete understanding of the products. As can be expected, the satisfaction with this group of customers is higher than among customers who say they do not completely understand the mobile banking products available to them and non-adopters of mobile banking. (Figure 2)

Impact of Understanding Mobile Banking Products

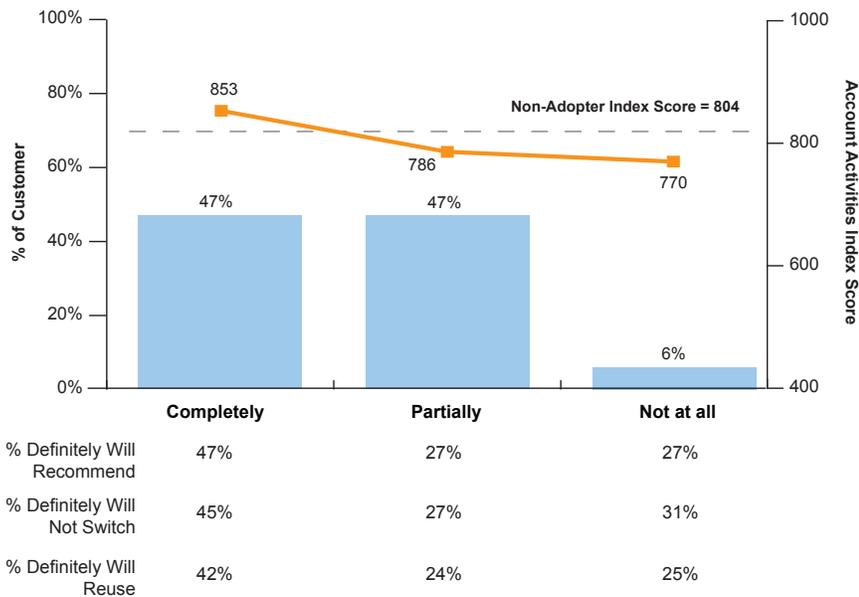


Figure 2

Source: J.D. Power and Associates 2011 Retail Banking Satisfaction StudySM

The most compelling finding is that only those customers who have a complete understanding of mobile banking have higher satisfaction than customers who are non-adopters (853 vs. 804, respectively, on a 1,000 point scale). That is, customers who do not have a complete understanding are actually dilutive to a bank’s overall satisfaction score—the score declines to 786 among customers who partially understand and to 770 among customers who do not understand at all.

Equally as important is that there are significant declines in intended advocacy, intended retention, and intention to reuse among customers who lack a complete understanding. These findings underscore the immense opportunity that banks have to differentiate themselves by clearly communicating the value of their mobile banking application not only to existing customers, but also to prospects.

Integrating Social Media as a Customer Service Channel

During the past decade, social media websites have grown from a niche communication outlet for college students to a mass communication outlet that now also includes 58% of Boomer and Pre-Boomer banking consumers, according to this year’s study. It is interesting to note that 15% of consumers who subscribe to social media sites or read Internet blogs do so for banking-related activities, which also provides further exposure to the products and services that banks provide to their customers. (Figure 3) However, only a relatively small percentage of social media users post content regarding specific experiences with a given bank—just 25% of users who post banking-related messages on social media and blog sites report that they have shared a banking experience about their primary bank—good or bad.

Social Media and Blog Usage Activities

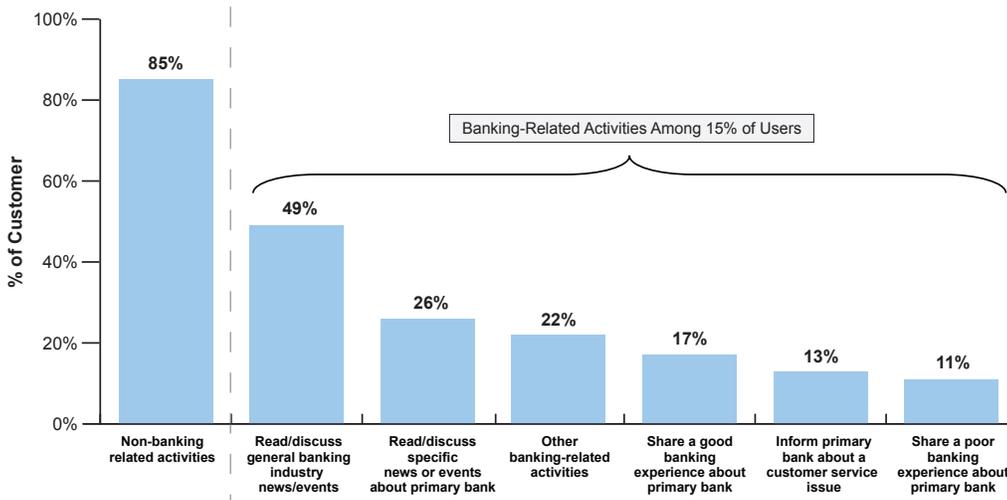


Figure 3

Source: J.D. Power and Associates 2011 Retail Banking Satisfaction StudySM

This begs the question: What is the tipping point for a small percentage of customers to share a good or poor service experience that is read by a large audience of consumers? As reported in the *J.D. Power and Associates 2011 Achieving Excellence in Customer Service Special Report*,SM key drivers of online posts regarding both good and poor service at a cross-industry level are driven by experiences related to People and Process. (Figures 4 and 5) J.D. Power defines People drivers as associated not only with pleasant and courteous service, but also the ability to solve problems and communicate proactively, not just reactively. Process drivers are associated with easy, effective, and fast interactions.

Key Drivers of Online Posts About Good Service



Figure 4

Source: J.D. Power and Associates 2011 Achieving Excellence in Customer Service ReportSM

Key Drivers of Online Posts About Poor Service

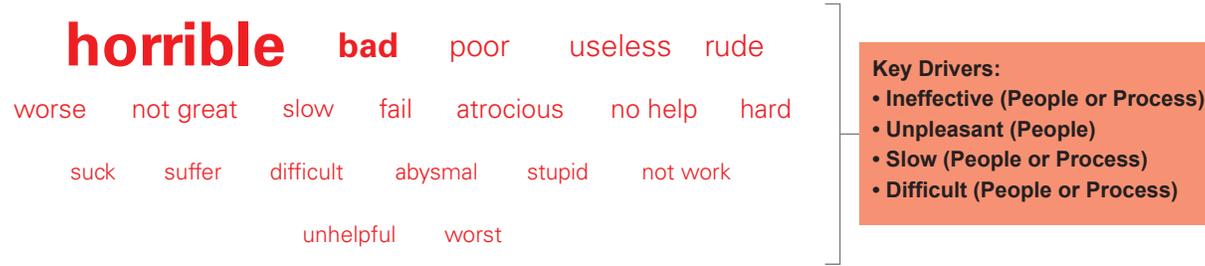


Figure 5

Source: J.D. Power and Associates 2011 Achieving Excellence in Customer Service ReportSM

Findings from the 2011 Retail Banking Satisfaction Study suggest that online posts regarding a good banking-related service experience are also influenced by these very same drivers. That is, of customers who shared a good service experience, 94% report having their most recent problem resolved; 88% report receiving a follow-up contact after opening a new account; and 85% were welcomed when they most recently entered a branch—all significantly higher percentages than the industry norm. Conversely, among customers who shared a poor service experience, 68% report having waited in the teller line for 3 minutes or more during their most recent branch visit; 65% report having experienced their primary bank’s website being inaccessible; and 42% report having experienced an ATM that was out of supplies.

Once experience drivers are understood, a next question might be whether banks should respond to such social media postings, particularly to the poor experience posts. According to the 2011 study, only 21% of poor service experience postings were responded to by the customer’s primary bank.

Did Your Primary Bank Respond to the Banking Related Experience You Shared?

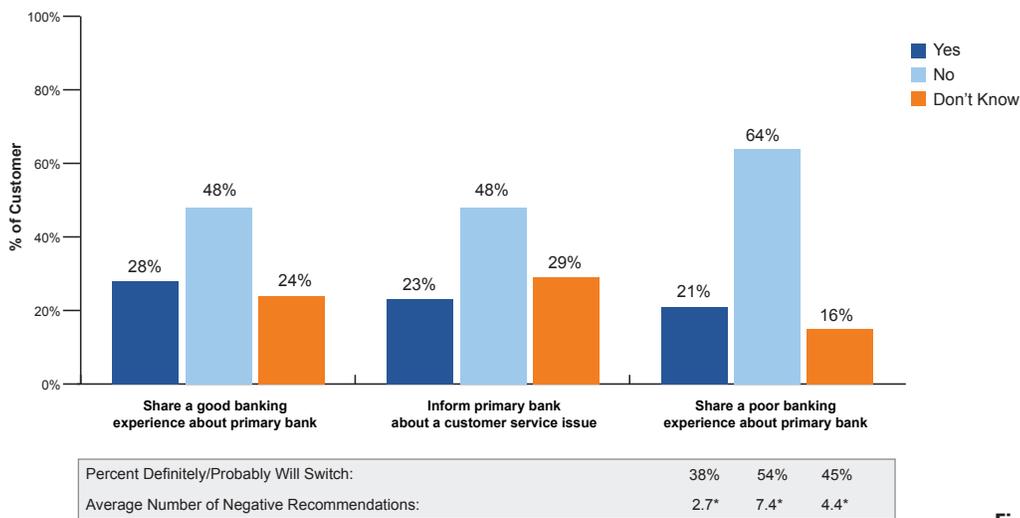


Figure 6

Source: J.D. Power and Associates 2011 Retail Banking Satisfaction StudySM

*Caution: small sample n=30-99

Among the 64% of customers who shared a negative experience and did not receive a response, intended attrition and the rate of negative recommendations are significantly impacted. (Figure 6) Specifically, not only do these customers have an alarmingly high rate of intended attrition (54%), but they also become brand detractors through an increased rate of negative recommendations,

impacting brand image and the opportunity for the bank to acquire their family members, friends, or colleagues as customers. Conversely, among the 21% of customers who received a response, intended attrition and rate of negative recommendations decreases significantly.

Based on the above findings, it can be concluded that there is a substantial positive impact on intended attrition and advocacy in responding to customer postings on online social media sites. Although helpful, understanding usage rates and drivers at an industry level only addresses a small portion of the most commonly asked social media questions. Among the additional questions needing answers at a bank level are: What posts should we respond to and How should we respond?

These are clearly evolving times for the banking industry. In an industry where a shift in net acquisition of 1% equates to a significant financial impact, it is imperative for banks to quickly adapt to innovations such as mobile banking and social media to simply keep pace with the competition. Furthermore, there is also a short window of opportunity for banks that offer mobile banking apps to become differentiators in this highly competitive market. However, as noted above, banks must ensure that their customers completely understand the mobile banking apps that are offered to them to fully capitalize on their speed to market. Lastly, in regard to social media, banks must consider the creation of a formalized process to not only track, but to also respond to damaging online posts regarding poor service experiences to limit the negative impact on new customer acquisition.

Appendix

1. Source: King. 2010. *Bank 2.0: How Customer Behavior and Technology Will Change the Future of Financial Services*. Bank 2.0. Singapore, Marshall Cavendish International
2. Source: Bank 2.0—Author's Blog. (2011, March 17) [Blog post]. Retrieved from <http://bank2book.com/2011/>
3. J.D. Power defines Generation Y as consumers born 1977-1994; Generation X as born 1965-1976; Boomers as born 1946-1964; and Pre-Boomers as born prior to 1946.

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