Customer Retention Research in Banking

By Paul Lubin

Banks have also come to recognize the need to conduct regular measurements of customer satisfaction. But in designing and conducting the research they often fail to discern the close links between service and product issues, and customer retention and revenues.

Instead, they assume that maintaining high levels of customer satisfaction will, by itself, ensure consumer loyalty. Bank marketing executives might better utilize their research budgets to identify and then improve performance on the issues which count-- those which limit customer defections. Focusing resources on extending customer tenure especially among high balance relationships can have a powerful effect on revenues.

The table below demonstrates the effect of limiting customer attrition for a medium-sized commercial bank in a northeastern city with 70 branches that recently dedicated a portion of its research budget to customer retention.

Once a customer retention strategy had been endorsed, the bank used market research to identify the "controllable" issues which best differentiate current and highly satisfied customers from consumers who have closed accounts and switched to another bank. Retention modeling was used to help identify and prioritize the factors which lead to customer discomfort and decisions to switch.

By improving customer retention the bank not only increased current product income, it also guaranteed continuing revenue from each relationship retained. The future revenue stream can then be discounted back to the present, in order to calculate the present value of saved relationships.

Gauging the financial impact of customer attrition in a typical bank

Size of branch network	70
Number of retail checking accounts per branch	1,785
Total number of retail checking accounts	124,950

Number of accounts closed per year	24,990
Product line defections	7,497
Annual checking revenues lost ($35 per account)	$262,395

Annual revenue gain associated with limiting attrition among checking account customers 10%

10%	$26,239
20%	$52,479
30%	$78, 719
50%	$131,197

In this example, the bank found that such factors as employee decision-making ability; efficient and competent tellers; competitive rates; sympathetic and friendly customer service staff; and adequate explanations of rules, policies and minimum balance requirements strongly influenced customer migration.

The model was then compared to the bank's customer base and the proportion of current customers with attitudes similar to former customers was determined. About one-quarter of the bank's customer base was found to be "at risk," because their attitudes were similar to customers who had already closed accounts.

The "at risk" customers were then profiled in terms of their demographic characteristics. They were typically younger and well educated, but with smaller deposit balances. The "at risk" group was also profiled by county. It turned out that in a single suburban area customers were particularly dissatisfied.

Armed with these findings, the bank could then focus its efforts on addressing the concerns of the "at risk" groups.

Getting down to cases

Why do customers close their accounts? It is extremely important that research be designed to uncover the 11 actual" events and experiences which cause consumers discomfort and make them decide to transfer funds elsewhere. Extensive probing into the underlying causes of closed accounts can help management link product and service issues with lost accounts and product line revenues.

In a study conducted for a commercial bank in the South with over 150 branches, a large proportion of customers who switched said they left for one of two reasons: because of the staff or because of limited access to the bank's services.

Further probing of the group who complained about the staff revealed the issues to be specifically related to employee empowerment. Respondents also felt that bank employees did not sufficiently respect the customer's tenure and there was a particular aspect of telephone banking that bothered them.

It turned out that many of the bank's own policies prevented employees from presenting an image of caring both over the phone and in person, and a large proportion of defections involved customer perceptions that the bank was "impersonal."

Another large group of relatively affluent former customers said their decision to close their accounts was influenced by branch hours.

Initial research also showed that still another sizable group of customers said they closed their accounts because of high fees, particularly those who were new to the bank. Further investigation, however, found that some of these customers had been simply unaware of the charges and deemed them inappropriate.

Based on such findings, the bank in this example might well have also researched the role of its service delivery system. Employee group interviews are extremely helpful in identifying problems that hinder front-line performance. Many customer defections are influenced by the system under which employees operate and this manifests itself to the customer in the form of staff indifference and incompetence. Changes in the service delivery system can help improve staff performance and limit customer migration.

Instituting change

Once the issues surrounding customer attrition are fully explored, effective customer retention programs can be developed. Based on the research, specific service and product refinements can be targeted to retaining accounts.

As a result of one study, for example, it was suggested that branch personnel be given more flexibility to make decisions, particularly with regard to check clearing. Priority was to be given to long-standing customers with high balances.

Based on this research, it was also suggested that the routine procedures for processing loan and credit applications be modified for certain high revenue and self-employed customers. Extending branch hours in "A" type, high deposit branches was also recommended.

Estimates of the number of accounts that could be saved, given these changes, were calculated based upon the information gleaned from customer retention research. The bank viewed these refinements as investments in future revenue streams and also used "time/ value of money" calculations to help determine the merit of these changes.

Tracking where the money is going

Customer retention research also helps the bank marketer trace where the money is going, which competitors are

taking customers and what their strategies are. Armed with this information banks can adopt strategies aimed at preventing customer migration.

A well known regional bank in a mid-Atlantic state found that its money market customers were taking their money out and switching to mutual funds, chiefly because of rates. Once there, the customer valued the service and investment diversity of the mutual fund company more than the safety offered by their bank.

This research finding prompted the bank to take a more aggressive stance against fund disintermediation, because it can lead to a deterioration in the relative value of the customer relationship. It was incorrect for the bank to assume that the money would eventually come back when rates rose.

Once a customer retention program is underway, resources should be allocated to updating the research periodically and measuring the effect of the program. Customer attrition tracking helps marketers systematically measure the rate of product line defections and gauge retention programs against goals.

Such information provides constant feedback on the actual causes of closed accounts and provides bank management with a tool for continually refining service and products.

Traditional customer satisfaction tracking programs should also be refocused in order to measure and track the size of the customer base "at risk." This measure can be included along with other performance assessments in management's score card.

Increases in the numbers of "at risk" customers should be seen as "red flags" of customer migration and declines in product line revenues. Areas that show deteriorating customer satisfaction can be identified and targeted for improvement.

Many banks recognize the value of obtaining current customer feedback. But they fail to realize that former customers can provide the missing ingredient for a program dedicated to improving customer loyalty and revenues. Once former customers are included, the bank can build a profit-oriented service and product quality strategy as a means toward retaining customer relationships.

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