Customer experience roulette: are banks making the right investments?

A survey of banking consumers and executives.

NUANCE®

Executive summary

Nuance commissioned a survey of 1,000 American consumers to learn more about the service they receive from the banks with whom they do business. As the economy steadily improves, we wanted to investigate overall banking customer satisfaction and what expectations they have for their ongoing financial relationships.

The study also surveyed 200 banking executives to gain insight on how they are investing in response to changing customer demands and the evolving competitive landscape.

The research revealed that consumers are largely satisfied with their banking relationships today. Further, banking leaders have recognized that investing in an exceptional customer experience should be a priority.

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Does satisfaction translate to loyalty?

As the impact of the financial crisis recedes, consumer satisfaction with their banking relationships is mostly positive. When asked to rate the overall quality of their bank's service, nearly half (41 percent) of consumers give their bank an 'A' grade – with over two-thirds concluding they received above average service.

But it would be a mistake for banks to rest on their laurels.

The majority (60 percent) of consumers have more than one banking relationship, exposing them to the products and services of multiple financial institutions. Although, on average, only one out of every ten banking interactions is considered negative, consumers aren't shy about making a change. One-third of consumers (32 percent) report they have cancelled a service or ended a banking relationship because of a bad customer service experience.

Choice is also on the side of the consumer. Today, non-traditional providers – primarily software and mobile communications companies – are entering the market, leveraging new technologies and offering innovative services that allow them to encroach on customer relationships that have historically been the sole domain of banks.

To capitalize on consumer satisfaction – expanding existing profitable relationships and gaining additional market share, banks must invest in making their customer experience a competitive differentiator.

Banking by the numbers

How much do we bank?

2+

Average number of bank accounts that consumers have for their finances

Average number of banks that consumers have relationships with

Who banks the most?

Elderly Over 55 years old

Educated College degrees

Employed Currently working

Have more types of bank accounts, including individual Retirement Accounts (IRAs), money markets and Certificate of Deposits (CDs)

Most common bank accounts

86% Checking

70% Savings

48% Bank-issued credit card

31% Mortgage

A growing list of demands

Consumers today have dozens of business relationships and an excellent customer experience with one business, regardless of the industry, raises expectations for service across the board. For banks, not keeping pace puts existing customer relationships at risk, while poor service could create a social media backlash that amplifies your vulnerabilities. This research reveals five key areas where expectations are shifting and banks have opportunities to excel.

1. Convenience is king.
With convenient locations and the ability to greet their customers by name, local bank branches have provided fast, easy and extremely personal service for decades. In fact, with nearly two-thirds (63 percent) of consumers reporting a visit to a bank branch for a purpose other than withdrawing money from an ATM less than a month ago, the bank branch remains a linchpin in the banking experience.

However, we've reached the point where a bank's virtual presence is as important as their physical location. When asked which they prefer best, it's clear that self-service is quickly becoming the preferred way that younger generations of consumers want to bank. The majority of those aged 40 years old and over still prefer help from a customer service agent, for example, a bank teller. On the flip side, for those under 40 years old, self-service via online banking or an app was the preferred way to bank.

Increasingly, consumers expect their banks to offer the same full-service, personal banking experience they provide in local branches across all self-service channels, including online, in the bank's IVR and within a mobile app.

2. Communicate via meaningful channels.
The majority of consumers say they prefer their bank use digital communications when they contact them about their account – including email (67 percent), text messages (24 percent) and smartphone apps (nine percent). However, 42 percent of consumers say that banks most often use postcards or regular mail to communicate with them.

But, there is hope ahead. Banks are getting smarter on how their younger consumers want to communicate. Eighteen percent of those 18 to 24 years old say banks use text messaging to communicate with them and 33 percent say smartphone apps, compared to just seven percent for text messages and two percent for smartphone apps among those over 55 years old.

3. Invest in intuitive, full-function mobile banking apps.
While there's a clear preference for digital communication, the research indicates that recent investments in mobile banking applications have not yet hit their mark.

Today, 44 percent of consumers with smartphones or tablet devices say they use a banking application on their smartphone or tablet. This is the exact same percentage of those who said they used a banking app in December 2012. This shows that despite two years of investment by banks in mobile apps, adoption rates have flat lined. At the time, 40 percent of consumers also said they had considered deleting the app. This suggests that current app capabilities just do not appeal to a wide segment of the population.

40%

of consumers said they have considered deleting their banking app.

However, not all the news is bad. Banking apps may not be meeting the needs of the masses but they are growing in usage among Millennial and Generation X consumers. The survey shows a much higher adoption rate for these two generational groups – 54 percent of those 18 to 24 years old and 51 percent of those 25 to 39 years old say they use a banking app. This is compared to just 18 percent of those over 55 years old.

Bottom line, customers expect their mobile app experience to be intuitive and offer the full functionality of an online experience.

4. Be proactive.
The research showed an increasing desire for banks to take an active role in helping customers manage their finances. Seventy percent of respondents agree that proactive notifications could have helped them avoid a financial problem in the past, such as failing to pay a bill on time. Younger consumers are more likely to see the benefit– 76 percent of those 18 to 24 years believe alerts and reminders could have helped them as compared to just 61 percent of those over 55 years old.

The top messages desired by consumers include:

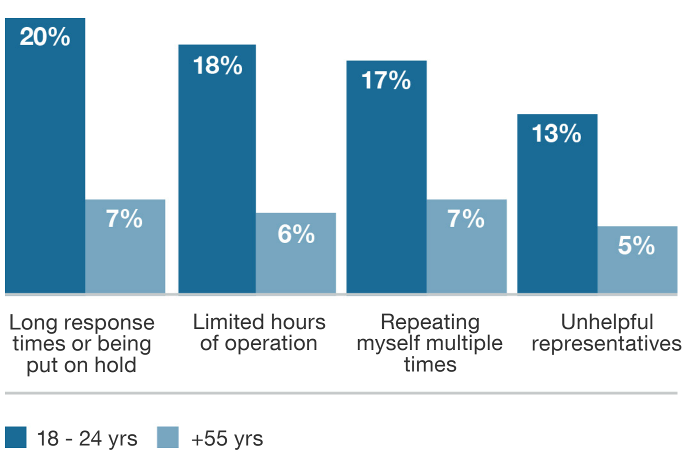
– A warning, e.g., an overdrawn account or suspicious activity (65 percent);
– Account updates, e.g., changes in an account balance (44 percent); and,
– A news update, for example, the latest interest rates (24 percent).

5. Don't waste my time.
Delivering a positive experience is never more important than when a customer has a problem or a concern. Previous research has shown that the top customer complaints across the board center around businesses not valuing their time. The same holds true for consumer banking experiences.

When asked why they contact a bank's customer service, the top reasons include when they notice a strange charge on their account (52 percent), when they can't find an answer online (35 percent) and when they need more information about a product or service (28 percent). In each case, that proactivity that consumers are hungry for could add value by eliminating the need for them to hunt down the answer to their question.

How do they want to engage with you? The top communication choices were by phone (33 percent), by email (29 percent) and in person (23 percent).

Patience is running thin among younger consumers
When asked what they've experienced in the past 12 months when dealing with their bank, those 18 to 24 years old were consistently twice as likely, on average, to report negative experiences.



Spotlight on Voice Biometrics

Voice biometrics authenticates customers using their natural voice patterns instead of PINs and passwords. Not only is this a step up in security, it creates an effortless customer experience and speeds issue resolution.

Consumers are ready for a change. Over 67 percent of those surveyed indicate they'd be comfortable doing away with their existing passwords in favor of using their unique voiceprint to establish their identity.

What's interesting is that those over 55 years old expressed higher levels of acceptance for voice biometrics than their younger counterparts. Sixty-five percent of those over 55 years old say they are comfortable with voice biometrics, compared to 60 percent of those 18 to 24 years old.

And, banking executives are on the same page – 69 percent agree that their customers would be comfortable using voice biometrics to authenticate when they call in.

Challenges and priorities for 2015

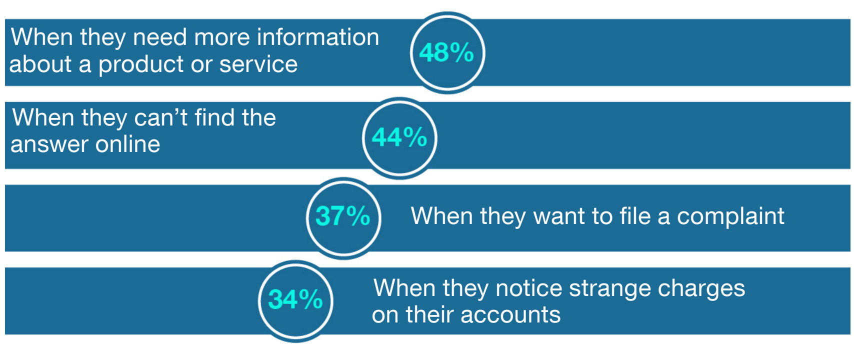
Going into 2015, the challenges facing financial executives are significant and tightly tied. Pressure to reduce operating costs remains strong, the complexity of complying with federal and state regulations is growing and consumer demands for a superior experience are accelerating. Striking the right balance is critical to achieving growth objectives and expanding market share in an increasingly competitive industry.

Connect your conversations

Unfortunately, customer experience is the area that all too often suffers in the face of cost cutting and compliance concerns. In fact, 70 percent of banking executives surveyed agree that an emphasis on cost cutting and efficiency has at times negatively affected the quality of customer experience at their bank. Looking back over 2014, 45 percent reported below average investments in consumer communications technologies, for example enhancing smartphone apps or adopting new channels such as two-way text. Further, the majority (77 percent) agree that complying with communication regulation has affected the time and money invested in new communications.

The future is self-service.

The survey reveals that banking leaders are paying attention to how consumer expectations are changing. The approaching tipping point toward a preference for self-service banking is clearly understood, with 80 percent of decision makers confirming they believe consumers would be completely comfortable with daily interactions being fully automated. Top situations where self-service could comfortably replace a live banking representative, include:



It's worth noting that slightly more than one in four banking leaders (28 percent) also believe consumers may be ready to have automated self-service solutions help them manage their money. This could be a new opportunity for banks to cost-effectively differentiate themselves by helping their customers achieve their financial goals with an automated money management solution.

Additionally, the majority of banking executives (69 percent) also believe consumers are ready to move beyond the complexity of PINs and passwords and, instead, use their voice to verify their identity. While providing a higher level of security, voice biometrics can also enhance customer experience when authentication is required in a live or self-service interaction.

Outreach is an imperative.
Over two-thirds (69 percent) of decision makers agree that banks have a responsibility to immediately alert consumers when there is a risk of negative consequences; for example, when they have a low balance or insufficient funds to pay a bill.

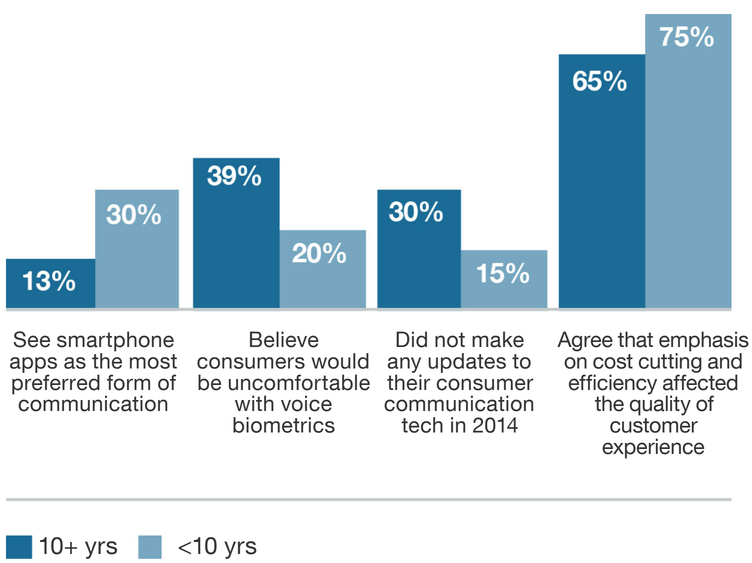
Further, they believe the following types of messages would be desired by consumers:

– A warning, for example about an overdraw or suspicious activity (79 percent)
– Account updates, for example, changes in their bank balance (61 percent)
– A "welcome" when you set up a new account (57 percent)
– A notification on investments, for example, when a CD has matured or a stock has dropped (52 percent)
– A notification during a multi-step event, for example, refinancing a mortgage (47 percent)
– An information update, for example, the latest interest rates (41 percent)
– A tip, for example, information on how to use new products or services (39 percent)

With the majority of banks (79 percent) making updates to their consumer communication technologies last year, it's highly possible consumers will receive more proactive information about their accounts in 2015. This can include anything from adding a feature to their smartphone app, or adopting a new way to communicate with consumers such as two-way text messaging.

Differing Opinions
How long you've been in the industry changes your perception

Executives who have been in the industry for 10 or more years may be slower to recognize changing customer preferences in today's digital landscape than younger executives with less than 10 years of experience.



Making informed digital investments

We asked banking executives their thoughts on the channels their customers most prefer for communication and compared their responses to those of consumers.

Email was the top channel on both lists, but the desire for text messages was much greater for consumers (24 percent) than banking decision makers expected (15 percent).

In contrast, bank leaders assumed the demand for mobile apps was the second most desired channel, following email (22 percent), when in fact, consumers ranked mobile apps last, with less than 10 percent saying it was their most desired channel (nine percent).

For institutions considering customer-focused communications investments in 2015, implementing one or two-way text messaging may be the best way to rapidly meet consumer expectations for service.

Customers are the top priority in 2015.
This balancing act of costs, compliance and customer service is not going away any time soon. However, when bank executives were asked what their priorities are for 2015, they revealed customer experience has achieved the top slot. The top priorities for banking leaders next year are:

– Improving customer satisfaction (50 percent)
– Regulatory compliance (36 percent)
– Reducing costs (36 percent)
– Expanding the number of bank products and services (32 percent)
– Increasing brand awareness (26 percent)
– Increasing employee training and management (20 percent)

Key takeaways

Banks have emerged from the dark days of the financial crisis and are experiencing a period of high consumer satisfaction. But the competitive landscape is changing and banks need to translate this consumer goodwill into increased market share to succeed. This dynamic demands that banks focus on delivering an experience that builds strong customer loyalty and creates meaningful digital interactions.

Based on this research and our work with the nation's leading financial institutions, we recommend banks consider the following:

- **Invest in self-service offerings.** Soon, the majority of consumers will prefer self-service banking to in-person branch interactions. Investments that extend the feeling of being "known" from the live experience to the automated will enhance your customer relationships. Ensure that self-service interactions are intuitive, personalized and consistent across channels.

- **Proactively communicate and advise.** Consumers tell us they value communication that keeps them informed, saves them time and helps them avoid issues. Investments in automated outreach solutions that span established and emerging channels – email, voice, text and smartphone push notifications – allow banks to cost-effectively engage consumers while complying with state and federal regulations.

- **Enhance issue resolution.** Ensuring customers are able to ask questions and solve issues in ways that leave them satisfied is critical to establishing and maintaining profitable relationships. This research reveals that the phone remains the top channel used by consumers when they need to communicate with their bank. Consider your issue resolution experience and ensure your IVR isn't a source of frustration rather than helpful. Increasingly, banks are able to anticipate caller needs, as well as personalize the automated experience with streamlined navigation and immediate access to relevant information or representatives who can resolve issues.

Intelligent automation technologies are designed to support the balancing act that banking decision makers face every day. Not only do these solutions offer consumers the personalized, efficient service they demand, they reduce costs by increasing operational efficiency and create audit trails that demonstrate regulatory compliance.

Survey methodology

The survey was conducted by Wakefield Research among 1,000 nationally representative U.S. adults aged 18 years old or more, plus 200 interviews with financial services professionals, between October 21 and November 3, 2014, using an email invitation and an online survey.

About proactive engagement
Nuance works with the nation's leading brands, improving the reach and effectiveness of their customer service and collections campaigns. We deliver results by blending the scalability and efficiency of cloud-based automation with sophisticated personalization based on known preferences and previous response patterns. Orchestrating the use of channels most preferred by consumers – voice, text, email, mobile application and live agent– further ensures cost-effective results. Fortune 500 companies who build loyalty based on their service, trust Nuance to proactively engage one in five Americans each year with the right information at the right time. For more information, visit our website.
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