KEEPING CUSTOMERS

by Steve Brown

Ask any group of bankers to make a list of what causes them to lose sleep and you will surely hear "customers closing their accounts" somewhere near the top. Interestingly, ask the same group what steps they routinely take to proactively stop such occurrences and incomprehensible mumbling surfaces.

Well, worry no more, as we have some insight that may shed light on what independent banks can do to stem any potential tide. To begin with, contrary to popular belief, customers who close accounts usually don't write a check to the bank they are switching to. Instead, 70% of them will speak first to one of their current bank's representatives over the phone, or walk into a branch in person to close their account. Study after study will tell you it is easier to keep a customer than it is to get a new one, yet perhaps even more shocking, many independent banks don't have programs in place to encourage employees to keep these customers.

Hopefully your bank has training in place to always make sure to ask why the customer is leaving. More important, management needs to see this data to record trends and to refine retention programs. Interestingly, we asked a random set of bank customers their feelings about leaving. 35% believed they were only as important as the size of their bank account and their bank wouldn't care. 21% said their bank doesn't value their business, so they surely don't care. And, 27% said they would leave their current bank if not for the hassle of switching.

While some banks will probably lick their chops over this data, as they consider programs to target other bank customers, some will also find discomfort. Without a specific program designed to address retention, banks can expect to see future customer runoff. Competition from large banks, investment firms and other financial institutions is higher now than it has ever been.

Our industry has gotten in its head that rate is the way to steal customers. However, our studies indicate that while rate is important, service is more important. Because of this fact, we always suggest any retention program start with training to make sure that all employees know how to counter the seemingly rate sensitive customers. Highlighting their years with the institution, the high level of service, the convenience, the bank's support of the community, the financial strength of the bank and the bank's philosophy can all play a role.

Please don't think for a second that we are suggesting having a retention program that starts when the customer wants to walk. The time to start is now, before customers even have a chance to consider another bank. Training, products, marketing and profitability systems all play a role and should be implemented sooner, rather than later.

On another note, a survey on customer relationships gives us all something to consider. In that survey, 40% of the customers of large banks had registered a complaint or problem over the past 12-months, compared to 25% of independent bank customers. Before anyone gets too cocky though, consider that across both industry segments, 30% of customers who complained felt "Not at All" or "Very Little" satisfaction with the bank's response and process. Even worse, when you add in those customers who were just "somewhat" satisfied, the number increases by another 22%.

While we don't purport to have all the answers, the benefits of customer retention can be extraordinary. Considering the loss of revenue, the energy needed to obtain new customers and the magic of compounding, customer retention is one of the most important initiatives that a bank can have. When we run customer profitability scenarios with some of our client banks, in many cases, by retaining 5% more customers each year, profits for the average bank can increase by almost 100% over a 5Y period of time. Retention is that important.

BANK NEWS

Lehman Brothers

Trying to survive another bank-run situation ala Bear Sterns, Lehman replaces both their CEO and CFO. In addition, the firm said it will report its first quarterly loss since going public in 1994.

At Branch Bill-Pay

Fiserv is planning to provide "walk-in" bill payment services at financial institutions. The service aims for last minute bill payers and those who make little use of traditional bank services.

False Claims

Todd Davis, the CEO of Lifelock, dared people to steal his identity as he did an all out media blitz touting his SSN on the radio and billboards for his ID theft protection company. The problem is, out of 87 attempts, 1 has succeeded cashing a bogus $500 check in his name. A class action status lawsuit is in the works.