KEEPING SCORE IN A COMPLEX GAME

by Steve Brown

Banking these days can be like playing a game of 3 dimensional chess. What at first seems fairly straightforward in concept quickly becomes more difficult the more you think about it. Consider that in 3D chess, the board is actually a cube sliced into 5 equal spaces across each of 5 coordinal planes, so complexity is built into the game. Chess aficionados will note that when playing, rooks, bishops and knights move as they normally do, but they can also move within any given plane. Rooks can move through the walls of the cubes in any rank, file or even column. Meanwhile, bishops can move through the edges of the cubes and knights can jump around the planes. As can be seen, playing 3D chess can be quite complex and work your mind into a frenzied and chaotic mess. Despite the game's complexity, we know plenty of community bankers that would gladly take that over the industry complexity these days.

Take for instance the complexity of trying to read the mind of a customer as you seek out how loyal each one might be to your bank. While ways to do this vary, one method that was developed in 2003 by Fred Reicheld seems to work pretty well. It is called the Net Promoter Score (NPS).

NPS has many fans, because it is easy to calculate and easy to understand. Customers are asked a single question and then categorized into a 0 to 10 rating scale. By asking customers, "How likely is it that you would recommend our bank to a friend or colleague?" community bankers can obtain valuable customer feedback that can be leveraged. The best time to ask this question is right after a customer has been delivered a product or service. By design, NPS reduces implementation complexity associated with measuring customer satisfaction (after all, what is easier than asking a singular question), motivates employees to become more focused on improving products and services for customers and provides a measure of performance across business units. This allows banks to increase the ease with which they can monitor changing customer satisfaction trends.

Here is how NPS works in more detail. Immediately after delivering a product or service, front-line employees ask the question and have the customer rank their response based on the scale. Those customers that attach a 9 or 10 rating are called "Promoters" and are exactly the type of customer that will tell many others about the bank if asked to do so. The next group is called "Passive" and assigns a score of 7 or 8. Below that level are the "Detractors," which are not that enthusiastic. To calculate NPS, the bank simply subtracts the percentage of Detractors from the percentage of Promoters (scores above 75% are considered very high). Once the NPS is obtained, companies then follow up with an open-ended request for elaboration, asking the customer why they would or would not be likely to recommend the bank. Customers identified as Detractors can provide valuable insights that help employees identify issues and create solutions that result in new products and services (and improve customer satisfaction over time).

NPS is a simple concept and as such, it also has its share of critics. This group says NPS isn't all it is cracked up to be since the segmentation is arbitrary; other questions may be better predictors of growth rates; it is no better predictor than most other customer loyalty questions; and it treats all customers exactly the same (which may not work for business clients in particular, given their unique needs).

No matter where you come down on using this or other methods, at least NPS is easy for employees to understand and the approach makes intuitive sense (every company wants more promoters than detractors). As your bank tries to win the complex game of customer acquisition and satisfaction, having some way to measure success is critical to your own success.

BANK NEWS

Lending Standards

The FRB's quarterly survey noted the majority of banks eased lending standards on C&I loans to mid- and large companies (for a 2nd quarter in a row). Further, for the first time since late 2006, underwriting lightened for small businesses. Overall, loan demand is still low. According to the National Federation of Independent Business, only 4% of small businesses noted credit needs as a top problem while 91% have enough financing or do not need to borrow.

GSEs

Rumors are circulating that one plan that is gaining steam for FNMA and FHLMC is to turn the Agencies into a co-op owned by banks thereby solving the age old private vs. public competitive problem.

Mortgage Disclosure

The Fed proposed new TILA disclosures simplifying the notice of the right to rescind; requiring disclosures when parties agree to modify key terms of an existing mortgage; requiring lenders to rebate if a consumer decides not to move forward within 3 days of receiving cost disclosures; and changing the timing, content and format of reverse mortgage disclosures.