Lessons From Automobile Recalls

by Steve Brown

Remember the Ford Pinto? We knew someone in our youth who drove one with a huge reflective "FLAMMABLE" sticker pasted across the back bumper. It certainly kept tailgaters at a distance but it also didn't say much for the reputation of the car. Since car companies are always having recalls and issues due to manufacturing problems, we wondered whether banks could learn anything from more recent examples.

We took a look at Toyota and noted it has paid out some monstrous fines including the largest criminal penalty levied against an automaker in U.S. history. People like their cars, but the reputational damage due to the long unrolling of claims, counterclaims and finally the settlement appears to have had an impact on financial performance. Toyota's market share of U.S. cars fell from 16.3% in 2008 to 12.4% in 2011 when all of this was going on. It has recovered since then to 13.5% this past year, but there is a ways to go to get back to where it once was. This issue shows that despite a dominant position in the market and a sterling reputation for safety and reliability, damage takes time to fix and lots of work to get back to where you once were.

Recently, General Motors has been pummeled over safety issues as well. Internal memos seem to indicate that GM knew about ignition problems for years and did nothing about it. Litigation costs could be enormous, in spite of the fact that the cars in question are no longer manufactured and were discontinued prior to GM's bankruptcy. Even if the arguments involving the intricacies of bankruptcy law work in GM's favor, they will probably not hold up well in the court of public opinion. Here again, how the company handles these issues and the damage to their reputation will determine just how fast they might be able to recover back to where they once were.

Simply being in business means almost all companies have occurrences that damage their brand, sales and reputation. Sometimes they are created internally and sometimes they occur because of uncontrollable external events. The question is how fast you move to address them and the actions you take to protect your brand and your reputation.

Mull over the fact that the reputation of the entire banking industry took it on the chin due to the transgressions primarily of the largest institutions during the credit crisis. Benchmarks by Industry as measured by the American Customer Satisfaction Index showed that for the banks most visible during the financial crisis, their satisfaction score dropped precipitously. JP Morgan fell from a score of 74 in 2007 to 67 in 2010 and Bank of America performed at a similar level. Interestingly, as the crisis fades and banks work hard to repair the view of the industry, the measure for banks overall has improved to a level higher this past year (78) than before the financial crisis (75). When compared to benchmarks in other industries, it will be comforting to know that banks come in far above the least-loved industries like airlines (69) and internet service providers (65). The most-appreciated industries meanwhile are breweries (81) and topping the list are credit unions (85).

You might wonder how credit unions captured this top spot. Perhaps some is the result of how credit unions used the malaise of the banking world during the crisis to successfully distinguish themselves from banks. Given products and services offered are mostly indistinguishable, this is quite a feat.

Community banks attempted to do the same, but with less success, probably because they still have the word "bank" in their name (so it is guilt by association with the big banks).

The good news is that post crisis; most people think fondly of community banks and can easily differentiate your bank from the largest financial institutions. You have done a lot over the years to build your banks reputation in the community, so learn from the mistakes of the auto industry and remember the errors of the biggest banks when your reputation is put to the test. Your bank's reputation is important so guard it carefully.

BANK NEWS

Customer Security

A study by Deloitte on how people use mobile financial services finds 66% of consumers say they would "find it valuable" to have biometric security technology such as fingerprint or retina/eye scans to make payments or account withdrawals.

Technology Shift

A Google study finds consumers accessed websites using a desktop or laptop about 10% less YOY from 2012 to 2013 (81.6% at the end of 2012 vs. 73.2% by the end of 2013). Over the same period tablet visits jumped 52% (9.6% to 14.6%) and smartphones climbed 39% (8.8% to 12.2%).

Rate Hikes

Philadelphia Fed President Plossser said an inflation rate closer to 2% and more improvement in the jobs market "may well require us to begin raising interest rates sooner rather than later." Meanwhile, Fed San Francisco President Williams indicated in a recent speech that he does not expect rate hikes until the second half of 2015.

Lessons Learned

Bankers trying to figure out areas to work on ahead of their next regulatory exam should note regulatory research finds community banks that experienced significant stress during the crisis generally exhibited traits of higher loan volume, concentrations in construction and land development loans, concentrations in commercial real estate loans, concentrations in home equity lines of credit and a reliance on brokered deposits.