Howling At Reputational Risk

by Steve Brown

We're not big movie-goers, but we at least try to view on DVD those that have been nominated for best picture. We recently took the opportunity to watch "The Wolf of Wall Street," which is based on the true story of Jordan Belfort, the former stockbroker turned motivational speaker, whose high-flying (and largely illegal) dealings in the 1990s made him millions and landed him in prison. The story of Belfort's rise and fall left us thinking about reputation and how easy it is to slip from grace. We felt inspired to write, once again, how bankers have to be especially careful.

Customers today view banks more favorably than they did several years ago, when mud was too clean a word to describe how people viewed financial services firms. While banks have taken strides to improve, it's an ongoing battle and community banks can easily get caught up in the mess of larger banks.

To see just how much, consider that Benchmarks by Industry, as measured by the American Customer Satisfaction Index, showed that the banks most visible during the financial crisis saw their satisfaction score drop precipitously. JP Morgan fell from a score of 74 in 2007 to 67 in 2010 (about 10%), while Bank of America took a similar hit. Interestingly, this measure for banks overall has improved to a level higher this past year (78) than before the financial crisis (75), so banks have done plenty to clean up the industry and its perception. It may be comforting to know that banks come in far above the least-loved industries like the airlines (69) and internet service providers (65), while it may be less comforting to know banks are still behind the most-appreciated industries like breweries (81) and credit unions (85).

Credit unions have pivoted off the credit crisis issues caused by the largest banks and through strong public relations efforts have successfully vaulted over the pack. To some bankers this is peculiar given the products and services offered these days are nearly indistinguishable from banks.

To be sure, community banks attempted to do the same, but the success wasn't quite as much given this analysis. Certainly most people distinguish the difference between "Wall St." institutions and the community banker they see at a local fundraiser or out for breakfast on the weekend with family. Yet the data shows there is more work to be done, so your bank's reputation in the community remains very important. As such, it is important to be mindful of how interactions are occurring with customer facing staff and customers.

There's a popular saying about a man being only as good as his word and this still applies. A study last year by Makovsky, a New York City communications firm, found 44% of financial services companies polled lost 5% or more business in the previous 12 months due to ongoing reputation and customer satisfaction issues. These losses reportedly equaled hundreds of millions of dollars for the companies surveyed and show that when customers lose trust, business clearly suffers.

That is why it is still important to remind all staff to do everything they can to maintain and improve customer satisfaction. It means getting a handle on how customers feel about you and taking concrete steps to improve. There are all sorts of industry surveys measuring customer satisfaction, but while interesting from a macro perspective, they tell a bank nothing about its own performance with customers. To truly gauge this, your bank might consider other techniques and then use the feedback to make adjustments.

There will always be bad apples in any industry unfortunately, and it only takes one to reflect poorly on the broader basket of good ones. That's all the more reason to review from multiple vantage points what excellence means in the eyes of your customers. Gather feedback when you can and make sure that your bank is exceeding customer expectations at every interaction as you protect your bank's reputation. Jordan didn't and had to learn the hard way what all the howling was about.

BANK NEWS

Onboard

Stanley Fischer has been sworn in as Vice Chair and member of the FOMC with a term expiring in Jan 2020.

Regulatory Update

The OCC has updated its regulatory handbook on agricultural lending for the first time since 1998. Bankers active in agricultural lending should review the document as it outlines regulatory expectations and provides guidance on ag lending, risks and risk management practices.

Hiring Frozen

The Wall Street Journal quotes several top bank executives as saying they remain focused on holding down expenses as the industry continues to struggle to generate profits. Some banks, including U.S. Bank, have frozen hiring until they see a stronger recovery.

Huge Fine

Bloomberg reports the U.S. is seeking $10B in fines from French bank BNP Paribas to settle investigations into its dealings with sanctioned countries such as Iran, Cuba and Sudan. If so, it would be the largest criminal penalty ever, coming in well above the $4B amount paid by BP for its oil spill.

Competition

Mobile payment processor Square, which is used heavily by small businesses throughout the country, said it will begin offering merchant cash advances to customers as it seeks to enter the lending business. Square indicated it plans to charge a fee (10% in an example provided) for the loan and will then deduct a portion of daily sales to repay the advance. Square joins PayPal, Kabbage, CAN Capital and OnDeck Capital who already offer such programs online.