Questioning Customer Loyalty

by Steve Brown

Sometimes we hear bankers complain that customers have no loyalty, are price driven, don't care about relationships or the fact that the bank is local and has always been there for them. We see many of you nodding your heads as you read this, but is something else going on?

Remember when checks were the standard means for paying bills? Customers mailed them to utility companies and used them when buying food at the local grocery store. Back then, no place of business would accept an out-of-town check, so it was imperative that customers bank locally. Any change of residence required a new banking relationship and so that is what people did. Those who moved around, like college students or anyone taking a summer job in another town, had to open a checking account at a local bank or their checks would not be accepted at local businesses. Roll forward in time and note that ATMs came to big cities in the 1980s but in many places were not prevalent until the 1990s. That meant people still had to go to the bank to get cash. Remember how the line of cars at the drive-up extended around the corner on payday? In those days, the drive-up teller was one of the most highly skilled multitaskers known to mankind. As this shows, 25Ys ago more people certainly banked locally, but one could argue it was of necessity and not necessarily deep-seated loyalty. Back then, if a customer moved, they moved their bank account as well.

Now we fast forward to transactional banking as it operates today. Here, the location of a branch may be initially important but with as little interaction as most customers have with actual branches, a move across town or across the country has become irrelevant to their banking relationship. Further, paper check use has plummeted, with almost all transactions taking place using debit cards, ATMs and online bill pay. Mobile payment still lags behind, but it is likely to increase in importance quickly as more retail places of business put in terminals to accept Apple Pay and the like. To prove this out, we only have to look overseas, where such payment methods are already broadly used in Europe, Asia and Africa. If you still aren't a believer, just think how quickly the airlines have moved to the acceptance of mobile boarding passes to save time and money. There is just far less need for anyone to come into the bank now and we cannot expect that to change. Therefore, bankers have to go to customers wherever they congregate, whether it is offline or online.

Certainly, while customers still like to come into branches for more complex transactions, that too is likely to erode over time (after all, many just Google their questions now to get answers). The key is finding out how to stay in front of your customers wherever they are in order to convince them to stick around for a long time. Given mobile and online offerings, there is just no need for your customers to move accounts even if they move geography due to life events.

The most important tactic then becomes offering transportable services to those customers who want them, plus to communicate their availability and ease of use. Wells Fargo,

BofA and JP Morgan have done a great job of using their brand recognition and a slick suite of products to draw in younger customers, but the game is not over. Consider a survey by FindABetterBank that finds 42% of people currently shopping for a new checking account were under 30Ys old, while only 18% were over 50Ys old. Younger customers are looking for technological competency and well-integrated systems, and if your bank can provide them, they will be with you for a long time.

So it may seem like bank customers are less attached to their bank these days, especially on an emotional level, but shifting that to a level of loyalty compared to the old days is like comparing apples to oranges. There are very few banking customers who have a relationship with their bank that is similar to how it was 25Ys ago. To keep moving, question everything as you make sure your bank is doing its best to meet the needs of customers. Doing so should keep you customers loyal, even if they don't stop in at the branch for coffee.

BANK NEWS

EU Growth

The European Union (EU) now projects GDP in the 18 country zone to grow 0.8% this year vs. 1.2% projected just a few months prior. It also projects the economy will grow 1.1% in 2015 and 1.7% in 2016. Given this is our biggest trading partner globally, look for US growth to chug along as well and for the EU to tee up a large stimulus package to get things moving (hopefully).

HELOC Concerns

Regulators are worried about home equity lines of credit (HELOCs) because they were structured as interest only for the first 5Y to 10Y draw periods and because the Fed estimates 60% of outstanding credit lines will reach the end of their draw period (and have to pay principal plus interest) over the next 3Ys.

Good News

Bankers are cheering the factors that are driving increased loan demand right now. These include: a strengthening economy, cleaner borrower balance sheets, less bank balance sheet risk, high capital levels, low delinquencies and other factors. These metrics all point to rising loan demand over the next 12 to 18 months.

Loan Growth

The ICBA points out that loan balances at community banks are up 7.6% over the past 12 months vs. 4.9% for the industry overall. It appears from the data that small business activity and other lending channels are finally beginning to heating up.