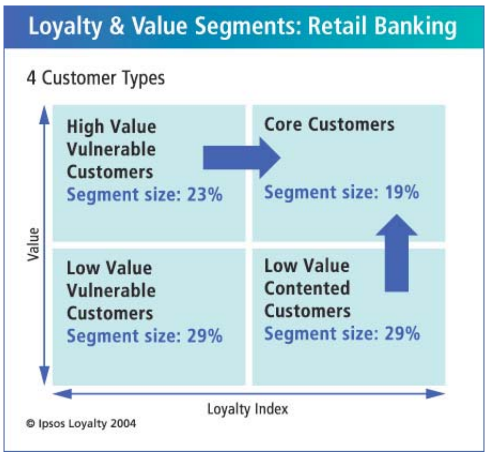
Ipsos Loyalty

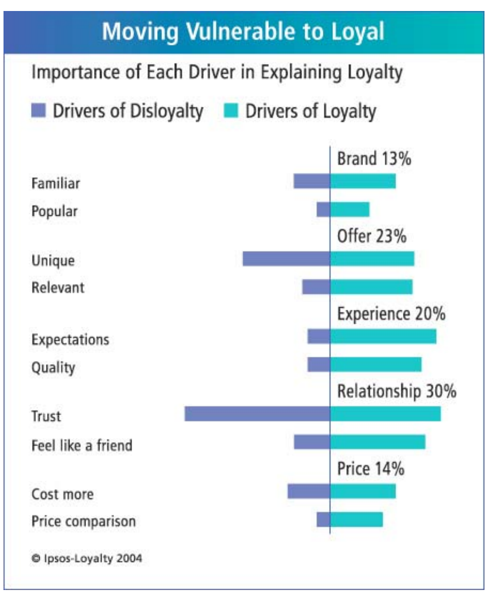
23% of Banking Customers Are High Value And At Risk of Leaving Their Financial Institution

Segmentation study by Ipsos Loyalty reveals state of loyalty among U.S. retail banking customers

October 19, 2004, New York, NY — Nearly one in four (23%) U.S. retail banking customers are considered "High Value Vulnerables" who are at risk of taking their business to another bank, according to results from a survey among 1,000 American adults conducted by Ipsos Loyalty, the global customer satisfaction and loyalty research firm and member of the Ipsos Group.

Using the company's *Loyalty Optimizer* model, the study classifies retail banking customers into four loyalty and value segments and identified the direction of change required to improve the retail bank's ability to manage customers to achieve greater profits.





"High Value Vulnerables" have above-average savings and investments, but are not loyal, and are at risk of withdrawing some or all of their business, the study found. "In order to migrate High Value Vulnerables to the more loyal 'Core Customer' segment, banks need to understand what levers are most important to push and whether those actions will yield sufficient profitability," said Jo-Ann Osipow, Senior Vice President with Ipsos Loyalty's Financial Services practice. "With this high value segment, drivers of loyalty often differ from the overall customer base."

The study reports that banks can keep High Value Vulnerables from moving to the competition by developing unique offerings, as poorly differentiated offers are a major source of disloyalty for this key customer segment.

As a total group, at-risk customers are dissatisfied in areas that are relationship-based, including trust and feels-like-a-friend affinity. "In this era of high-tech financial services, it is still important to make customers feel a personal connection to their bank," continued Osipow. "In fact, Ipsos Loyalty's survey results show one of the greatest barriers to loyalty is customers' lack of trust in their banks."

Banks need to understand what their customers consider to be the specific components of trust, and how they are performing on each of those components, she said. "A positive customer experience follows closely in importance with factors such as: meeting customer expectations and delivering consistently high quality products and services. Offering unique and relevant products and services is another critical driver."

"The next step is to assess the cost of improvement actions compared to the expected value of increasing retention among these vulnerable customers, to assure that the retention program will yield sufficient profitability," Osipow recommended.

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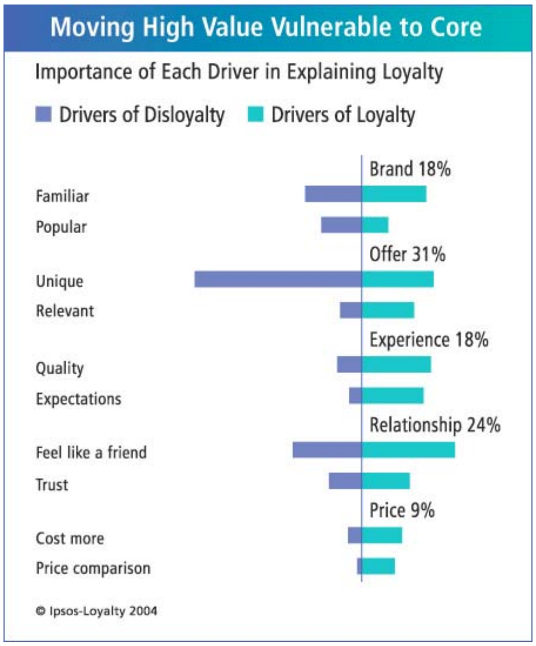
What About Core Customers?
The study reports that one in five (19%) retail banking customers in the U.S. are "Core Customers," defined as customers who are loyal to their primary banks and have above average savings and investments at financial institutions. "A top priority is to retain the customers in this segment who have positive net value, by keeping them highly satisfied," said Osipow.



Developing Effective Strategies for Low Value Customers
The report further shows that three in ten (29%) retail banking customers are considered "Low Value Contented Customers"—those who are loyal but have below average savings and investments. "They should be profiled to assess where opportunities exist to increase their value to move them into the Core Customer segment," said Osipow.

Another three in ten (29%) customers fall into "Low Value Vulnerable Customers" segment. "These customers have low savings and investments and a low share-of-wallet at their primary bank. Their value to the bank needs to be increased through methods such as fee increases and differentiated service delivery. Otherwise, this group may be more of a profitability drain than an asset," said Osipow.

Banks who wish to classify their customers into loyalty and value segments can use the customer information in their databases to score each customer into one of the four segments. This enables the bank to target customers who can be profitably migrated out of less attractive segments, into more attractive segments.

Why Is Customer Loyalty Important?
"Loyal customers stay with their primary bank longer, give more of their business to the bank, and are a source of positive word of mouth, which attracts additional new customers. Loyal customers—with their longer customer lifetimes and potential high lifetime values—can mean greater market shares and profits," said Osipow.

"To optimize growth, banks must look at loyalty levels and the related customer value of all customers. Listening to high value customers and consistently delivering on the drivers of their loyalty is essential to sustained growth in profitability. And, just as Core Customers deserve the dedication of higher resource levels, other customer segments should be receiving fewer resources than they are receiving today."

An in-depth understanding of customer perceptions is critical to developing effective action plans. Osipow recommends that banks "identify which broad strategic areas need the greatest attention – customer relationship, experience, brand, offer, price – and obtain detailed customer feedback in these areas. This tactical approach allows banks to take clearly defined actions to improve customer satisfaction, loyalty, and profit."

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Methodology
Data were gathered July 23—25, 2004 using Ipsos U.S. Express, a weekend turnaround omnibus surveying 1,000 American adults via telephone, ages 18 and older. The margin of error is +/- 3.1%.

Ipsos Loyalty
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