Customer
SATISFACTION
and LOYALTY

How New Zealand Banks Need to Improve

Mark Colgate

Bank customer satisfaction is lower in New Zealand than in the US. What drives bank customer satisfaction and loyalty? How important are relationships in the New Zealand banking industry? How well do customers feel their complaints are handled? And why do they leave banks?

We found that price, relationships and value are all areas that customers consider important. New Zealand's main banks need to improve their performance in those areas. We also found that banks undertake little defection management – taking action when customers quit. This is another opportunity for banks to improve customer perceptions of their service.

Our recommendations could be useful not only to management in the banking industry, but also to managers in other service industries.

> **"US bank customers rated their bank much more positively than New Zealand customers."**

SATISFACTION AND LOYALTY MATTER

Does improving bank customer satisfaction and loyalty really make a difference? Research from around the world suggests it does. Increased levels of customer satisfaction and loyalty are frequently linked to positive outcomes for a firm.

For example, Anderson, Fornell and Lehmann (1994), when investigating over 25,000 customers of 77 Swedish organisations in a variety of industries, noted that the firms with higher reported satisfaction levels also show significantly higher returns. They say an annual one percentage point increase in customer satisfaction is worth an 11.4% improvement in current return on investment.

Researchers have also argued that increasing customer loyalty helps to create future revenues (Fornell 1992; Danaher and Rust 1996); decrease price elasticities (Anderson 1996), and reduce the costs of future interactions (Reichheld and Sasser 1990).

WHO WE ASKED

Our survey was conducted in May 1998. Firstly, 500 pilot questionnaires were sent out to a random stratified sample of the New Zealand population, selected randomly from the telephone directories of all regions. After one mailing, 34% (170) responded, and minor changes were then made.

For the main survey, 1917 names and addresses were randomly sampled from the telephone directories. Two mailings were made to encourage non-respondents to reply. As a result, 838 questionnaires were returned – a response rate of 43.6%.

An analysis of the respondent profile revealed the sample was very close to the demographic breakdown of New Zealand in terms of age, education, income, gender and geographic representation. There was, however, a slight overrepresentation of high income earners (presumably because they are more interested in banking), and a slight under-representation of 18-29 year olds.

THE QUESTIONNAIRE COMPRISED SIX PAGES, COVERING:

- satisfaction, performance and usage of the bank;
- personal bankers;
- past and present switching from a bank;
- behavioural intentions; and
- demographics.

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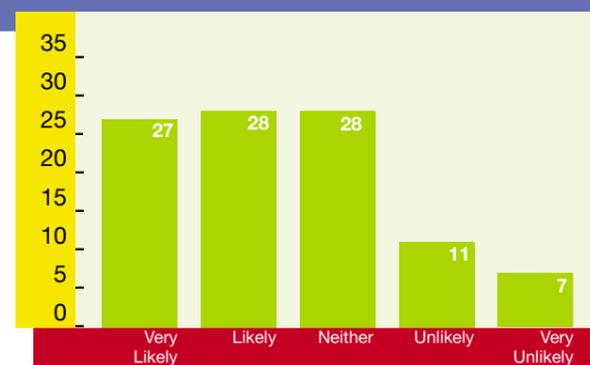## REASONABLY SATISFIED; FAIRLY LOYAL

Figures 1 and 2 show the levels of overall bank customer satisfaction and loyalty.

Figure 1 - Overall Levels of Satisfaction within the Industry

In Figure 1, most customers are satisfied with their main bank, and only a small minority are

Figure 2 - Likely to Recommend Main Bank

very dissatisfied.

Figure 2 reveals the likelihood that bank customers will recommend their main bank – a proxy for loyalty (Zeithaml et al. 1996). The results are similar to the satisfaction levels presented above, in terms of mean scores, but there were greater extremes in responses.

A COMPARISON

How does New Zealand compare with the United States? In Figures 3 and 4, only the top two scales were used – 'very satisfied' and 'satisfied' and 'very likely' and 'likely' to recommend – as these were considered the most important areas to analyse.

Figure 3 - Overall Levels of Satisfaction in New Zealand and the US
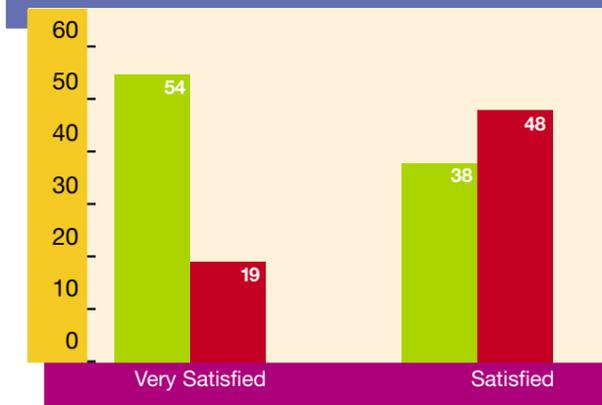
KEY
USA   NEW ZEALAND

As Figure 3 shows, US bank customers rated their bank much more positively than New Zealand customers. (The US results appear in Chakravarty et. al. (1997). This study also used a mail survey. The sample in this case was 5000 customers with a 20% response rate (1005). Although the industries are not directly comparable e.g. different structures, the comparison is still valuable.)

The most dramatic differences are in the 'very satisfied' category and in the total number of satisfied or very satisfied customers – 92% in the US, contrasting with 67% in New Zealand.

In terms of the loyalty measure – likelihood to recommend – the results are similar, as Figure 4 shows.

Figure 4 - Likely to Recommend Main Bank in New Zealand and the US
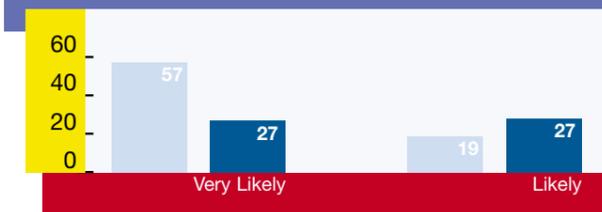
KEY
USA   NEW ZEALAND

Clearly, US customers are much more likely to recommend their main bank. Overall it seems that US customers are more loyal than those in New Zealand.

This suggests that New Zealand's main banks are delivering lower quality service than US banks. If a new entrant were to move into the New Zealand market offering better service than is currently offered, there is a possibility that customers would switch to the newcomer.

WHICH BANKS DO BEST?

We found that three of New Zealand's main banks were twice as good as three of their competitors, in terms of satisfying their customers. (Because of National Bank's take-over of Countrywide, the "good" banks now number two.)

As Figures 5 and 6 show, the 'Other' bank category clearly outperforms all the main banks. This is made up of 10 banks, including TSB, PSIS and Citibank, and it is difficult to draw conclusions as no bank is represented by more than 10 customers. However, it is interesting to note that the smaller financial institutions do rate, collectively, much higher than the main banks.

Out of the main banks, we can see that ASB, National Bank and Countrywide were much more favourably perceived by customers. WestpacTrust, BNZ and ANZ are undoubtedly less popular. Many of the other results in the survey concur with this picture.

Figure 5 - Percentage of Very Satisfied Customers, by Bank

Figure 6 - Percentage of Customers Who are Very Likely to Recommend, by Bank

"Three of New Zealand's main banks were twice as good as three of their competitors. The smaller financial institutions rate much higher than the main banks."

WHAT MAKES CUSTOMERS SATISFIED AND LOYAL?

If banks are to improve their satisfaction and loyalty ratings, and differentiate themselves from the competition, they need to understand what really drives satisfaction and loyalty. They also need to know which areas have the greatest room for improvement. There is little point in investing resources in areas that are important but are performing well, or in areas in which there is much room for improvement but they are not important in driving satisfaction and loyalty. Managers need to know what levers to push to increase these measures of success.

One useful tool is the Importance Performance Matrix, which allows us to analyse those areas that are important and have much room for improvement.

First, we need to understand what drives satisfaction within the industry. Using a statistical method called regression, we can ascertain five factors.

Table 1 - Drivers of Satisfaction			
Factor	Rank	Importance rating	Performance Score
Overall customer service	1	31	73%
Relationship closeness	2	21	56%
Competitive fees and charges	3	21	62%
Listening to the needs of the customer	4	16	70%
Value	5	11	63%

Table 1 shows that overall customer service is the most important factor – almost 50% higher than fees and charges. Relationship closeness comes second, just above competitive fees and charges. Listening to the needs of the customer and "value" (quality of service, taking into account fees and charges) are also of significance.

It is interesting to note that the top and bottom performing banks scored significantly differently on all of the above factors. Clearly, these are the areas that separate the best from the worst.

The above is not to say that factors like 'friendliness of staff', also measured in the survey, are not important. Rather, it indicates that maybe these are given factors (or hygiene factors) that customers expect, while the factors in the table above are areas where banks can really differentiate themselves from the competition. They could, for example, establish close relationships that customers don't expect; or listen more closely to the needs of customers; or provide better value to customers.

What we really need to know, though, is to what extent we can improve these areas. Where can we gain the greatest cost/benefit payoff?

In the last column of Table 1, the closer the score is to 100% the better the bank performed in that area, in the eyes of its customers. Overall customer service scored highest. This is important, as it is the factor that drives customer satisfaction the most. Listening to the needs of the customer was also rated well.

However, Table 1 shows relationship closeness, price (fees and charges) and value are all areas that present opportunities for banks. Customers rate them as important, yet they perform badly in terms of customers' evaluation. This leads us to the Importance / Performance Matrix in Figure 7.

Figure 7 - Importance / Performance Matrix
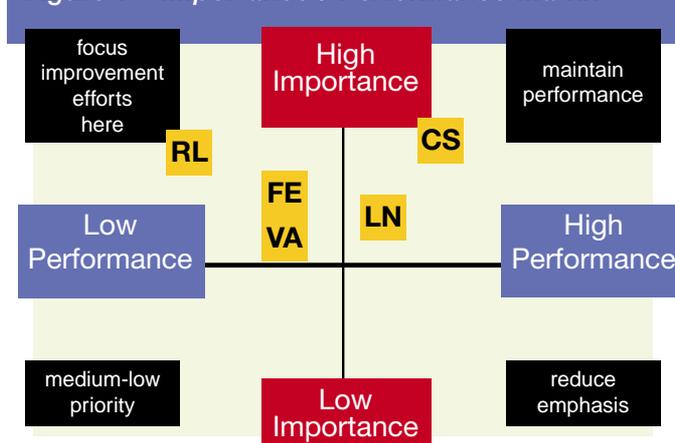
This matrix shows that relationship closeness (RL) is the area that requires the greatest focus. This is followed by price perceptions (FE) and value perceptions (VA). In the areas of listening to the needs of the customer (LN) and customer service (CS), banks simply need to maintain performance. The matrix offers suggestions to management in terms of the allocation of resources.

THE POWER OF RELATIONSHIPS

The survey clearly shows that relationships are important in retail banking. Customers value relationships, and in many cases they want closer relationships. Strong relationships, as noted above, can drive satisfaction.

Figure 8 - Association Between Satisfaction and Loyalty and Relationship Closeness

The survey asked customers to rate the closeness of their relationship with their bank from 1 to 10, with 1 being "not close at all" and 10 being "very close". Figure 8 shows the association between satisfaction, loyalty and relationship closeness. It compares each level of relationship closeness to the mean of satisfaction and loyalty at that level.

Generally, as the relationship between the customer and the bank gets closer, the satisfaction and loyalty levels of the customer also rise.

The association is almost linear after levels 4 and 5 on the relationship scale. When a relationship is close, that heavily influences 'satisfaction' and 'likelihood to recommend'.
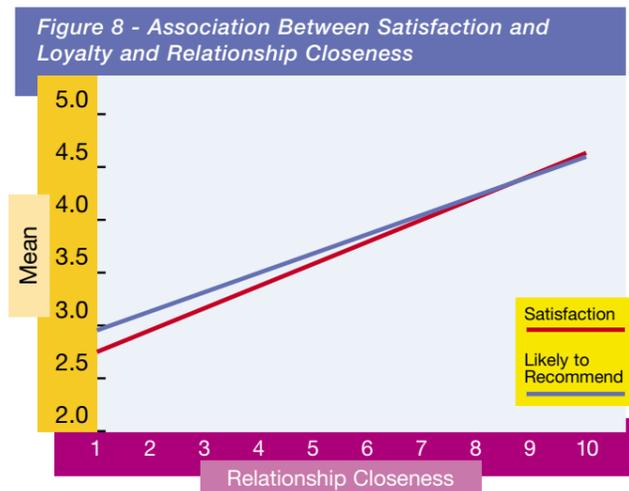
Obviously, too, there may be causality. Satisfaction may drive relationship closeness, for example.

However, the graph does suggest that moving from 1 to 3 on the relationship scale does not impact at all on satisfaction and likelihood to recommend, indicating that there is not a direct correlation between them.
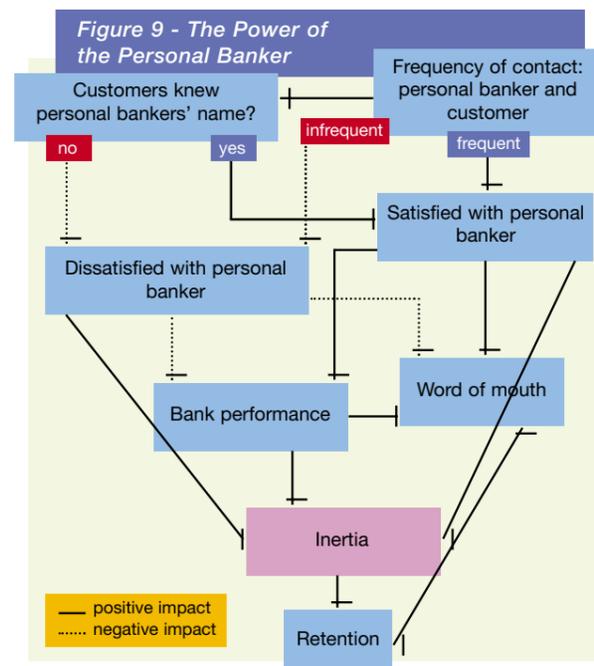
It is also evident that most customers want closer relationships than they currently have. Table 2 shows the difference between the responses to the closeness of relationship question presented above, and a question at the end of the survey that asked respondents how close they would like their relationship, measured on the same scale. By comparing the two questions, we ascertained which customers would like closer relationships, the same as now, and more distant relationships.

Clearly, a majority of customers would like closer relationships. This suggests that customers desire and value relationships in banking, as the results in Table 2 suggest.

Table 2 - Preferred Closeness of Realtionships

Type of Relationship	Percentage
Closer Relationships	52%
Same Relationships	31%
More Distant Relationships	17%

But how do banks go about creating relationships? One strategy used in New Zealand is the appointment of personal bankers. These are bank staff who are assigned to look after individual customers. A statistical analysis of the section on personal bankers in the questionnaire leads to Figure 9.

Figure 9 - The Power of the Personal Banker

EXPLANATION OF FIGURE 9:

Where personal bankers are known by, and in contact with, customers, the outcome is positive. It leads to more favourable perceptions of the bank and more positive word of mouth compared to those customers who don't have personal bankers.

This important finding suggests that customers who have favourable perceptions of their personal bankers are better off than customers who don't have a personal banker.

Note, though, that it is the personal banker's contact with the customer that is instrumental in driving satisfaction, rather than the mere existence of the personal banker. Banks should be cautious about implementing a relationship strategy half-heartedly. Customers who are dissatisfied with their personal banker's

performance are less likely to recommend their bank, and have lower perceptions of their bank's overall performance, than customers who do not have a personal banker at all.

It is significant that a relationship strategy may not only have positive and negative effects, but also that the negative effects can be stronger than the positive ones. It is important to highlight why this may have occurred.

Firstly, Parasuraman, Berry, and Zeithaml's (1991) Zone of Tolerance (ZOT) may explain much. The ZOT relates to the service levels customers are willing to accept. Outside this zone, customers are either disappointed (left of the ZOT) or delighted (right of the ZOT). Figure 10 shows, hypothetically, what the ZOT may look like for a customer who does not have a personal banker.

Figure 10 - Zone of Tolerance for Customers with No Personal Banker

Adapted from Parasuraman, Berry, and Zeithaml (1991)

The expectations of the customer are firmly set by their past experiences with the bank, and there is equal opportunity for delight (OFD) and disappointment.

Figure 11 - Zone of Tolerance for Customers with Personal Banker

Adapted from Parasuraman, Berry, and Zeithaml (1991)

Figure 11 shows the hypothesised ZOT for a customer who has been assigned a personal banker.

In this case the expectations of customers have been raised above those of customers with no personal banker. They feel that the personal banker will handle inquiries, problems, or

transactions for them. They may even expect the personal banker to be proactive and contact them from time to time. In this respect the zone of disappointment is enlarged and the opportunity for delight shrinks. This may lead to the sometimes negative impact of a relationship strategy, such as unearthed in this study, on customer satisfaction and loyalty.

Secondly, Colgate (1997) discovered, through 65 interviews with personal bankers in New Zealand, that many of them suffered from a lack of training; had too many customers to contact (one had 5000!); lacked empowerment; tended to be sales-focused, and had no real understanding of the profitability of their customers. These factors may lead to personal bankers' not being able to deliver to customers what they expect, and hence lead to lower levels of customer satisfaction and loyalty.

DEFECTION AND INERTIA

Results from the survey suggest that only 4% of customers switch banks per annum, yet around 15% stated they would like to switch from their main bank. Clearly, therefore, there is a high level of inertia. The survey also asked respondents if they have ever seriously considered moving from their present main bank, yet decided to stay. A high number of customers (39%) said they had. Interestingly, these customers remain significantly less satisfied and less loyal, as Figures 12 and 13 indicate.
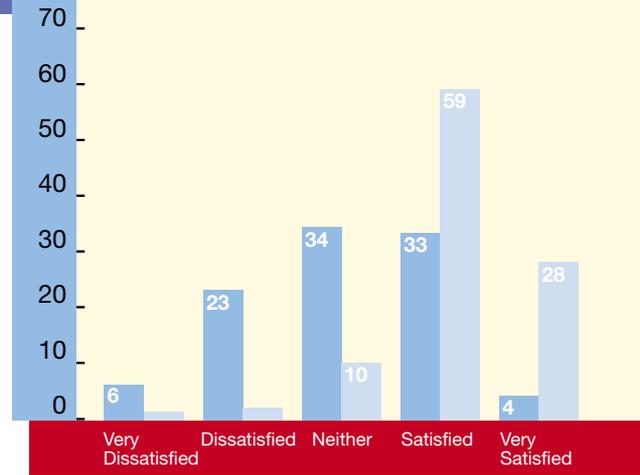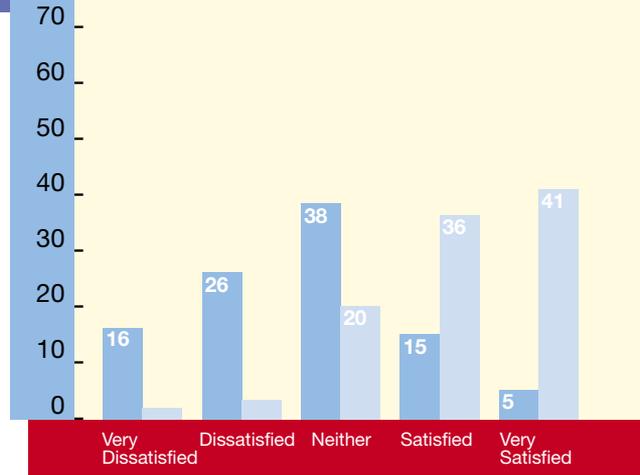

Figure 12 - Considered Moving Versus Satisfaction

Figure 13 - Considered Moving Versus Likelihood to Recommend

KEY
■ CONSIDERED MOVING   ■ NEVER CONSIDERED

The questionnaire also ascertained that the main reason these customers don't switch is the hassle of doing so. The financial cost of switching and the perception that the competition is no better than their current main bank were two other reasons frequently given.

COMPLAINTS NOT WELL HANDLED

The survey found that a common reason for switching banks was dissatisfaction with the way a customer complaint had been handled.

As Figure 14 shows, only 9% of customers are satisfied or very satisfied with the outcome of a complaint they made. And, Table 3 shows, this lack of satisfaction influenced 71% of those who had made complaints – or 30% of the 837 customers surveyed – to leave their bank. The number and sort of complaints were not recorded. Clearly, banks need to do better in this area.
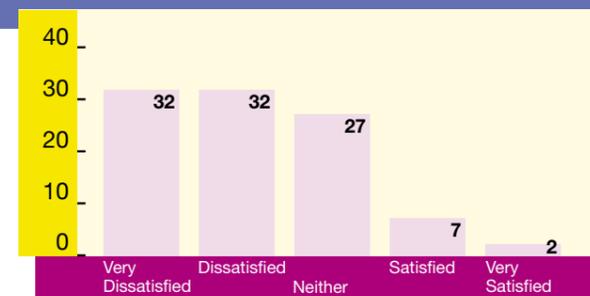
Figure 14 - Satisfaction with Complaint Outcome

32	32	27	7	2
Very Dissatisfied	Dissatisfied	Neither	Satisfied	Very Satisfied

Table 3 - Complaint resolution: Impact on Leaving

Impact On Leaving	Percentage
None at all	22
A little	7
Quite a lot	23
Main Reason	48

In terms of exit monitoring, banks also seem to fare badly. When a customer leaves a bank, there is a unique opportunity for the bank to either recover the customer and stop the drain on future revenue flows, or to record why customers leave and understand the failure points in the organisation. Table 4 shows, however, that this opportunity is frequently missed.

Table 4 - Attempts at Preventing Exit

Bank Action After Exit Was Made	% of respondents[3]
Did nothing	85%
Tried to persuade them not to leave	7%
Tried to discover reasons why they left	11%

CONCLUSION: COULD DO BETTER

Satisfaction and loyalty levels within the New Zealand banking industry are acceptable. But, compared to the US, there is much room for improvement. New Zealand banks may not be creating high levels of customer value. They may be vulnerable to new entrants who gain a quick reputation for providing better service.

In considering the drivers of satisfaction, relationships, customer value and price perceptions are of special interest.

They are important, and there is room for much increased performance. These areas provide the greatest opportunity for a bank to differentiate itself from its competitors.

The report also calls for intelligent and effective relationship building. It should aim to create relationships with those customers who are the most profitable, who want relationships and who value them. Clearly, this report indicates, relationship marketing through personal bankers sometimes works but sometimes does not work. This can have major positive and negative implications for banks implementing this strategy. This whole area is a challenge for the banks.

The negative impact of inertia is also evident within this report. Even though inertia is undoubtedly a 'good thing' for the banks with the largest market share, those customers who have considered leaving but stay are much more dissatisfied than those who have never considered leaving. The absence of referrals will continue to hurt the banks most afflicted by this phenomenon. Encouraging customers to complain, to find out the reason they are seriously considering leaving, is one way of overcoming this problem.

One reason complaints are probably not encouraged, however, is that they are not handled well. Too many customers were unhappy with a complaint resolution, and for many it was the main reason they left their bank.

A proactive, well co-ordinated complaints procedure (which is less formal than many bank complaints procedures are today) is a necessity within the banking industry.

Finally, this report indicates a need for a 'defection team', or manager whose sole job is to talk to valuable customers who close their main bank account. He or she should try to discover why they exited (and may even be able to persuade them to stay – although this should not be the main motivation), and should ensure that lessons derived from this information are learnt.

RECOMMENDATIONS:

Firms need to concentrate most on understanding which factors drive satisfaction and need improvement.

Relationship strategies should be handled with care. Relationships can have a positive (expected result) and negative (unexpected result) impact on satisfaction. That is, relationships are not always good. This could be attributed to the raising of expectations.

There are many negative effects of inertia, even though firms with large market share may see inertia as 'a good thing.' Encouraging complaints is important, but this should occur only if service organisations can handle these complaints effectively.

Contacting defecting customers can be very useful in terms of collecting information on problem areas in the company. It may even stop customers from leaving (or at least pacify them so they do not spread as much negative word-of-mouth).

FURTHER READING

For a greater understanding of the Zone of Tolerance, readers are encouraged to see Parasuraman, Berry, and Zeithaml (1991). More information on the 65 personal banker interviews can be found in Colgate (1997). For more information on relationship banking, see Roth and Van Der Velde (1991) and Chakravarty et al. (1997).

"Relationship marketing through personal bankers sometimes works but sometimes does not."

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1 Regression is a method of determining the relationship between one or more 'independent variables' (the variables in Table 1) and a 'dependent' variable, in this case overall customer satisfaction. The importance ratings were ascertained by using the t-statistic from the regression. All performance questions, e.g. overall customer service, were on a four-point scale from 'poor' to 'excellent'.

2 Although this is partial regression and we cannot understand the causality of the variables in this diagram, the lines have only one arrow as it makes sense for the flow to be that way e.g. satisfaction with personal banker drives perception of bank performance rather than vice versa.

3 Scores add up to over 100% as customers could respond to more than one answer.

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