J.D. POWER

Analyst Briefing

2016 U.S. Retail Banking Satisfaction Study

by J.D. Power

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The Impact of Emerging Segments

More than one-third (34%) of Emerging Affluent retail banking customers indicate they will consider switching their primary bank in the next 12 months.

One of the key story lines emerging from the *2016 Retail Banking Satisfaction Study* is the continued success of Big Banks.[1] Over the past several years, these institutions have posted significant improvements in customer satisfaction, retention, and share-of-wallet metrics. One key driver of this momentum is the success of Big Banks with emerging customer segments.

The ability to establish relationships with customers in these segments also positions Big Banks for future success, as the influence and value of these consumers will grow. The proportion of Hispanics and Asian-Americans within the overall population will increase significantly, while the size of the Millennial generation is set to become as large as the highly influential Boomer segment.[2]

J.D. Power has observed that many banks have yet to change their traditional focus on the wealthy and asset-rich customers of today, who are predominantly older and less diverse than emerging ethnic and millennial segments. Their tendency is to overlook the potential of younger customers until they have reached a certain level of financial well-being. The problem with this approach is that by not establishing relationships with these consumers during their formative years, banks are setting themselves up for failure.

Focus now to reap benefits in the future

The risks and rewards of addressing the needs of these growing segments can be illustrated by focusing on a subsegment of consumers defined as Emerging Affluent.[3] The primary risk associated with failure to engage these customers now is attrition and loss of considerable deposit balances—both now and in the future.

Emerging Affluent customers have a significantly higher propensity to consider leaving their current bank (34% vs. 9% of customers 40 years or older). Considering this willingness to switch and the substantial deposit balances that Emerging Affluent customers hold, the segment accounts for 37% of all at-risk retail deposits, despite accounting for only 11% of the overall banking population (Figure 1).

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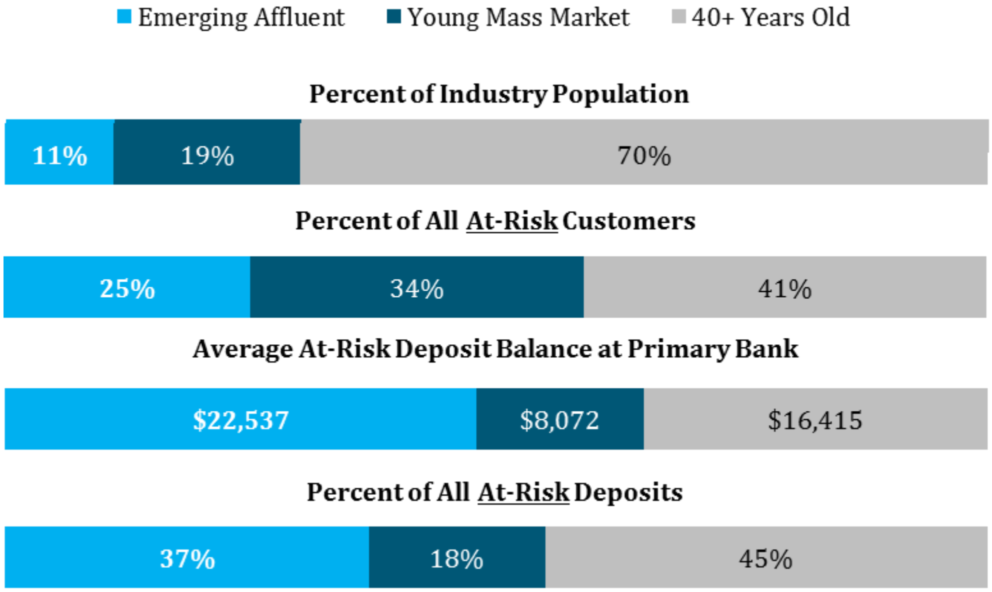
[1] Big Banks are defined as those with at least $180 billion in deposits
[2] Millennials are defined as 18-34 years old; Boomers are defined as 52-70 years old
[3] Emerging Affluent customers are defined as those under the age of 40 with annual household income of $80,000 or more

Figure 1: Segment Analysis of At-Risk Deposits



Note: Young Mass Market are defined as those under the age of 40 with annual household income less than $80,000

In addition to minimizing attrition risks, banks that effectively meet the needs of customers in the Emerging Affluent segment also stand to reap considerable revenue benefits. With respect to their asset levels, these consumers are progressing in their careers and entering their peak earning years, and they also stand to inherit trillions of dollars in wealth being passed down from Pre-Boomers[4] and Boomers.

Emerging Affluent customers are also in the midst of many life events (e.g., buying a home, getting married, and having children) that find them looking for additional financial products and services. The encouraging news for banks is the fact that Emerging Affluent customers are also more likely to have additional financial products/accounts with their primary bank than other customer segments.

[4] Pre-Boomers are defined as 70 years of age or older

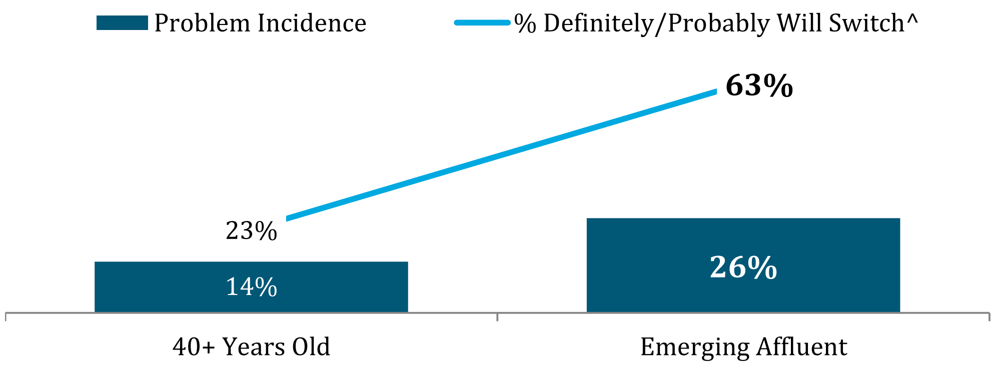
Unique needs and different expectations

The preferences, needs, and behaviors of Emerging Affluent customers are much different than Current Affluent[5] customers. In terms of customer service, Emerging Affluent customers tend to have higher expectations for servicing and less tolerance for mistakes. They expect quality from product and service providers, and they expect things to be right the first time.

In fact, Emerging Affluent customers are nearly twice as likely to a indicate having experienced a problem, compared with customers 40+ years old, and they are significantly more likely to consider switching banks when a problem does occur (63% vs. 23%, respectively).

Nearly two-thirds (63%) of Emerging Affluent retail banking customers who experience a problem indicate a willingness to consider switching their primary bank in the next 12 months.

Figure 2: Incidence of Retail Banking Problems and Impact on Attrition



^Among customers who experienced at least one problem

Having grown up in a more digital world than older customer segments, the Emerging Affluent segment shows a preference for digital interaction channels and self-service options. They are significantly more likely to open new accounts and resolve problems online, compared with those who are 40+ years old, and they are also more likely to deposit checks at ATMs.

And while online and ATM banking remain parts of their retail banking toolbox, mobile banking continues to emerge as a critical aspect of the Emerging Affluent customer experience. For example, using a highly satisfying mobile banking product has a significant impact on overall satisfaction:

+101 among Emerging Affluent customers (on a 1,000-point scale)

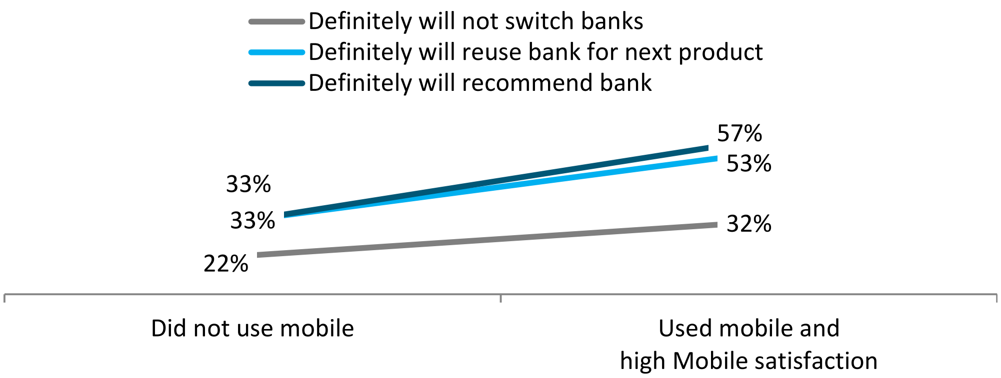
+69 among customers 40+ years old

[5] Current Affluent customers have income of $150,000 or more and investable assets of $250,000 or more

Perhaps most important for banks, a highly satisfying mobile banking product significantly improves loyalty and advocacy among Emerging Affluent customers. Considering their propensity to switch banks, investments allocated toward improving the mobile banking experience should be front and center of any strategy designed to retain this valuable segment of customers.

More than three-fourths (78%) of Emerging Affluent retail banking customers act upon financial advice they receive from their primary bank.

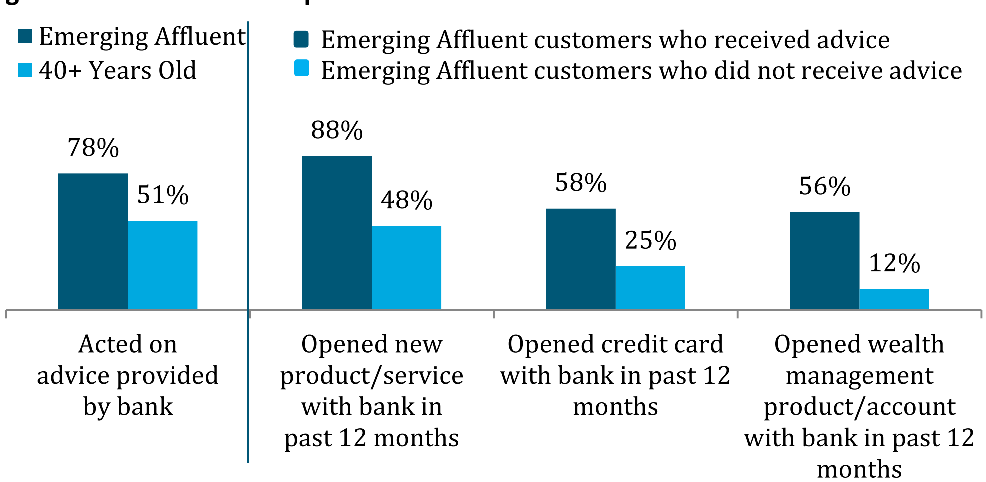
Figure 3: Impact of Mobile Banking on Key Metrics—Emerging Affluent Segment



Study findings also show that despite their strong preference for digital channels, Emerging Affluent customers tend to rely more on advice and guidance provided by their financial institution. In fact, 78% of these customers act on advice they receive from their primary bank. This desire for advice is also evident in the *J.D. Power 2016 Self-Directed Investor Satisfaction Study,*[SM] which finds that Emerging Affluent customers are willing to pay a price premium for a more full-service relationship that would provide them with additional guidance in wealth management decisions.

Furthermore, actionable advice provided by banks tends to be a key driver of cross-selling additional products and services to customers in this segment.

Figure 4: Incidence and Impact of Bank-Provided Advice



Delivering on Expectations

The Emerging Affluent segment represents significant future opportunities for all product and service providers and should be a key strategic focus for financial institutions. Investments dedicated to improving the customer experience can help establish relationships that may prove to be very beneficial for future bottom-line growth.

The first step toward developing a successful strategy designed to build loyalty among Emerging Affluent customers is to understand how their needs, preferences, and behaviors are different from other customers. They have high expectations, are more willing to consider switching banks, and are less tolerant of perceived mistakes. In turn, banks must define a clear strategy for satisfying Emerging Affluent customers and cascade that strategy down to all levels of the organization, including frontline staff.

From there, banks can align resources to specific aspects of the customer experience that tend to be most impactful on Emerging Affluent customers:

- **Winning with Digital:** Based on Emerging Affluent customers' strong preference for digital self-service interactions, continued investments in channel innovation is a key driver of successfully serving these customers. While banks should not ignore opportunities to improve ATM and online banking offerings, they should adopt a "mobile-first" strategy. Continuing to build and refine mobile banking functionality will likely remain a key opportunity, along with a focus on marketing and educating/training customers how to use the product.

- **Winning with Advice**: Although it may seem counterintuitive, based on their preference for digital self-service interactions, Emerging Affluent customers also value advice and guidance provided by their financial institution. In response to this, banks must proactively look for ways to engage these valuable customers in discussions related to their financial portfolio and provide honest and actionable advice. In addition to building loyalty, successful execution can also increase the chances of banks cross-selling additional products and deepening the share of wallet they hold among their Emerging Affluent customer base.

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