Bank Consolidation through the Eyes of the Customer

A J.D. Power and Associates Special Report

Communication on M&As Reassures Depositors

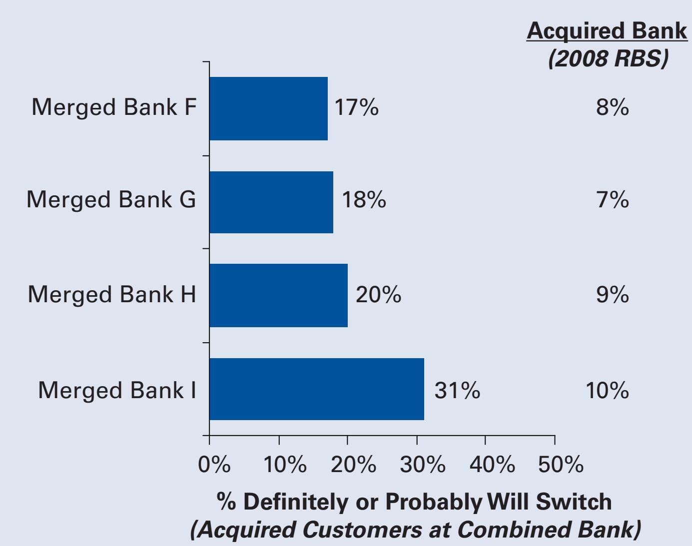
Business as usual in today's financial environment is not a viable option. Challenges to the foundations of consistency, dependability, and a reassuringly conservative institutional image have weakened the bonds between banks and customers. While the newest wave of high-profile mergers among large banks promises financial stability in a highly uncertain economy, it also holds the potential for a wider range of benefits to customers, such as more branches, ATMs, and new products.

However, these mergers also create the risk of significant customer attrition if non-merging competitors effectively target depositors rattled by changes who perceive their bank is placing more emphasis on executing the mechanics of the merger than on meeting their needs.

In fact, in a just-completed J.D. Power and Associates survey of acquired customers in the four major acquisitions currently underway, the stated likelihood of switching to another bank is two to three times higher than a year ago, driven in part by customers' perceptions that the acquirer was far less focused on customer best interests and personal service than their previous bank.

Most importantly, the common thread that consistently separates M&As that successfully minimize customer attrition from those that hemorrhage depositors is communication.

Switching propensity increases among customers in recent mergers



Source: J.D. Power and Associates 2008 Retail Banking Satisfaction Study℠ and J.D. Power and Associates 2009 Mergers and Acquisitions Study℠

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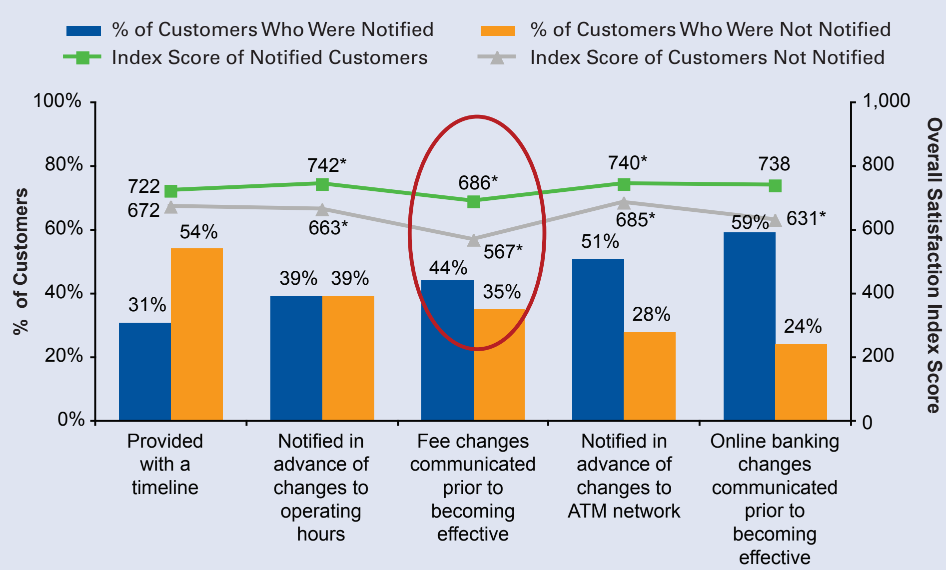
In its analysis of the impact of M&A activity on customer satisfaction, J.D. Power recontacted respondents for the *Retail Banking Satisfaction Study* surveys conducted in 2007 and 2008 who had gone through an earlier round of mergers to see what lessons could be learned and applied to today's banking environment. In this current environment, four major consolidations are reshaping the overall industry as they both create larger institutions and shake up established customer loyalties.

The analysis shows that the overall magnitude of change, as well as particular types of changes, have significant negative impacts on customers' experiences. Reduced branch hours, increased fees, and changes to transactions intended to be on "auto pilot"—direct deposit, automatic debits, and online bill pay—drive the biggest declines in satisfaction.

Most importantly, the common thread that consistently separates M&As that successfully minimize customer attrition from those that hemorrhage depositors is communication.

Only a small percentage of customers complain about having received too much communication from their bank, but they are quick to react when they don't receive enough communication. That's understandable, because common post-merger adjustments for services such as fees, products, statements, and online activities directly impact the customer experience and all too often come as unpleasant surprises. For example, the difference in satisfaction between customers receiving prior notification of fee changes and those who don't is 119 index points (on a 1,000-point scale).

Keeping customers in the loop results in higher satisfaction



**Small Sample (n=30-99)*
#Insufficient Sample (n<30)

Source: J.D. Power and Associates 2009 Mergers and Acquisitions Study[SM]

[The bank should have] Provided more information to the XXX Branch prior to the switchover. There was a lot the tellers, who are usually very informed at my branch, didn't know for sure about what would happen when the switch over took place.

—Former Customer

How and When You Communicate Matters

In the survey conducted among customers who experienced the earlier round of mergers, approximately two-thirds first heard about the mergers from their banks. The balance—nearly one-third—learned about the changes through the media, friends, or other

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sources. This is an exceptionally high percentage of customers for whom their banks literally abdicated the ability to shape the message about their core business decisions. One of the lessons learned from this is that banks that consistently communicated key information such as timelines, FAQs and product changes were able to control the dialogue and make customers feel noticed and cared for—which impacts retention rates, especially in the current uncertain financial environment.

How Are Today's M&As Doing?

J.D. Power's research into today's M&A activity strongly suggests that there are real weaknesses in the communications banks are providing to both their customers and to front-line staff about the changes these consolidations are bringing.

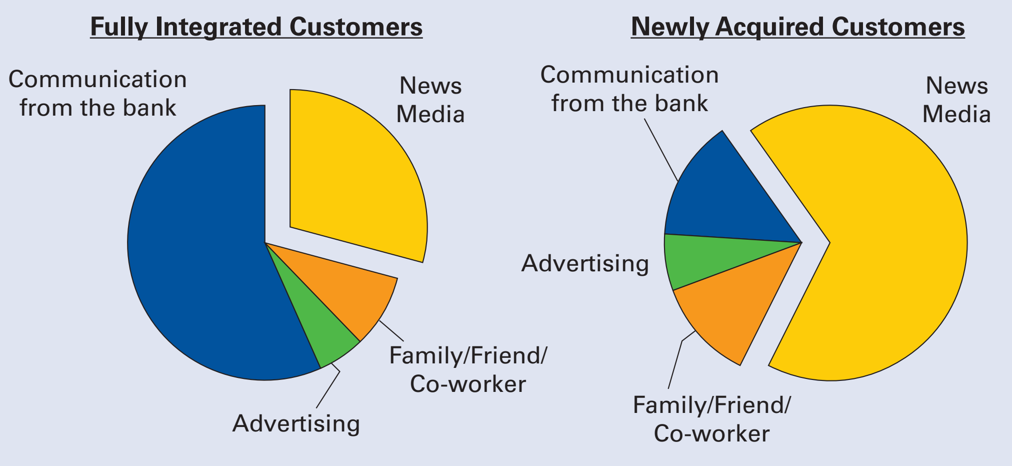
- **Nearly one-third** of customers at the newly merged bank with the lowest reported level of customer communication said they are ready to switch banks.
- At the bank doing the best job of communicating with its acquired customers, **only half** of those customers report having received sufficient information about the merger. At the least communicative bank, 94% of customers say they did not receive enough information.
- Two-thirds of newly acquired customers say they first learned about the current merger from the news media—*more than double the percentage reported for earlier mergers*. In a telling statistic, **12% of one bank's customers indicated they first found out about the merger from the survey they received for this study.**

Before this survey, I didn't know about the merger/acquisition at all. I don't know what is going on. As a customer, this is unnerving.

—Former Customer

Based on communication to date, current mergers appear headed for difficulties

How Were Customers Notified of the Merger/Acquisition?



12% of one bank's customers indicated they found out about the merger from a J.D. Power and Associates survey they received

Source: J.D. Power and Associates 2009 Mergers and Acquisitions Study[SM]

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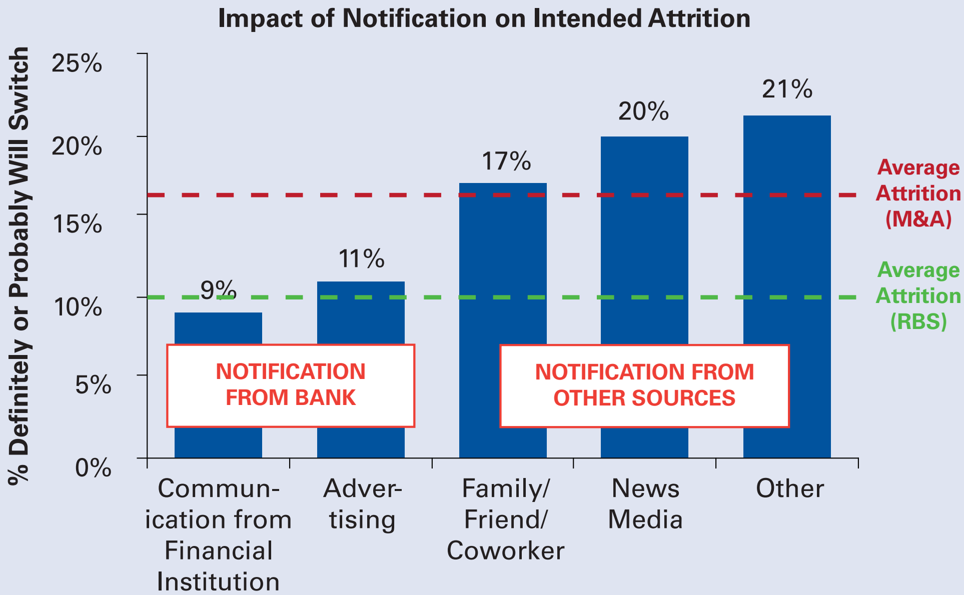
- Nearly 10% of customers notified of a pending merger through bank-initiated communications say they would definitely or probably switch banks. That number doubles when they first hear the news from a media report or other source.

How customers hear about the merger affects attrition



Source: J.D. Power and Associates 2008 Retail Banking Satisfaction Study[SM] and J.D. Power and Associates 2009 Mergers and Acquisitions Study[SM]

The only communication I have received from is a message on the log-in screen on the XXX.com and at the XXX ATM. Otherwise I am completely in the dark as to how the merger will affect me.

—Former Customer

While every bank diligently fulfills regulatory notification requirements when it merges, that bare minimum isn't sufficient for maintaining customer satisfaction. In today's environment of uncertainty and fear, customers need to feel that they are informed every step of the way during a merger so there are no surprises. Banks that focus on the communications aspect of the customer satisfaction equation will reap the dividends of customer and deposit growth.

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