A Quarterly Journal

BANCOLOGY

APRIL 2014 VOLUME 50 CELEBRATING 50 EDITIONS

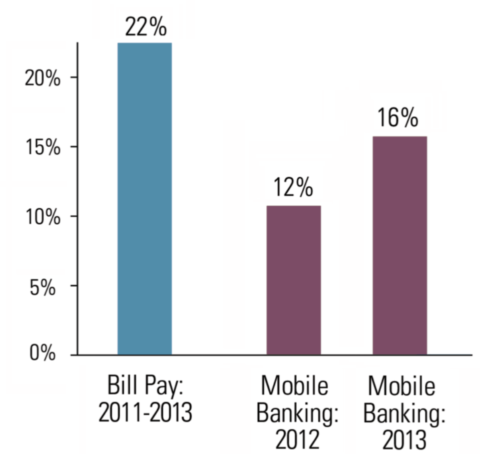
THE ART OF POSITIONING
bancography
BRANCH PRODUCT RESEARCH BRAND

Online Bill Pay Drives Customer Loyalty

The online bill payment service has evolved from an ancillary offering to a key driver of retention and brand loyalty.

The data discussed below reflect 150,000 interviews collected from Bancography's Customer Service, Satisfaction & Loyalty tracking studies at community banks and credit unions. The studies included only customers who maintained a deposit account that originated at a branch, and interviewers informed the customers that their institution sponsored the research.

Bill Pay and Mobile Banking Use



As part of the studies, interviewers asked customers whether they utilized Internet banking, online bill pay or mobile banking services at their institution in the past three months. Despite heightened efforts at enrolling new account holders into Internet banking, use of this service remained stagnant across the surveyed institutions during the past three years, at 37% of customers. Customers using Internet banking (but not online bill pay) showed similar loyalty levels to the overall survey population.

In contrast, customers with online bill pay showed significantly greater than average loyalty to their institution. However, the institutions surveyed have been unable to increase the penetration of the bill pay service over the past three years. Twenty-two percent of the community bank and credit union respondents indicated they used online bill payment within the past three months. This is a lower percentage than many regional and national banks report, and underscores the importance of smaller institutions maintaining a competitive online bill payment offering.

While Internet banking and online bill payment penetration at the surveyed institutions remained stable in recent years, mobile banking's use grew significantly, with penetration of that service increasing by four percentage points in the past year. Further, mobile banking users displayed higher loyalty than bill pay users without mobile banking. Interestingly, there were no significant differences in penetration or loyalty levels between the community bank and credit union respondents in any of the three digital channels.

Given the significant lift that online bill pay provides to loyalty and retention, it is imperative for community-based institutions to provide competitive offerings of that service, supported by an emphasis on selling the service with new checking accounts and activation campaigns targeting current account holders. Although presenting the online bill pay service may extend the new-account-opening process, the loyalty scores indicate that consumers value the service, confirming that additional time investment as beneficial for both financial institutions and their customers alike.

Same As It Ever Was: Major Market Branch Coverage Remains Unchanged, Even After Recent Wave of Closures

At a time when consumers can conduct financial transactions through a numerous and growing array of electronic channels, many bankers have questioned the ongoing need for physical branches. The hypothesis driving those questions is sound: with more electronic channels and improved capabilities in those channels, consumers should visit branches less often; and if they visit branches less often, they may be willing to tolerate longer travel times to the branch. The relationship between frequency of use and travel distance is well documented in the retail sector: consumers will drive long distances to visit an auto dealer once every five or ten years to purchase a car, but will seek a neighborhood provider for the weekly trip to the grocery store.

If that relationship holds in banking, we should see branch closures creating greater spacing in retail branch networks; that is, *(continued on page 2)*

Same As It Ever Was: Major Market Branch Coverage Remains Unchanged continued from page 1

banks that have historically competed from a premise of widespread location convenience closing branches to the point where the average distance between a bank's branches and its customers grows larger. A raft of branch closures by large institutions in the years following the financial crisis sparked numerous articles predicting a new era in which banks would pare branch networks and compete from a model less dependent on physical locations. However, the majority of those closures followed mergers that included some level of market overlap (e.g., Wells Fargo – Wachovia; BB&T – Colonial; PNC – National City; M&T – Provident), raising a critical question: did those closures signify a transformation in how banks plan to interact with their customers, or were the closures simply a paring of blatant post-merger branch overlaps?

To address this question, Bancography examined the branch networks of the largest U.S. banks in major metros and found no evidence of banks competing from leaner branch networks. Rather, recent branch closures were almost exclusively limited to areas where another of the bank's branches remained close by, with no evidence of banks imposing broader spacing between branches on their customers. The study examined the networks of the 13 banks in the U.S. that maintain more than 1,000 branches and compared their coverage in the 30 largest U.S. metros in 2010 versus 2013. The 13 institutions in the study collectively hold more than one-third of all U.S. bank branches; while the top 30 metros contain 45% of all U.S. households. The study measured the following statistic: *"Has the proportion of households in the [top 30] metro that [top 13] bank can reach within one, two or three miles of its branches changed between 2010 and 2013?"*

If banks are in fact willing to compete from leaner branch networks, if they presume that consumers will tolerate longer distances to their branch, then we would expect a decline in the statistic. For example, in 2010, 29% of households in the Cleveland MSA lived within one mile of a Fifth Third branch; 67% lived within two miles; and 85% lived within three miles of one of the bank's branches. What are those proportions today? If branch convenience is less important to consumers, then we should see the branch footprint scaled back, to where a lesser proportion of market households are within a small radius of the bank's branches. But Fifth Third showed no such intent in Cleveland: in 2013, 32% of market households lived within one mile of a Fifth Third branch (versus 29% in 2010); 69% lived within two miles (versus 67%); and the same 85% lived within three miles. Thus, at a time of purported branch network contractions, Fifth Third actually expanded its coverage of the Cleveland market.

Across the 13 surveyed institutions in the top 30 MSAs, there were 180 bank-metro combinations. For example, Fifth Third maintains branches in 11 of the top 30 metros:

% Market HHs Within "X" Miles of a Fifth Third Branch

	2010			2013			Change		
	1 Mile	2 Miles	3 Miles	1 Mile	2 Miles	3 Miles	1 Mile	2 Miles	3 Miles
Atlanta	3%	11%	20%	6%	18%	31%	2%	7%	11%
Charlotte	10%	31%	48%	11%	32%	48%	0%	1%	0%
Chicago	28%	63%	84%	28%	63%	84%	0%	0%	0%
Cincinnati	43%	76%	84%	41%	75%	84%	-2%	-1%	0%
Cleveland	29%	67%	85%	32%	69%	85%	3%	1%	0%
Detroit	17%	49%	75%	17%	49%	74%	0%	0%	-1%
Miami	2%	7%	13%	2%	8%	14%	0%	1%	1%
Orlando	16%	43%	69%	16%	44%	69%	0%	1%	0%
Pittsburgh	7%	17%	28%	9%	19%	30%	2%	3%	2%
St. Louis	5%	17%	30%	8%	22%	39%	2%	6%	9%
Tampa	14%	39%	61%	15%	43%	65%	2%	3%	3%

Note: Percentages are rounded up or down to the closest whole number; so "Change" column may not match difference between "2010" and "2013" columns.

As noted in the example above, Fifth Third increased its coverage of the Cleveland metro during the past three years, and the table also shows increases in Atlanta, Pittsburgh, Saint Louis and Tampa, offset by a reduction in coverage in the bank's home market of Cincinnati.

The data can also be viewed by market. For example, nine of the 13 large banks serve the Atlanta metro. In the past three years, Chase and Fifth Third increased their coverage of the market, Bank of America and PNC decreased their coverage, and the others remained stable (see next page, top left).

Across the 180 cases in the top 30 metros, there were 53 instances of increased coverage within the one mile radius and 56 cases of decreased coverage (the remaining 71 cases showed no change in coverage from 2010 – 2013). Increases outpaced decreases at the two mile level by 67 to 48 and at the three mile level by 54 to 39.

The table to the right summarizes each bank's actions, with several interesting statistics highlighted in the one-mile column, which would represent the highest level of branch

As electronic channels continue to improve, the neighborhood branch may become less prevalent. But to date, the evidence shows that leading banks continue to value operating in close proximity to their current and prospective customers.

% Atlanta MSA HHs Within "X" Miles of a Branch of :

	2010			2013			Change		
	1 Mile	2 Miles	3 Miles	1 Mile	2 Miles	3 Miles	1 Mile	2 Miles	3 Miles
Bank of America	22%	56%	72%	21%	54%	71%	-1%	-2%	0%
BB&T	12%	35%	57%	12%	34%	56%	0%	0%	-1%
Chase	10%	33%	53%	13%	40%	61%	3%	7%	8%
Fifth Third	3%	11%	20%	6%	18%	31%	2%	7%	11%
PNC	10%	29%	49%	9%	28%	49%	-1%	-1%	-1%
Regions	9%	27%	48%	9%	27%	48%	0%	0%	0%
SunTrust	23%	57%	74%	22%	57%	74%	0%	0%	0%
US Bank	1%	2%	3%	1%	2%	3%	0%	0%	0%
Wells Fargo	25%	60%	76%	25%	61%	77%	0%	1%	1%

Note: Percentages are rounded up or down to the closest whole number; so "Change" column may not match difference between "2010" and "2013" columns.

convenience. Bank of America decreased one-mile coverage in almost all its markets; while Chase and US Bank consistently expanded coverage. Note that even with Bank of America's seemingly aggressive contraction, it still holds the second broadest one mile coverage, with 39% of households in its markets within one mile of its branches (Chase leads at 40%; no other bank surpasses 33%). PNC showed changes in 11 of its 15 markets, near equally split between increases and decreases; this suggests a considered reallocation of resources rather than a uniform strategy across all markets.

At the market level, Philadelphia and Detroit showed declines in one-mile coverage, as three institutions reduced household coverage while none increased. Orlando suffered five declines versus just one increase from its nine large banks. In contrast, Baltimore, Denver, Portland, Seattle, San Francisco and Washington all had three banks increase coverage versus only one decrease. Miami showed strategic discord, as four banks increased coverage while three decreased coverage.

Most importantly, the magnitude of changes across all the banks and in all of the markets was incremental rather than transformative. As the tables illustrate, there is little evidence of banks contracting their networks so severely as to indicate a desire to extend the spacing between their branches. That is, to operate from a premise that consumers in the future will be willing to travel farther to visit their branch (presumably because they need to do so less frequently); and for every case of branch constriction there is a counter case of broadened coverage.

How then, to explain the branch closures that occurred during the past three years? In that time, six of the 13 banks in this study closed 50 or more branches (Bank of America, PNC, RBS Citizens, Regions, SunTrust, Wells Fargo). But almost every major bank in the U.S. used acquisition as an essential part of its growth strategy over the years, and in-market mergers yielded numerous overlapping branches. In many cases a buyer would find itself with acquired branches at the same intersection or within a few blocks of one of its own branches. At the time of merger, issues of customer disruption, capacity at teller and drive-in windows, and real estate considerations (would sale of the building create a write-down; is there a remaining lease term) may have precluded closure. And as bank profits soared during the middle of the last decade, there was less incentive to curtail non-interest expense (NIE). When the financial crisis mandated more diligent expense control, these overlapping branches offered an easy means to reduce NIE, all the more so as electronic channels displaced in-branch transaction demand.

Thus, the sizable branch reductions that many large banks pursued in recent years appear to be more the result of judicious pruning of redundant branches rather than a decision to vacate large portions of their markets. The dynamic between large banks and their major metro customers appears mostly unchanged by branch closures. Rather, institutions continue to maintain broadly accessible branch networks; and in almost every top-30 market more than two-thirds of households live within two miles of one of the market leader's branches. As electronic channels continue to improve, the neighborhood branch may become less prevalent. But to date, the evidence shows that leading banks continue to value operating in close proximity to their current and prospective customers. And as the current branches at these institutions have likely survived numerous rounds of cost reduction initiatives, it appears that customers continue to reward that proximity with their balances.

		% HHs within 1 Mile			% HHs within 2 Miles			% HHs within 3 Miles		
	Top 30 Markets	Increased Coverage	Decreased Coverage	Average Change	Increased Coverage	Decreased Coverage	Average Change	Increased Coverage	Decreased Coverages	Average Change
Bank of America	26	0	24	-1%	2	12	-1%	2	9	0%
BB&T	8	2	3	0%	3	3	1%	4	4	2%
Chase	24	17	1	3%	18	0	3%	15	0	2%
Citibank	15	2	2	0%	3	7	-1%	2	8	-2%
Fifth Third	11	5	1	1%	8	1	2%	5	1	2%
Keybank	8	4	2	2%	4	2	3%	4	2	0%
PNC	15	5	6	0%	6	4	1%	5	3	0%
RBS Citizens	7	0	3	-1%	1	3	-1%	1	1	0%
Regions	9	0	3	0%	0	6	-1%	0	4	-1%
SunTrust	7	1	2	0%	1	3	0%	0	3	0%
TD Bank	9	4	1	2%	5	1	3%	5	1	3%
US Bank	17	10	0	1%	11	0	1%	7	1	1%
Wells Fargo	24	3	8	0%	5	6	0%	4	2	0%
Total	180	53	56	0%	67	48	1%	54	39	1%

Quick Tip: Keeping in Contact with Your Customers

At a time when branch visits continue to decline, it is essential for financial institutions to maintain the ability to actively contact their customers. However, at some institutions, more than one-third of all customer phone numbers recorded on core system applications are incorrect. Whether this arises from CSRs striving to shorten the account-opening process, simple keypunch errors, or customers who move without submitting new phone numbers, inaccurate phone numbers compromise an institution's ability to execute onboarding and cross-sell programs and thus affect customer retention, too. Branch staff diligently verify mailing addresses; they must strive for similar accuracy in customer phone numbers.

THE ART OF POSITIONING
bancography
BRANCH PRODUCT RESEARCH BRAND

2301 First Ave. N., Suite 103
Birmingham, AL 35203
205.251.3227

Return service requested

Presort Standard
U.S. Postage
PAID
Birmingham, AL
Permit No. 585

THE ART OF POSITIONING
bancography
BRANCH PRODUCT RESEARCH BRAND

Welcome to Bancology, a Quarterly Journal from Bancography