

## Is Bank Loyalty Dead? by Charles B. Wendel

Search the term “loyalty programs” on the web and you are faced with 1,740,000 results. Consulting firms promote their preferred solution to keeping and growing customer revenues through loyalty. But even a quick scan shows how their recommendations differ:

- A BCG study says that customers want cash back and not rewards
- A *Harvard Business Review* study says creating community, not rewards is critical to loyalty building
- McKinsey emphasizes the need for data analytics and personalization and that rewards work
- The list goes on endlessly with various vendors pushing their solutions

Zendesk, an Internet blog, lists 16 of the best loyalty programs. Their list includes Marriott, Dollar Shave Club, and Ben & Jerry’s. Only one bank, Bank of America, makes the list at number seven.

Their review of BofA’s offer follows:

“Bank of America’s Preferred Rewards provides cashback rewards to customers when they use their debit or credit card to make purchases at certain national retailers, restaurants, and other companies.

According to John Sellers, Rewards Executive at Bank of America, some of the benefits of the program include:

- Higher customer satisfaction—eight out of 10 program participants are likely to recommend Bank of America to friends and family
- Greater customer retention
- Increased customer spending, leading to higher profits

Program type: Cashback program

Why it works: This program gives customers the flexibility to use their rewards where they want to, increasing overall customer satisfaction.”

The above provides a great example of product loyalty. Not surprisingly, much of the loyalty push within banks ties to card transactions with clear rewards for users. That’s why people use a Marriott or American Airlines card.

But what about broader customer loyalty? Self-serving surveys may spin a different story, but there is a strong case to be made that the loyalty of a customer has been eroding. That’s true whether the customer is a consumer or a business.

Why? From the customer’s perspective, in no particular order:

- More choices are available to them from more types of providers, for example, Buy Now and Pay later
- Many banks have reduced customer service to lower revenue clients, pushing them toward self-service
- Some online providers see these now “underserved” customers as an opportunity for their hybrid customer service model
- As they have during other downturns, some banks may be downplaying or exiting what they consider “non-core” businesses that some customer segments need (e.g., equipment leasing)
- Overall, credit tightening is happening, potentially “tightening the screws” on long-term customers with good track records
- In many cases deposit rates remain low with higher rates targeted at new customers

It is easy to see why a customer would use a discrete product like the card offers from BofA, CapitalOne, or Chase. And the size of these and a few other behemoths means most customers do some business with these players. But that’s not loyalty. If you buy loyalty with rewards or higher deposit interest rates, that’s not loyalty; it’s self-interest.

Today’s customer may have an operating account with a bank (no practical options) but also selects from up to a dozen other providers to meet various needs, for example:

- Auto loan from a car company(lower rate)
- Mortgage from a credit union or specialty provider
- Home equity loan
- Leasing offered by manufacturer
- Insurance from agent or online provider
- Investment advice from a brokerage firm or advisor
- High deposit rate accounts

The list of products and diverse providers goes on and on. Banks provide most of these capabilities, but often without offering the quality and commitment of other providers that are more targeted in these areas.

Each bank needs to define what it means by a loyal customer.

- How do they expect customers to demonstrate their loyalty? Number of products bought? Revenues? Profit?
- What steps are banks taking to encourage loyalty?
- Are you really differentiating your bank from others or just kidding yourself?
- What do you want your customers to value about your bank?

Banks may want loyalty, but do they deserve it, have they worked to earn it?

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