Consumer Focus on Banking Industry

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Executive Summary

The team was tasked with researching and analyzing data to identify customer preferences in the banking industry. The goal was to identify what customers were looking for in the banking industry as well as what caused customers to change their current banking options. The team was reviewing this data at the request of Small and Midsize Bank, a mid-tier regional bank. In the study, the team analyzed Deloitte, Forbes, and BAI banking industry research reports from 2019-2023 to identify customer preference segments. The team reviewed the customer perceptions of the banking industry using different demographic segments including generations, gender, race, and income. The group then created a SWOT analysis of the banking industry. Using the customer preference assumptions and the SWOT analysis, the team then made recommendations on how Small and Midsize Bank and mid-tier banks could compete in the market.

Methodology

For the review of banks based on customer perception, the focus was on 3 specific areas of customer perception. Those areas were customer needs, customer satisfaction, and trustworthiness. The next step was to conduct a SWOT analysis on the banking industry as a whole and offer improvement opportunities based on that analysis. The SWOT analysis and perception helped to craft our opportunities.

The team utilized several current surveys of consumer thoughts, needs, and preferences about the US banking industry from sources including JD Power, Forbes, The Motley Fool, and the Associated Press. The data sources helped to create the perceptions that are discussed in the presentation. Taking that data, the team crafted a view of customer perceptions toward bank trustworthiness and stability using the lens of reputation, financial performance, and regulatory compliance. The group then reviewed what customers need from a bank.

Viewing specific customer needs from the banking industry, the team identified the perception of what customers need from a bank and why they may choose one bank over another. The team reviewed the top needs for overall banking consumers as well as identifying banking needs by generation and race. This highlighted opportunities, in the banking industry, to tailor offerings toward certain demographics as well as expanding services in underserved communities. The last customer perception that was addressed was customer satisfaction.

The team analyzed customer satisfaction by looking at service quality, convenience, and problem resolution. The group used JD Power data to highlight top performing banks in Pennsylvania. The team also used survey data to highlight the importance of convenience and data security. The data also showed gender and generational differences in customer satisfaction and the importance of mobile banking by generation. Overall, these three components tie together to create an understanding of how customers view banks (and the banking experience) and what they expect from their banking interactions. After working through this analysis, the team created a SWOT analysis on the whole of the banking industry.

Additionally, the SWOT analysis highlighted some weaknesses related to customer service, accessibility, and consumer relationships. It also identified opportunities to address these issues through financial inclusion initiatives and personalized banking services that could be used to help gain traction for small and mid-size banks. These weakness present expansion opportunities for traditional banking needs in underserved demographic segments.

Analysis and Insights of Banking Industry

Despite challenges over the past decade, most midsize banks continue to perform well. However, the post-pandemic world will require them to develop a new playbook to address behavior shifts, macroeconomic challenges, technology limitations, and competitive pressures.

The future of midsize banks in the United States appears more precarious than ever. Midsize banks' distinct advantages have been tested in recent years, sandwiched between large institutions with a national or regional presence and smaller banks with a community focus. The recent increase in Merger & Acquisition activity reflects the industry's uncertainty. At the same time, commercial banking customers have more demands on the level of ease, accessibility, and sophistication of digital experiences.

Furthermore, competitive pressures are intensifying. On the one hand, large banks are expanding in commercial lines of business. On the other hand, financial technology companies (such as Chime and Vero) and innovative big techs are expanding their reach in financial services. These competitive pressures could put customer retention at risk. Macroeconomic conditions haven’t been favorable, either.

Midsize banks tend to excel on a few dimensions compared to larger peers. Midsize banks championed customer intimacy and a relationship-based business model with a laser-sharp focus on the lending business. This has enabled them to consistently earn higher net interest margins than larger banks in the past decade. However, their business model is typically less diversified, and they’ve gradually reduced reliance on fee-based revenues as a share of average assets over the past decade (Deloitte, 2021). According to 2023 U.S. Retail Banking Satisfaction Study, J.D. Power (Effler & Roderick, 2023), bank customers need help to get advice. Customers who have received their financial advice/guidance in the past 12 months are significantly more likely to have opened a new account with their primary bank, and the rate of new account openings grows even higher when the advice completely meets customer needs. 47% of those who received practical advice opened a new account. The proportion of retail bank customers with more than $10,000 in deposit balances at their primary bank has declined to 28% from 44% a year ago. In comparison, the proportion with less than $1,000 in deposit balances has surged to 30% from 17% year over year. Moreover, on average, 30% of primary bank customers have shifted 37% of their deposits to a secondary financial provider.

As digital banking expands, consumer preferences are shifting, and behaviors are evolving. Many of their attitudes and acts vary by generation. According to Banking Attitudes, Generation-by-Generation survey by BAI (McGahey, Goyal, & Badger, 2022), banking behaviors are changing by generation. Gen Z is ambitious and demands 24/7 customer service, financial advice, and convenience. Millennials have more personalized services and faster payments. Gen X is in demand for lower fees and faster services. Baby bombers prefer in-person service and interacting with people rather than through digital channels. More conservation to in-person branches nearby locations and security concerns for their money. In today's competitive banking environment, customer experience is more important than ever. Midsize banks must focus on providing a high-quality customer experience to attract and keep customers. They also need to be innovative ahead of the competition and willing to experiment with new products and services and be open to change. Midsize banks also need help to do everything. They must partner with other organizations to offer a broader range of products and services. According to the financial institutions in Black-majority communities most adults in the United States had a bank account, and they rely upon traditional banks or credit unions to meet banking needs (Perry, Broady, Romer, Barr, Muro, Martín, & Schuetz, 2022). However, there needs to be more banking access. Six percent of American adults were unbanked and needed a checking, savings, or money market account. Money order, check cashing service, pawn shop loan, auto title loan, payday loan, paycheck advance, or tax refund advance were used by approximately 40% of unbanked adults in 2018. Low-income, less-educated, Black, Latino, or Hispanic households, American Indian or Alaska Native, working-age disabled households, and households with unstable incomes had higher rates of unbanked and underbanked (FDIC, 2022). As a result, the continued decline in monitory depository institution (MDIs) is concerning.

As per bank behavior difference in gender, Deloitte United States (2022) report measured consumers' overall satisfaction with their primary bank (the bank they rely on the most). Overall, a meaningful distinction exists between men and women—77% of women versus 73% of men are completely or very satisfied. But these differences vary by generation. A more significant proportion of Baby Boomer women than Boomer men are satisfied with their bank, but there is no statistically significant gender difference among Millennials. It appears such a generalized statement cannot be made based on the satisfaction data alone. In looking at switching likelihood, the contrast between men and women is mainly driven by the disparity in the Millennial sample. Millennial men are significantly more likely to switch banks 22% than Millennial women 13% in their study. However, banks should adapt to the changing landscape and offer the services that customers demand will be well-positioned to succeed.

SWOT ANALYSIS

Strengths

The banking industry is a leader in economic growth and provides multiple jobs for people influencing the economy. When consumers go to a bank they can add or deposit money, open a new account, meet with a representative to get a loan for starting a business, receive financial education, and more. Lastly, a big strength that has been evolving in the industry is technological banking advancements. This includes mobile banking, the creation of banking apps, and fully technology-based banking.

Weaknesses

The largest weakness is that banks have an overall negative consumer perception, and multiple sources say that this is due to poor customer service. Another weakness is that banking crises do occur, and the banking industry is susceptible to inflation. In terms of accessibility, this is also a weakness in the banking industry as some banks are relatively far from where consumers may live and do not serve all demographics equally. This leads to a convenience issue with existing customers and underserved demographics. In lower-income areas, banks do not have as large a presence. This doesn’t allow all demographics of people to have a relationship to be the bank or be financially literate. Lastly, a weakness is that some banks may not have strong relationship management skills with their consumers and do not financially educate consumers on certain topics. Banks also have challenges with personalized services and catering needs to the future customer base.

Opportunities

In terms of opportunities, banks should explore ideas in which they can grow their client base. This can also be clients who do not have any affiliation with the bank. This leads to the opportunity of taking initiatives to implement financial inclusion programs for the unbanked and in lower-income areas. Another opportunity is for banks to create more personalized services for their consumers – this will fulfill millennials' needs in their banking services. Lastly, banks can start to explore and utilize artificial intelligence to make banking more efficient for consumers.

Threats

As a bank, recession can result in various adverse effects for midsize banks. The economic downturn typically leads to higher unemployment rates and lower consumer spending, which can lead to increased loan defaults. This increased risk can damage a bank's balance sheet and lead to a decrease in profitability. The lower interest rates often go with a recession and can further squeeze bank profit margins. In the digital era, data security has become a significant concern. Banks are prime targets for cybercriminals due to their sensitive financial information. Data breaching can result in substantial financial losses, harm a bank's reputation, and result in regulatory penalties. For instance, Bank of America had to pay $250 million fines over customer practices (Newmyer, 2023). Additionally, as midsize banks might have different resources than larger institutions to invest in cybersecurity, they may be at an even higher risk. The risk that a failure of one financial institution could cause a ripple effect, leading to a failure of the entire financial system such as the recent failure of Silicon Valley Bank (SVB), the aforementioned Bank of America fines, and Small and Midsize Bank recently refunded all the money to customers. It's big impact on data security issues in the banking industry. Midsize banks are interconnected with other banks and financial institutions, so instability in the more extensive financial system could affect them. For example, if a large institution fails and cannot pay its obligations, a midsize bank may also face losses if they depend on that institution. There are inherent risks involved. These include the risk of algorithmic bias, which could lead to unfair treatment of customers; the risk of over-reliance on AI predictions in decision-making; and the risk that cybercriminals could target AI systems. Moreover, regulations concerning AI are still emerging and could pose compliance challenges.

Strategic Recommendations Based on SWOT Analysis

The results of the SWOT analysis show that the opportunities and weaknesses are potential points for the future development of the banking sector as well. With subtle improvements, these weaknesses and opportunities can be transformed into strengths. When we limit our study to mid-sized traditional banks, as exemplified by Small and Midsize Bank, the positioning of these regional banks as community partners as well as the overall older age of their primary customer base creates a preference for their direction. Developments in personalized service and financial inclusion will increase customer loyalty and expand customer size for mid-sized banks. This can also open opportunities to address a larger customer base.

In terms of personalized service and customer relationship management, with the focus on Small and Midsize Bank, we find that the bank already has both a significant customer base in the region, personalized service, and customer relationship service, but does not link them well, lacks reach, and awareness. Small and Midsize Bank CSR Initiative Forward provides a great deal of financial education in the community as well as a path forward for community engagement, but on the Small and Midsize Bank homepage, Small and Midsize Initiative is at the bottom of the page. There is no mention of any of bank's business strengths and priorities on the homepage. We recommend placing Small and Midsize Bank CSR initiative forward at the top of the page to help create a first impression of the community partner and to enhance the reach of the message.

As for financial inclusion, Small and Midsize Bank has an excellent community image base. From a marketing standpoint, we recommend that the bank partner with the community garden organization, as regular gatherings of community gardens give the bank the opportunity to develop leads and strengthen relationships with existing customers. In addition, this is a part of the bank's involvement in sustainable development.

Conclusion

After synthesizing the research data, looking at the customer preferences, and the SWOT analysis there are opportunities for mid-tier banks to grow their market share. Based on customer perception and opportunities, small to mid-size banks should focus on community-based initiatives as well as financial inclusion opportunities. Focusing on these two opportunities will give these banks a competitive advantage over larger banks with bigger asset bases. This offers mid-tier banks an opportunity to expand their existing customer base, capture additional revenue, and expand their reach to diverse communities. This will help to grow these banks in scope and add additional shareholder value.

References / Appendix

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