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Banks' NPS customer referrals test the friendship for big four

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The big four say they are eager to prioritise customers but their customers are less likely to recommend their services.

You probably use one of the major banks. You may even like some of their products and services — a good mobile banking app or cheap home loan.

But recommend them to a friend? Never!

That's the uncomfortable ongoing reality for the banks out of new "net promoter score" data compiled by research house Pureprofile, which show they continue to have more detractors than promoters despite repeated pledges to prioritise customers.

Even still, the big four made \$30 billion last year.

While a foreign acronym to banking outsiders, NPS is scrutinised internally by financial services companies and even used by some — including National Australia Bank — as an input into how much executives get paid.

Unlike customer satisfaction data, NPS — a registered trademark of developers Bain & Company, Satmetrix Systems and Fred Reichheld — is not widely available outside the odd slide in one of the banks' presentations.

“It is not easy for companies to achieve a positive NPS score,” said Anthony Brown, the chief of life insurance company NobleOak, which commissioned Pureprofile’s survey of 1851 people and is a big believer in the methodology.

Mr Brown said it was not only the calculation method that made it hard to get a score in positive territory, but the greater expectations that “discerning customers” have on financial services providers these days.

“NPS theory suggests that 80 per cent of referrals in most businesses come from “promoters” — people who score you nine or 10,” he said.

“Naturally these customers are stickier too. Whether the number is 80 per cent or not, I don’t know, but certainly a vast majority of referrals come from these higher scorers.”

According to the Pureprofile survey done in April, the big four — ANZ, Westpac, Commonwealth Bank and NAB — recorded an NPS of -9.84, lagging the broader banking sector’s score of -0.21 that was propped up by positive readings for the smaller credit unions and regional lenders.

NobleOak scored +37, ahead of the broader life insurance industry that scored -10.53.

Mr Brown said while the life insurance sector’s results were disappointing, the “recent poor publicity targeting a couple of the larger insurers” may have taken a toll. CBA’s CommInsure recently suffered a wave of damaging allegations of wrongdoing and customer mistreatment.

But Mr Brown added that the NPS results confirmed that while many large banks and life insurers have focused on customer satisfaction “there is still a long way to go” and it was easier for smaller providers to “connect” with customers.

“For less diversified providers such as credit unions and NobleOak, it is easier to build a strong service ethic into our cultures,” he said.

In a boost to NAB chief Andrew Thorburn after he installed NPS into bonus calculations of senior bankers when he started in 2014, the bank performed the best of the majors with an NPS of -0.69.

Signalling a long road ahead for new ANZ chief Shayne Elliott, his bank fared the worst at -18.98 followed by Westpac at -16.19 and CBA at -7.75.

In contrast, credit unions scored +40.43, Bendigo and Adelaide Bank came in at +20.59 and Suncorp at +19.05.

Although not flattering to the big banks, which employ up to 50,000 people across diverse operations, they performed better than in an analysis by consultancy Engaged Marketing in late 2014, when their combined NPS was -16.

In that survey, online bank ING Direct scored an NPS of +38.

While not without its critics, NPS is used by companies around the world to determine customer loyalty by asking respondents how likely “are you to recommend company/brand/product X to a friend/colleague/relative?”

“Promoters” are those who score 9-10, while “detractors” are deemed those who score six and below, with “passives” in between.

NPS is the percentage of promoters minus detractors.

Despite their poor NPS scores, the major banks command return on equity of about 15 per cent — some of the highest among banks globally.

But the major banks are facing earnings headwinds, such as rising capital requirements, an increase in losses from bad debts and slowing credit growth.

The more challenging environment had led the banks to prioritise keeping a lid on costs and better serving customers, fearful they are losing relevance as an array of fintech operators try to steal their customers.

Westpac chief Brian Hartzler, for example, has heralded a “service revolution” and outlined a range of productivity targets, including reducing its cost-to-income ratio below 40 per cent.

A Westpac spokesman acknowledged the “opportunity for improvement” in NPS and customer satisfaction across its retail banking division, but claimed consumer complaints slid 22 per cent in the first half and customer numbers grew.

“While NPS data can be influenced by a variety of external factors, we find that closely measuring individual customer experience provides the most relevant information,” he said.

A spokeswoman for CBA, the nation’s biggest lender, said the group had used Roy Morgan as its “primary measure of customer satisfaction” for the past decade.

According to Roy Morgan data, the big four banks fare far better than they do in NPS. In the six months to May, the big four’s retail banking customer satisfaction was 80.1 per cent, down 140 basis points in the past year but still close to historical highs.

CBA leads at 81.7 per cent, followed by Westpac at 79.2 per cent, ANZ at 79.1 per cent and NAB at 78.5 per cent. But like the NPS data, credit unions outperformed in the satisfaction data at an average 91.7 per cent.

CBA's performance in Roy Morgan's data feeds into executive bonuses. In contrast, NAB has embedded NPS in the scorecards of 160 senior leaders and determines one-third of executive performance bonus outcomes. Every NAB customer-facing employee will be measured using NPS by the end of the year.

"Our use of the NPS is how we are holding ourselves to account," said Gavin Slater, NAB group executive personal banking.

"Only by listening to our customers, identifying where we can do better, and then acting on that feedback can we improve ... we are on track but there is always more to do."

An ANZ spokesman said the bank used "a number" of measures to better understand customer attitudes, including NPS.

"We understand we have to work hard to achieve that. But we also realise it takes time and a sustained effort to improve something like an NPS," he said.

"We have started rolling out a real-time feedback tool across our business as one step to further improving our customers' experience and will have more initiatives like this to keep improving over time."

NobleOak's Mr Brown argued NPS was the "simplest and most effective measure" of referral and was "far more accurate than a total satisfaction score".