Commentary on Banks, Credit Unions, Health Insurance, Life Insurance, and Property & Casualty Insurance

The Gap Widens Between Banks and Credit Unions

Banks and Credit Unions
Banks are facing difficult times on multiple fronts: Profits are being squeezed, regulators are more demanding, foreclosures remain problematic, and consumers are fighting back on fees. On top of all this, many banks are losing customers; in particular, large banks are losing customers to small banks and credit unions.

In 2011, customer satisfaction with credit unions breaks all records, reaching the highest score ever achieved by any industry covered in the ACSI. Some of the big banks have increased customer satisfaction this year, but they are so far behind both smaller banks and, especially, credit unions that the exodus of customers is likely to continue, supported by grassroots movements such as November’s Bank Transfer Day. While it is too early to quantify just how much business the big banks have lost to smaller competitors, the new ACSI data suggest credit unions and small banks now have become an even more attractive alternative for consumers.

Overall, customer satisfaction with personal banking services such as checking, savings, and personal loans dips 1.3% to an ACSI score of 75 (on a 0 to 100 scale). This slight deterioration is driven by a 1% downturn for small banks, but their aggregate score of 79 stays well ahead of the four large banks. Among the latter group, Wells Fargo remains on top with an unchanged score of 73, but Citigroup improves 6% to tie for the lead. Citigroup, measured in the ACSI for services provided by its Citibank division, continues to shrink in the aftermath of the subprime mortgage crisis. The bank now has fewer branches and fewer customers, but the customers who stayed are more satisfied than those who left.

JPMorgan Chase also improves satisfaction this year. Chase gains 4% to reach 70, leapfrogging a stagnant Bank of America, just as it also surpassed BoA to become the largest U.S. bank in terms of assets. While Chase rebounds from consecutive customer satisfaction losses, the bank has yet to return to the level of satisfaction earned prior to the start of the financial crisis.
Bank of America stays at a low ACSI score of 68. The bank bore the brunt of consumers’ ire with big banks when it announced plans in September to charge a $5 monthly fee for debit cards. The plan was later scrapped, but a revenue challenge remains and cost-cutting seems to have replaced the bank’s search for extra revenue sources.

Meanwhile, customer satisfaction with credit unions surges 8.7% to 87. Because of their size, both small banks and credit unions benefit from an ability to provide more personalized service. The challenge for small banks and credit unions will be how best to maintain a high level of customer service with minimal or no fees amid an influx of new customers. An estimate from the Credit Union National Association has credit unions realizing 50% growth in new accounts in the wake of Bank Transfer Day.

**Health Insurance**

Customer satisfaction with health insurance slides again, falling 1.4% to an ACSI score of 72. Rising costs are behind the decline. Over the past decade, the cost of family coverage provided through an employer has nearly doubled. Just over the past year, the average cost for health insurance premiums is up 9%, according to the Kaiser Family Foundation. Because of the weak economy, a fragile—albeit improving—labor market, and stagnating wages, price hikes of this magnitude are not helpful in creating satisfied customers.

As with banks, smaller health insurance carriers are better at providing customer satisfaction despite facing a slight 1% drop to an ACSI score of 75. Among the big insurers, the results are mixed. WellPoint, the largest member of the Blue Cross and Blue Shield Association, sweeps ahead with a 7% gain to 74. To some extent, WellPoint has benefitted from reducing certain rate increases and delaying others.

UnitedHealth’s ACSI score has fluctuated over the past three years, rising sharply in 2009, then falling just as steeply in 2010 before recovering this year with an upturn of 11% to tie the industry average at 72. This yo-yoing in customer satisfaction mirrors United Health’s revenues, falling 6% year-over-year for the third quarter of 2010 followed by 6% growth in 2011. It will be interesting to see if the company’s new premium rebate payments to certain policyholders, along with low premium rate increases for its managed-care Medicaid programs, will have a positive effect on future customer satisfaction.

By contrast, the Blue Cross and Blue Shield Association falls 3% to 68 and Aetna slips 1% to 67. For the BCBS Association, satisfaction is at a six-year low, as several Association members have implemented double-digit rate increases this year, surpassing the national average for all insurance carriers.
Life and Property & Casualty Insurance
Customer satisfaction with life and property & casualty insurance is typically much higher than with health insurance. Lower premiums and fewer interactions with the insurer explain the difference. This year, life insurance is unchanged with an ACSI score of 80, while property & casualty gains 3.8% to reach an all-time high score of 83. In contrast to health insurance, premium rates for property & casualty continue to fall, creating better value for money as perceived by customers of auto, homeowners, and other similar types of insurance.

Among life insurers, the top of the industry belongs to the smaller companies at 82 (+1%). The perennial leader among the large insurance companies, Northwestern Mutual, follows closely behind at 81 (+1%). New York Life is next, gaining 3% to 80, followed by Prudential, up 3% to 79. MetLife rounds out the category with a score of 77. With a small loss of 1%, MetLife is the only major life insurer to decline.

In the property & casualty insurance category, the story of small versus big continues. The aggregate of smaller insurers gains 4% to an ACSI score of 83. With customer satisfaction for most insurers constant from a year ago, it is the small companies that account for the bulk of the industry’s improvement. State Farm holds the top spot among major insurers, scoring 82 for a third consecutive year, followed by GEICO at 81, also unchanged from 2010. Similarly, Progressive and Allstate are unchanged at 79 and 78, respectively. Farmers Group makes the lone improvement in the category, gaining 4% to tie Progressive at 79.

About ACSI
The American Customer Satisfaction Index (ACSI) is the only uniform, cross-industry measure of customer satisfaction proven to predict financial results. Founded at the University of Michigan’s Ross School of Business, the ACSI is a leading economic indicator of consumer spending in the United States.

The ACSI measures more than 225 companies and organizations across 47 industries, representing close to half of the U.S. economy. Nearly 20 years of data from the ACSI show that customer satisfaction is an indicator of financial results on both macro and microeconomic levels, including shareholder value and cash flow volatility. The U.S. Federal Government also uses the ACSI as the gold standard of satisfaction measurement for its agencies. The ACSI can be found on the Web at www.theacsi.org.