
Customer Satisfaction Surveys as a Means of Improving Disclosure

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I. The Financial Services Agency's Request for Customer Satisfaction Surveys

In its Program for Further Financial Reform, due to be implemented between April 2005 and March 2007, the Financial Services Agency pointed out the need for financial institutions to provide a better service and to do more to safeguard customer interests.¹ One of the ways in which it expected them to do this was to regard customer satisfaction as a key business criterion.

The Agency also indicated that, as part of its "reform timetable," it would urge financial institutions to carry out customer satisfaction surveys and to publish the findings, explaining how they have used them to improve their service, by August 2005. In addition, the Agency indicated that it would collate and publish all this data. Its deadline for collecting and publishing this information is June 2006. ("Financial institution" is used here to refer to insurance companies, securities companies and finance houses as well as deposit-taking institutions.)

In May-June 2005 meetings were held between representatives of the financial services industry and experts to discuss what the surveys should seek to achieve, how they should be carried out, what information they should elicit and how the findings should be published. It was then up to each institution to carry out a survey and publish the findings by the August deadline.

¹ See Yasuyuki Fuchita, "The Program for Further Financial Reform," *Capital Research Journal*, Spring 2005.

II. Progress So Far

At these meetings the secretariat presented a summary of progress reports from each financial institution (Figure 1).² According to this summary, all 11 of the main banks had carried out their survey of customer satisfaction, while 20% of the regional banks and 70% of the cooperative financial institutions had still to do so. As far as the method was concerned, roughly 60% of each type of financial institution was relying on questionnaire forms displayed at branch counters (including ATMs). As far as how the institutions intended to use the survey findings was concerned, most had reported that they had instructed teams of specialists to analyze them rather than report them to their boards of directors. Few institutions had published their findings or how they intended to use them to provide a better service. Complaints and requests for advice were gathered and analyzed mainly by customer service centers, and the results were usually reported to the board of directors so that remedial action could be taken.

Material published by each type of institution indicates wide divergences in the kind of information elicited by those institutions that have already carried out a survey.

One regional bank has reported that it uses external monitors (including former staff) to visit its branches and monitor and rate them according to their facilities and the attitude (both face to face and over the telephone) and knowledge of their staff. In addition, they monitor and compare the situation at all their branches with that of their rivals once a year.

Another second-tier regional bank carries out customer surveys of just under 60,000 customers (selected so that the surveys are not biased towards any particular age group) semiannually using direct mail, while yet another carries out surveys of about 1,000 retail and wholesales customers (selected at random) every month.

In contrast to this positive attitude, there are many financial institutions that either do not carry out customer surveys at all—because of either high costs or doubtful benefits—or only to a limited extent. Very often the findings of customer satisfaction surveys are not published because their main purpose is considered to be to improve products and service.

² The summary covers Japan's 11 major banks, 113 regional banks and 564 cooperative financial institutions.

Figure 1 Progress in Carrying Out Customer Satisfaction Surveys

	FSA questionnaire items	Major banks	Regional banks	Cooperative financial institutions
Q1	Completion of survey by financial institution			
	Completed	100.0%	77.9%	28.5%
	Not completed	-	22.1%	71.5%
Q2	Survey items (more than one response possible)			
	(1) Manners (staff attitude)	100.0%	92.0%	74.5%
	(2) Clarity of explanation	81.8%	70.5%	47.8%
	(3) Skillfulness of response	72.7%	81.8%	53.4%
	(4) Branch atmosphere and facilities	72.7%	68.2%	52.2%
	(5) Waiting time	81.8%	84.1%	60.2%
	(6) Availability of information	90.9%	43.2%	42.9%
	(7) Product quality	72.7%	36.4%	37.3%
	(8) Overall satisfaction	81.8%	76.1%	58.4%
	(9) Fees	27.3%	10.2%	5.6%
	(10) Response to complaints and requests for advice	27.3%	33.0%	38.5%
	(11) Contribution to local area	-	14.8%	-
	(12) Other	63.6%	48.9%	51.6%
Q3	Survey method (more than one response possible)			
	(1) In-branch	63.6%	59.1%	59.0%
	(2) Direct mail	45.5%	26.1%	13.0%
	(3) Website	9.1%	3.4%	3.1%
	(4) Fax	-	-	0.6%
	(5) Other	45.5%	31.8%	46.0%
Q4	Use of findings			
	Yes (more than one response possible)	100.0%	98.8%	94.4%
	(1) Reported to and discussed by board of directors	45.5%	14.1%	36.6%
	(2) Analyzed by team of specialists	72.7%	69.4%	45.3%
	(3) Other	45.5%	58.8%	29.8%
No	-	1.2%	5.6%	
Q5	Publication of findings			
	Yes (more than one response possible)	18.2%	4.7%	21.1%
	Website	-	-	0.6%
	Disclosure statement	9.1%	1.2%	1.2%
	Press release	9.1%	-	1.2%
	Other	9.1%	3.5%	18.0%
No	81.8%	95.3%	78.3%	
Q6	Publication of improvement proposals			
	Yes (more than one response possible)	36.4%	3.5%	9.9%
	Website	-	2.4%	1.9%
	Disclosure statement	-	-	1.9%
	Press release	-	-	-
	Other	27.3%	2.4%	6.2%
No	63.6%	96.5%	90.1%	
Q7	Reason for not carrying out survey (more than one response possible)			
	Able to obtain information by other means	-	80.0%	43.2%
	Other	-	20.0%	57.6%
Q8	Method of collecting and investigating complaints and requests for advice (more than one response possible)			
	(1) Customer service center	81.8%	98.2%	29.4%
	(2) Call center	54.5%	48.7%	4.3%
	(3) Other	63.6%	67.3%	78.2%
Q9	Method of incorporating customer complaints and requests for advice in daily operations (more than one response possible)			
	(1) Reported to and discussed by board of directors	72.7%	36.3%	48.4%
	(2) Analyzed by team of specialists	72.7%	80.5%	46.1%
	(3) Other	27.3%	57.5%	31.9%

Source: Financial Services Agency.

III. The Reason for the Agency's Request

Many representatives of Japan's financial services industry feel strongly that, in requesting all financial institutions to carry out customer satisfaction surveys and announcing that it will publish the findings, the Agency has overstepped the mark. In other words, they believe that customer satisfaction surveys form part of a financial institution's business strategy and that each institution should be allowed to decide its own policy on the matter.

Others, however, argue that Japanese financial institutions have a long history of regulation and for more than 10 years have been preoccupied in fighting a rearguard action against nonperforming loans. As a result, the argument goes, they are less aware than other service sectors of the importance of customer satisfaction and less interested in carrying out surveys and learning from their findings. In other words, these people argue, it is not enough to leave this to the discretion of individual institutions. Rather, it is the regulator's duty to encourage institutions to pay more attention to customer satisfaction.

According to this argument, the Agency's request should be seen merely as a temporary expedient that will cease to be necessary when Japanese financial institutions resume the development path they strayed from more than 10 years ago.

The author's view, however, (and one which he presented strongly at the meetings held in May-June 2005) is that the Agency's request should best be seen as an attempt to improve disclosure. Carrying out customer satisfaction surveys and publishing their findings is therefore something that financial institutions should always be expected to do as part of their obligation to comply with their disclosure requirements.

According to the Banking Law (as amended in 1998), the obligation of a bank to comply with its disclosure requirements is a fundamental aspect of the Law's workings. In other words, disclosure is integral not only to the Securities and Exchange Law but also to the Banking Law in ensuring that the banks are subject to market discipline, and this is the reason the Law was amended accordingly. In particular, Article 21(4) states that a bank must endeavor to disclose those items of information that its depositors and other customers need in order to assess the business and financial condition of the bank and its subsidiaries. There should be nothing odd about regarding customer satisfaction as the kind of item of information depositors need in order to assess a bank's business condition.

Moreover, "Regarding customer satisfaction as a key element of a financial institution's business" is one of the items listed under "Improving Disclosure and Customer Advice as Part of Safeguarding Customers' Interests" in the Program for Further Financial Reform. This item is elaborated on as follows: "This involves

ensuring that customers have the information they need to bridge the information gap between themselves and the provider of financial products and services and to be able to do business with the provider with understanding and confidence."

Carrying out customer satisfaction surveys is an integral part of finding out whether customers have this information by asking the customers themselves. However, the point of the Financial Services Agency's request that, instead of merely carrying out such surveys and incorporating their findings in the way they operate, financial institutions should publish their findings is presumably to ensure that they share their perception of the current situation with their customers and tell them how they intend to improve their service.

Moreover, by disclosing information about the current situation, financial institutions will ensure that this information reaches not only their existing customers but also potential customers and impacts on their reputation. By making this information public, financial institutions can be said to be subjecting themselves to public pressure, which can be regarded as market discipline in the broad sense.

If we think of disclosure in these terms, the kind of customer satisfaction survey that the Financial Services Agency has requested should be seen in a fundamentally different light from the kind of survey that financial institutions would normally carry out on their own initiative for strategic marketing or product development purposes.

IV. Managing Intellectual Assets

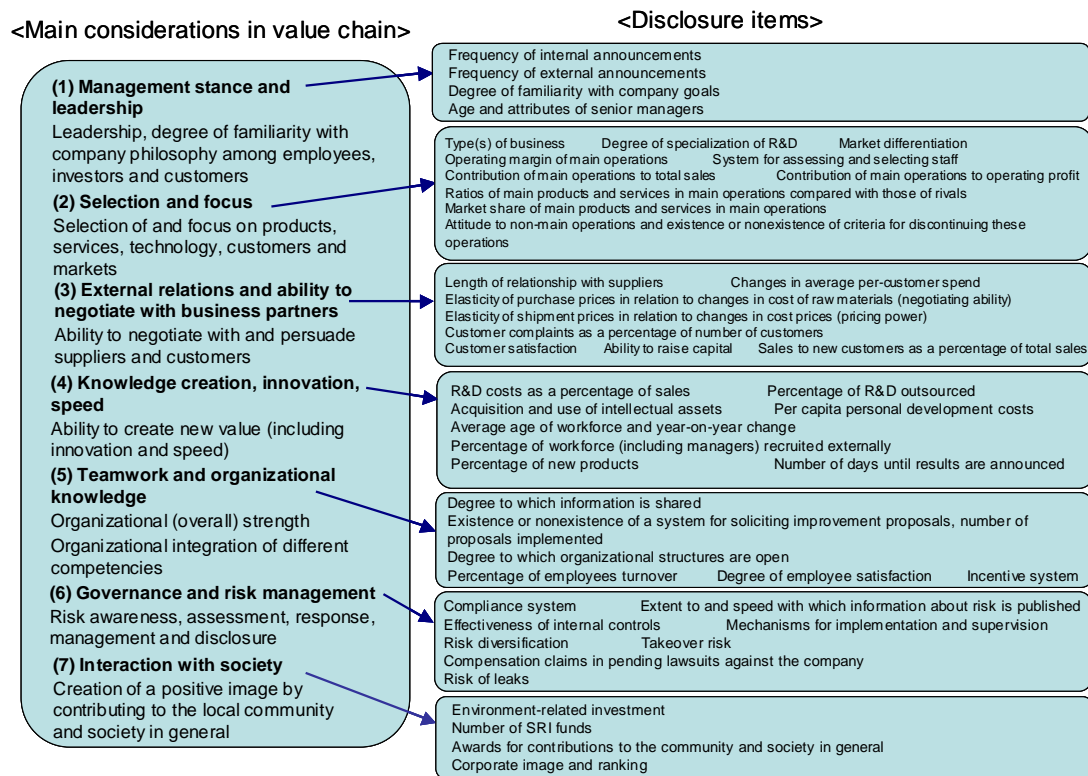
It is possible to argue that disclosing nonfinancial information such as the findings of customer satisfaction surveys is the kind of thing that not only financial institutions but also any company should seek to do. For example, in its draft interim report published in June 2005, the Subcommittee on Management and Intellectual Assets, New Growth Policy Committee, Industrial Structure Council emphasizes the need in this day and age for companies to pay more attention to "intellectual assets" (such as human resources, technology, organization, customer relations and brands) that do not appear in financial statements. The report also says that, if companies are to remain in business, they need not only to assess these assets properly but also to share with their stakeholders information about how they intend to manage those assets.

If markets' and investors' assessment of how a company manages its intellectual assets is positive, this should boost the company's shareholder value and create a value chain whereby the company is encouraged to increase those assets that constitute "strengths."

As a mechanism for informing stakeholders about how they are managing their intellectual assets the report recommends that companies produce and publish an

"intellectual asset management report." As an example of the kind of quantitative information companies should use to support the text of their intellectual asset management reports, the report recommends about 50 indicators. One of these, as can be seen in Figure 2, is customer satisfaction.³

Figure 2 List of Intellectual Asset Indicators



Source: Draft interim report of Subcommittee on Management and Intellectual Assets, New Growth Policy Committee, Industrial Structure Council, June 2005.

The report says that, although companies should initially approach their intellectual asset management reports from the point of view of investor relations and regard them as voluntary disclosure, they should eventually become a statutory requirement as the need for intellectual asset management and such reports becomes more widely recognized.

The report also mentions an OECD project entitled "Intellectual Assets and Value Creation" currently under way in preparation for a report to be presented at next spring's OECD Ministerial Council Meeting. One of the project's aims is to discuss disclosure requirements for intellectual assets.

³ The debate about how disclosure of nonfinancial and nontraditional information could be improved dates from the Jenkins Report of 1994. For further details, see Yasuyuki Fuchita, "XBRL Nyumon" [Introduction to XBRL], Nihon Keizai Shimbunsha, 2003.

Developments like this suggest that the Financial Services Agency's request that financial institutions carry out customer satisfaction surveys and publish their findings may turn out to have been a harbinger of a period when all companies are required to publish not only the findings of customer satisfaction surveys but also many other indicators.

V. Conclusion

There are also examples in other countries where banks not only carry out customer satisfaction surveys for internal use but publish the findings for the benefit of their stakeholders.

Bank of America, for example, commissions regular customer satisfaction surveys from a market research company. Responses are rated on a 10-point scale, and the bank regards the percentage of customers in the top two categories—Category 10 ("extremely satisfied") and Category 9 ("delighted customer")—as an important indicator and publishes the findings quarterly.

However, there is no requirement yet in either Europe or the United States for companies to produce intellectual asset management reports with the findings of customer satisfaction surveys. The requirement for Japanese financial institutions to carry out such surveys and publish their findings should therefore be welcomed for showing a lead to other countries as well as for its compliance with the Program for Further Financial Reform's aim of making Japan "a financial services nation."