Increasing Profits by Improving Management of Existing Customers

presented by:

Mikelle Holt Brady
Phil Hudson
Increase low cost deposit growth and profitability by:

- Reducing deposit attrition of your most valuable customers
- Increasing wallet share of existing customers

Improve the contribution of unprofitable customers by:

- Improving revenue
- Reducing the cost to serve
Aggregate all accounts owned by specific households.

All accounts and services of all individuals with the same last name living at the same address.

Any experience that affects one member of the household influences all members of the household.

Measure and manage household behavior and value to the bank rather than managing accounts or products.
Understanding Customer Value

Three primary drivers of consumer customer profitability (value).

- Deposits
- Loans
- Fees & Debit Card
Bank Consumer Profitability

Considering account deposits, loans, service charges, penalty fees, and interchange income, an average of:

47% of bank consumer customers are profitable

Of the profitable households, 76% are profitable because of the deposits they maintain with the bank.

53% are unprofitable
Understanding Consumer Customer Deposit Value

**Step 1**
Determine the total deposits controlled by each consumer household

**Step 2**
Rank the deposits by household. (Household with largest deposits at the top; household with least at bottom.)

**Step 3**
Identify the percent of total consumer deposits owned by the top 10% of households

**Step 4**
Identify the percent of deposits owned by the bottom 50% of consumer households
**TYPICAL BANK DEPOSITS**

**Top 10%** of consumer deposit households control 68%-75% of consumer deposits.

Our client average is 71%.

Average household deposits for the top 10% are $160,000.

Wealth and/or income are not predictors of being High-Value Customers.
**TYPICAL BANK DEPOSITS**

Bottom 50% of consumer deposit households collectively control less than 3% of all consumer deposits.

Our client average is 2.3%.

Average household deposits are $900.

Average consumer deposit household in the top 10% is worth 178 times the average deposit value of a household in the bottom 50%.
Important Facts about High-Value Deposit Customers

20% of banks’ High-Value Deposit Customers indicate that the surveying bank is not their primary bank.

67% report that they have accounts at other banks.

Consider the threat AND the opportunity.

Needs and behavior of High-Value Deposit Customers are often different than other customers.

High-Value Customer = Top 10%
Cross-sell and Profitability

2017 New Account Profitability Analysis

- **87%** of deposit accounts sold to UNPROFITABLE customers were UNPROFITABLE

- **91.3%** of deposit accounts sold to PROFITABLE customers were PROFITABLE

**Conclusion:** Emphasis on cross-selling all customers is not a good strategy.
CROSS-SELL ISSUE IMPLICATIONS

- Setting Goals
- Measuring Performance
- Paying Incentives
Banks are dependent on a relatively small group of profitable customers.

Banks are burdened by a large group of customers that are unprofitable.

Understand the needs and behavior of High-Value Deposit Customers and develop strategies for them.
Measuring Deposit Balance Changes
Measuring Customer Household Deposit Balance Changes

Main Street Bank

($ Millions)

Core Deposit Balances

Dec 2016 $345
Dec 2017 $355

2.8% growth
Measuring Customer Household Deposit Balance Changes

Freeze all relationships at the beginning of the measurement period and determine their status at the end of the measurement period.

Some relationships will increase deposits, some will decrease deposits, and a small number will remain the same.
Consumer Household Deposit Balance Gain / Loss Summary

Main Street Bank

($ Millions)

Dec 2016

Retail HH Core Deposit Level

New Deposits

Existing HHs

$345

New Deposits

NEW HHs

$69

Dec 2017

Retail HH Core Deposit Level

Deposit Diminish

Deposit Defection

$355

$29

($58)

($30)
The majority of growth (70%) was generated by existing customers; only 30% came from new households.

Your best prospects are your existing customers, particularly High-Value Customers.

66% of losses occurred in existing households that diminished balances, BUT defection begins 18-24 months before the last account is closed.

Measure deposit growth and attrition quarterly so you can take action.
Household Deposit Balance Attrition

Main Street Bank

($ Millions)

Dec 2016: $345
Dec 2017: $257

Balance Losses: $88

Core Deposit Balances: $345

Attrition: 25.5%
Deposit Balance Attrition

The top 10% of the customer households controlling 73% of the balances accounted for 77.3% of the deposit balance losses.

By focusing on the top 10%, you can develop strategies to manage the majority of deposit attrition.
The following information is based on several studies that focused exclusively on the most valued bank deposit customers that had moved 20% or more of their deposit balances from the bank in the past year.

In each study the customers reported that, on average, 50% or more of their money was kept at other financial institutions.
Reasons for High-Value Consumer Deposit Diminishment and Defection

- Service Issues and Fees: 45%
- Die, Spend, or Move: 35%
- Yield: 20%
Determining the Root Causes of Deposit Attrition

What are land mines?
A “land mine” is a policy, practice, or procedure, present in the institution, that has the potential to cause High-Value Customers to become disenchanted with their financial institution.
Background Information

Causal Factors for Deposit Attrition

- Penalty Charges
- Telephone Access
- Problem Resolution
- Failed Transactions
- Collection Activities
- Service Fees
- Service Quality
Penalty Charges

- Overdraft Fees
- Late Fees
Telephone Access

- **Wait Time**
- **Abandoned Calls**
- **Reaching the Correct Person**
- **Telling your story more than once**
- **Major Problem**
  Call Centers are typically controlled by operations
Problem Resolution

Based on Customer Satisfaction Surveys, on average, 34% of customers who had experienced a problem within the last six months and reported it indicated that their problem was never resolved.
Failed Transactions

- Debit Card transactions
  - Above limits
  - Incorrect PINs
  - Insufficient funds

- Online Banking transactions

- Mobile transactions

- Credit Card transactions

DECLINED
Collection Activities

Most bank loan collectors are not aware of a household’s deposit relationship when contacting customers with missed loan payments.

Knowledge of the household deposits would likely change the approach to be more:

- Satisfactory to the customer
- Efficient for the bank
Service Fees

- Service charges
- Foreign ATM transaction fees
- ATM fees
- Counter fees: cashiers checks, money orders
Service Quality

☑️ What is your level of customer service?

☑️ What do your customers say?
Customer Satisfaction / Loyalty Survey

The survey should measure:

- High-Value Customers separately
- Importance of service attributes as well as satisfaction
- Indications of loyalty
Improve the Contribution of Unprofitable Customers

Increase Revenue:
- Review all fee waivers
- Increase debit card income
- Increase account service fees
- Eliminate free accounts

Reduce Costs:
- Review Call Center operations
- Sell e-statements
Action Steps for Low Cost Deposit Growth and Increased Profitability

- Acquire and implement a householding customer database
- Determine customer value with the initial focus on deposit households
- Monitor household deposit balance attrition
- Identify and remove land mines for High-Value Customers
- Measure High-Value Customers’ perception of service
- Consider value-added benefits for High-Value Customers
- Focus cross-sell efforts on High-Value Customers