CONVERT 'SILENT ATTRITION' INTO BANKING ENGAGEMENT AND PROFITS

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JAVELIN STRATEGY & RESEARCH

FOREWORD

This whitepaper, sponsored by Deluxe Corp., quantifies the value of effective engagement by analyzing revenue, the cost of acquisition, and the cost of servicing new checking account customers over the first three years of the customer relationship. The whitepaper was independently produced by Javelin Strategy & Research. Javelin maintains complete independence in its data collection, findings, and analysis.

KEY FINDINGS

Banks and credit unions can boost the profitability of a new customer an estimated $212 a year with effective onboarding that emphasizes engagement (see Figure 1). The key: Financial institutions must make it easier for new customers to break ties with their previous financial institutions and take advantage of habit-forming services that lay the foundation for a growing, long-lasting relationship.

The findings from an independent Javelin study underscore that wooing a new customer is only half the battle. The true test is how speedily and effectively FIs can win over customers when the relationship is tender and tenuous and whether they can achieve status as their new customers' primary bank or credit union. The problem is that 1 in 5 new customers says it is too difficult to make a complete switch, a hurdle that leads to costly "silent attrition" — dormant, money-losing accounts held by customers who have effectively left the FI.

Javelin's study details a far-reaching return on investment for FIs that successfully convert and engage new customers from the outset. Among the key findings from the ROI study:

$212 FIs can lift the profitability of the new checking-account customer $212 per year by turning inactive customers into fully engaged customers with onboarding that enables the customers to transfer bill payees and direct depositors.

4x Fully engaged customers are four times more likely than inactive customers to identify the new bank or credit union as their primary FI.

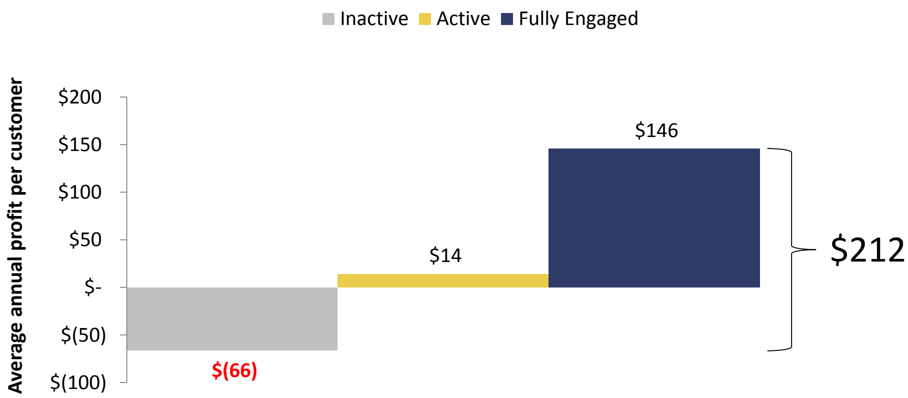
2.7x Fully engaged customers not only own 2.7x more financial accounts than inactive customers at the new FI, but they also intend to open more accounts in the next 12 months (3.0 vs. 0.5).

8% Fully engaging the 20% of new customers who do not enroll because they think switching FIs is too difficult will result in an 8% increase in the overall profit that FIs earn from new customers in the first three years. Inactive customers represent a net loss to banks over the first three years.

"Financial institutions must make it easier for new customers to break ties with their previous financial institutions."

Effectively Onboarding New Customers Can Boost Profit as Much as $212 Annually

Figure 1: Profitability of New Checking Customers



Fully Engaged
Bill pay, direct deposit, and debit purchases in past 90 days

Active
Do one or two of those activities

Inactive
Does none of those activities

ENGAGEMENT IS JOB NO. 1

There is a healthy debate within the banking industry regarding whether it is wiser to use account opening to aggressively cross-sell products or to focus instead on building engagement to reap rewards down the road. What's certain is that the initial weeks, days, and even minutes after a customer opens a checking account are critical in determining whether that customer will break ties with the previous FI, and how deep and profitable that banking relationship will ultimately become. Javelin has long held that FIs will reap a higher long-term payoff by focusing on engagement, with a focus on the use of online and mobile banking, direct deposit, bill payment, financial alerts, and personal finance management tools.

"The initial weeks, days, and even minutes after a customer opens a checking account are critical."

Deepening a relationship presents two distinct challenges. The first is the tactical problem of reducing silent attrition — those customers who effectively have left the FI by letting their new accounts go dormant. The second is the strategic need to encourage customers who already are active to become fully engaged. Solving both those problems begins with motivating and enabling new customers to conveniently and speedily transfer direct deposits and bill-payment information.

Silent Attrition

Although attrition typically refers to customers leaving an FI outright, silent attrition refers to customers who hold accounts but allow them to lay dormant. These "inactive" customers — who represent about 11% of new checking-account applicants — not only neglected to sign up for online bill payment and direct deposit, but they also have not made a purchase using their account in the past 90 days. Many inactive customers view the new FI simply as a place to park money, to take advantage of a promotional rate, or to set aside funds for emergencies or specific savings goals.

Activity vs. Engagement

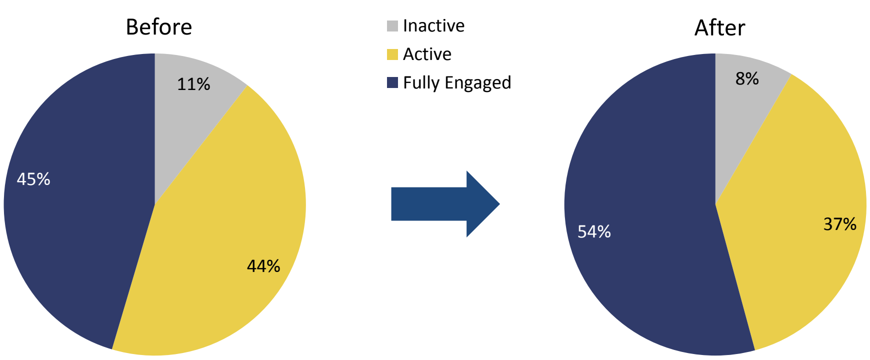
The good news is that 44% of new checking customers were "active"— they made purchases, or had signed up for bill pay or direct deposit — but were not taking advantage of all three of these features like fully engaged customers. By encouraging active customers to become fully engaged, the new FI is far more likely to gain primary status in the customer's mind and wallet — and to be the first institution the customer approaches when shopping for a highly profitable product like a loan or wealth-management product.

Many factors in the onboarding process impede an FI's ability to achieve full engagement. Almost 1 in 4 say it is too difficult to transfer mortgages, retirement accounts, and other accounts. A comparable number say that enrolling in online banking is too complicated. And 20% fail to engage more fully because they perceive it is too difficult or inconvenient to transfer direct deposits and bill pay (see Figure 2).

The payoff is significant if FIs can simply address the 20% who cite the hassle of switching direct deposits and bill-payment chores, a task that can be addressed with "switch kit" services. Just winning them over would boost the number of fully engaged new customers to 54% by whittling the ranks of active and inactive customers.

54% of Customers Will Be Fully Engaged If FIs Successfully Upgrade the 20% of Frustrated Applicants

Figure 2: Impact of Converting Customers Frustrated by Difficult Onboarding



n=600
Base: All consumers who opened a checking account at a new FI, past 36 months

3 Key Onboarding Obstacles to Address

24% Too difficult or inconvenient to switch accounts

23% Too difficult to enroll in online banking

20% Too difficult or inconvenient to switch direct deposits and bill pay

THE FINANCIAL PAYOFF FOR FULLY ENGAGING NEW CUSTOMERS

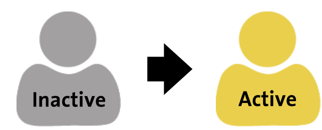
Some bankers question the bottom-line payoff from encouraging new checking-account customers to switch bill payments and direct deposit, complaining that the conceptual ROI of “sticky” services is outweighed by the certain costs of providing these services. The reality is these services are quantifiable — and they demonstrate that fully engaged customers not only are more loyal customers but also are considerably more profitable.

Fully engaged new checking customers who set up direct deposit, use bill pay, and swipe their debit cards generate $212 more per year than an inactive customer. But FIs can increase profitability substantially by motivating new customers to adopt even one of these features. The silent attrition from inactive customers drains net income by $66 annually because those fallow accounts cost FIs more than they bring in to maintain. Moving an inactive customer to active status adds $80 in annual profit, while upgrading an active customer to fully engaged status adds another $132.

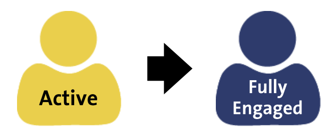
The ROI study shows that achieving this goal begins by targeting the 20% of inactive customers and the 20% of active customers who failed to engage more deeply because they felt it was too difficult to transfer direct deposits and set up bill payments. Simply expediting those tedious aspects of the onboarding process for these frustrated customers to move them up to the next level of engagement will increase an FI’s overall profit from all new checking accounts by 8%.

The importance of the onboarding process has other far-reaching implications. A customer’s level of engagement with their checking account is highly correlated with the likelihood that they will consider the FI to be the primary place they monitor and manage their financial affairs. More than 4 in 10 fully engaged customers consider the FI to be their primary banking relationship, compared to fewer than 1 in 10 inactive customers.

Payoff of Deepening Engagement



Adds $80
in annual profit

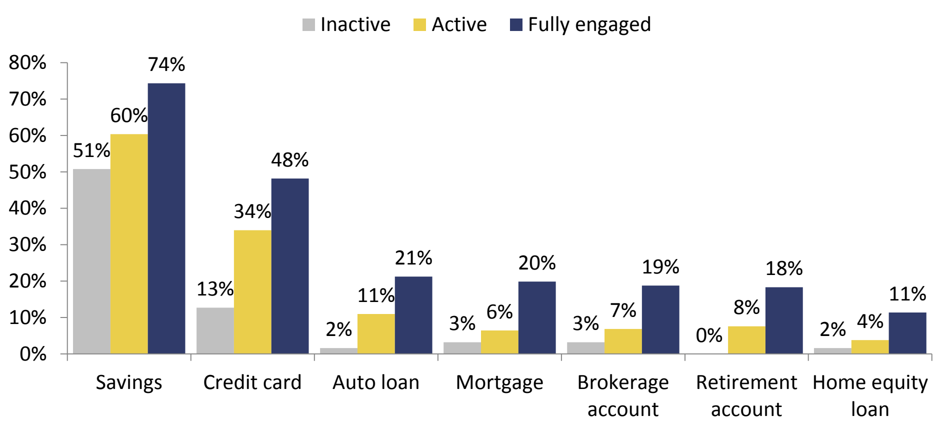


Adds $132
in annual profit

It is the primary FI that stands to win the most, and those gains can be measured in tangible, deeper cross-selling success. Fully engaged customers open an average of 2.7 additional products with their new FI within three years of opening their checking account, but inactive customers typically open only one. Fully engaged customers are 3.7 times more likely to open a credit card, 6.3 times more likely to open a brokerage account, and 6.7 times more likely to open a mortgage with their new FI (see Figure 3).

Fully Engaged Customers Are Significantly More Likely to Add Accounts Within Three Years

Figure 3: Products Owned at New FI, Based on Engagement



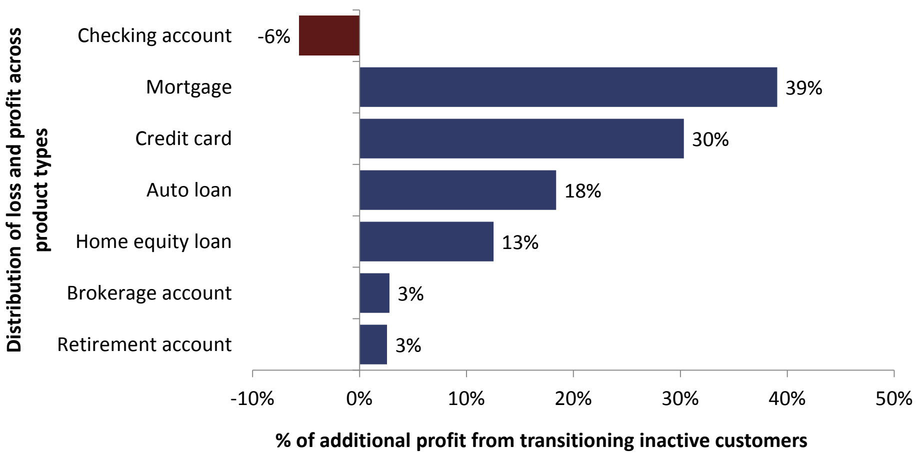
Accounts owned at new bank shown.
Base: n = 63, 206, 273

It is important to note that none of the projected 8% increase in overall profit comes from the checking account itself. On average, checking accounts are unprofitable, especially among customers who are disengaged, carry low balances, and do not buy loans and other profitable products. The payoff from investing in onboarding comes when the 20% of frustrated customers open new, profitable products. The majority of the increased profit comes from mortgages (39%), credit cards (30%), auto loans (18%) and home equity lines of credit (13%). Brokerage and retirement accounts each contribute 3% of the profit (see Figure 4).

"Checking accounts are unprofitable among customers who are disengaged, carry low balances, and do not buy loans."

Loans Provide the Bulk of Profit from Onboarding Frustrated New Customers

Figure 4: Source of Increased Profits Derived from Increased Engagement



N = 600
Base: Customers who opened a checking account at a new FI,past 36 months

RECOMMENDATIONS: TACTICS TO DEEPEN ENGAGEMENT

Promote engagement first, cross-sell later. Achieving status as a customer's primary FI hinges on making it convenient and easy for new customers to cut ties with their previous FI, and then engaging them to build deep, habitual interaction. Active engagement is the bedrock for a relationship that leads to higher profitability from the sale of additional depository, loan, and investment products (see Figure 5).

Place top priority on "sticky" actions. Encourage repeat banking activity by making it fast, easy, and convenient to establish direct deposits, shift bill payees, activate debit cards, enroll in online and mobile banking, and turn on financial alerts. Promote that outcome by designing it into the account-opening process and creating incentives for engagement-building actions.

Welcome and motivate new customers. Follow up with email, notifications, direct mail, and messaging within online and mobile banking to welcome new customers. Promote the benefits of additional services such as bill pay, direct deposit, alerts, and personal finance capabilities, and set expectations for onboarding milestones such as the delivery of debit cards. Monitor engagement and create incentives for new customers to take incremental steps toward fuller digital banking engagement, such as trying mobile deposit. Steer new customers to online and mobile banking tutorials. Make specific, personal recommendations; don't spam new customers with generic messages.

Make simplicity the touchstone. Streamline the account opening and onboarding process to ensure new customers can conveniently and easily complete the switch to your bank or credit union.

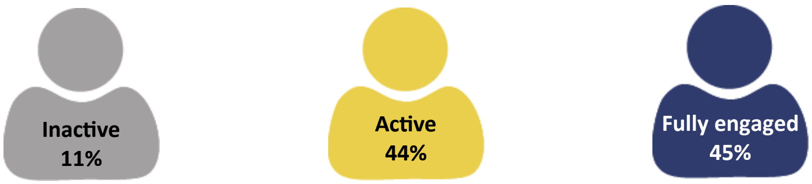
Adopt an opt-out approach to jump-start engagement. Onboarding should build on the presumption that new customers want to get the maximum value from their new accounts. Don't confront applicants with separate decisions about activating individual services such as online banking, mobile banking, and alerts.

Instead, frame a new checking account as a full-service suite. Design the activation process to minimize decisions and maximize adoption of services.

Minimize obstacles that lead to silent attrition. Address factors that can entice consumers to open accounts that lay dormant. For example, assess whether initial deposits, account restrictions, and minimum monthly balances inhibit new customers from immediately using their new account and extend their reliance on their previous FI. Similarly, evaluate promotions to minimize the number of consumers who open accounts to park money or to claim incentives but have no true intent to engage actively and fully switch.

How to Take a Targeted Approach to Boosting Engagement

Figure 5: Recommendations for Deepening Engagement



Inactive

Reduce "silent attrition" by rewarding customers for account activity and completing key steps to switch FIs.

Discourage inactivity by charging monthly fees for accounts not used to make purchases.

Target customers who tried but failed to enroll in direct deposit or bill pay.

Expand offerings to younger consumers, especially recent graduates, as their financial lives become more active and profitable.

Active

Promote enrollment in bill pay, direct deposit, alerts, and personal finance management services while customers perform ordinary online banking transactions.

Use gamification techniques to motivate customers to take additional steps to a fuller relationship.

Contact customers who show signs of slipping into inactivity with checking and credit cards.

Aggregate account data to provide one-stop financial control and support bill pay, alerts, and personal finance management.

Fully engaged

Deepen the appeal of bill pay by making it easy to schedule bills, forecast cash flow, transfer funds, and expedite payments.

Provide tools and alerts to warn customers of financial missteps that can trigger fees for late bills, overdrafts, and exceeding credit limits.

Develop the ability to handle issues and complaints through as many customer service channels as possible, including social media. Deepening engagement leads to heightened expectations.

METHODOLOGY

Consumer data in this report is based primarily on information collected in a random-sample panel of 600 consumers in a December 2014 online survey commissioned by Deluxe, with a margin of sampling error of ± 4%. Supplemental data is based on information collected by Javelin in a random-sample panel of 8,552 consumers in a November 2014 online survey with a margin of sampling error of ± 1%. Profitability calculations are derived from a Javelin ROI calculator that was developed from Javelin consumer survey data, in-depth interviews, and secondary research.

ABOUT JAVELIN

Javelin Strategy & Research, a Greenwich Associates LLC company, provides strategic insights into customer transactions, increasing sustainable profits and creating efficiencies for financial institutions, government agencies, payments companies, merchants, and other technology providers. Javelin's independent insights result from a uniquely rigorous three-dimensional research process that assesses customers, providers, and the transactions ecosystem.

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ABOUT DELUXE

Founded in 1915, Deluxe is a growth engine for small businesses and financial institutions. Deluxe serves 5,700 financial institution clients and more than four million active small businesses. Its financial institution clients range from some of the largest in the country to thousands of community banks and credit unions. Deluxe delivers a range of FinTech solutions that drive profitable growth for FIs through payments, marketing services, risk and performance management, digital channels and loyalty. From connecting operations with clear ROI to bridging the gap between marketing and technology, Deluxe's best-in-class solutions help clients acquire, engage, grow and retain lucrative long-term relationships.