Harland Clarke Webcast
Opportunity Analysis: Turning Information into Action and Growth TRANSCRIPT

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Jeb: Good day, and welcome to Harland Clarke's webinar. Today's topic is Opportunity Analysis: Turning Information into Action and Growth. This webinar is being recorded, and it will be provided to you along with the presentation deck within a few days. If you have questions, please use the chat box on the side of the webinar control panel. You can ask questions of our panelists at any time. Your questions are private and are only seen by the presenters. I'd now like to turn the call over to Andrew Huber, Product Manager for Marketing Services at Harland Clarke. Andrew, you have the call.

Andrew: Thank you, Jeb. Welcome, everyone, to our webinar. As Jeb said, my name is Andrew Huber, project manager for Harland Clarke, and I'll be your moderator today. I have ten years of financial institution experience, focusing on product management and development, business development, and data analytics. Our presenter today is Steve Nikitas. Steve, would you like to introduce yourself and get us going?

Stephen: Thank you very much, Andrew, and good afternoon, everybody. Welcome to yet another Harland Clarke webinar. Again, my name is Stephen Nikitas. I am a senior strategy director with Harland Clarke. I have been with Harland Clarke for about 6 years now after some 30 years of experience in the financial services industry, where I served in executive positions in Massachusetts, California, and New York. Among my roles at Harland Clarke is helping financial institutions to grow their loan and their accountholder portfolios. 3

Andrew, I'm going to take things away, if that's okay, and let's talk about our agenda right now. Let's take a look at our agenda slide. What are we going to do over the course of the next hour or so? We are going to focus on three things today. I'm going to start by talking about financial trends. I want to bring up a couple of slides that talk about the direction that we see things heading into. Then we're going to talk about the opportunity analysis. Of course, that's why we're here today.

We're going to talk about the opportunity analysis and how it can help marketers, retailers, operations folks at both banks and credit unions to really gain knowledge and gain insight into what their organic portfolios look like in order to ensure that we're utilizing our marketing and our retail projects as effectively and efficiently as we possibly can. Then, from there, we'll talk about building a marketing plan and how the results of the opportunity analysis can help marketers and can help retailers to put together a business plan that will drive them to their goals and objectives for 2017 and beyond. Those are our three topics of discussion today.

Let's start with financial trends. Let's go to our next slide. On this particular slide, some challenges, some opportunities. Let's talk about some general challenges first. In my travels as a senior strategy director at Harland Clarke, I work with many marketing, and retail, and operations employees at financial institutions of a variety of sizes. Regardless of where I go throughout the country, I hear lots of headwinds out there that are impacting accountholder acquisition, that are impacting a financial institution's ability to grow their loan portfolio or maybe attract low-cost deposits.

Here are a handful of the challenges that I see in my travels, that I read, that I'm sure many of you are experiencing, many of you are seeing in your local geographies. Among other things, we see first and foremost that there's a little bit of nervousness out there among the consumer. We know that the economy has been performing, I guess, very slowly, from what I read. We look at GDP numbers, and GDP numbers based on years past are mostly recently certainly nothing to write home about. We see coming out of the 2008 recession the consumer has done a good job of cleaning up his or her personal balance sheet.

Because of the economy, because of continued downsizing among corporate America, and because of the difficulty that we see in America these days when it comes to small business startups, consumers are still out there paring down their balance sheets, delaying purchase decisions, maybe not so wild about the economy as they were in the '80s, and the '90s, and the early part of this particular century. On top of that, we see financial institutions slowly but surely facing more and more competition from peer-to-peer lenders and from fintechs. While we've reading in the news lately that some of the fintechs have been hitting a little bit of a bump in the road, nonetheless the expectation is within the next few years that loan acquisition through peer-to-peer, particularly fintech, is really going to grow dramatically.

We see the mix of portfolio changes taking place in financial institutions, maybe focusing on certain products going forward compared to what they had focused on in the past. The mortgage market, albeit there are some communities where we see lots of pent-up purchase demand, communities like Charlotte, Nashville, the Twin Cities in Minnesota, purchase activity when we look back in time is a bit lower than what it had been. Nonetheless, purchase activity is still far and away exceeding refinance activity, and the expectation is as rates will slowly start to go up eventually, the purchase vs. refi market is going to continue to favor purchases.

Lastly is another challenge. We see leasing on the auto side continually gain in popularity. The average cost of a new car today is approaching $30,000, and increasingly it's becoming more and more difficult for consumers to finance that kind of loan. Increasingly, we see consumers turning towards auto leasing.

Where are there opportunities? Certainly, on the home side of things. Again, while purchase activity is not going to be anywhere near what it was in the early part of this century, we still see opportunity when it comes to mortgage lending. Maybe not as brisk as it had been, but there's still opportunity there. Auto sales, which fell off precipitously as a result of the 2008 recession, are slowly but surely coming back. The expectation is by the end of this year the number of new vehicles sold in the United States will exceed that which was sold in the US back in 2007 heading into the recession. The expectation is that new car sales are going to continue to hover around the 17 or 18 million unit mark for the next several years.

Unsecured personal loans show slow but steady growth. The good news there, while unsecured personal loan growth is slowly growing, the delinquency rate among unsecured and personal loan borrowers continues to fall. We've got a much more creditworthy consumer who is obtaining unsecured credit these days from financial institutions. Unemployment looks to be low, under 5% these days. The expectation is that that rate will continue to be low. Certainly, that's a good things for financial institutions. If consumers are working, hopefully they're borrowing money to afford those big-ticket items.

Then, of course, we still see lots of relocations taking place in the US as college graduates get jobs, relocate to new geographies, and with those relocations, there's always an opportunity for checking, always a lot of opportunity for low-cost deposits. Some of the challenges, some of the opportunities, the challenges may be a little bit more heavy in weight than some of the opportunities, but in order to minimize those downturns, we have to focus on maximizing whatever we can do when it comes to taking advantage of those opportunities out there. That is where the opportunity analysis can come into play.

Before we start talking about the OA, though, let's take a look at a couple more slides relative to the economy. This is a slide that I put together specifically for today's presentation that takes a look at historic net interest margins. I went back to the early 1980s. If you go all the way to the left-hand side on this particular slide, you'll see back in 1984 the net interest margin was hovering somewhere around 3.7%, 3.8%. You can see, going up, going down, we've had some peaks in the interest margins, never more than 5.0% back in the mid-1990s. Since that high-water mark in the early to mid-1990s, we have seen a slow but steady decrease in net interest margins.

In fact, if you go all the way over to the right-hand side, in 2015 we saw net interest margins fall below 3.0% for the first time in history, or certainly for the first time going back to the early 1980s. When net interest margins fall below 3.0%, that certainly is cause for alarm for any CFO or any banker or credit union executive out there. Now, when it comes to net interest margins, there are a handful of things that that can take place in order to positively impact net interest margin. This is our profit margin. The higher the net interest margins, the better for the financial institution, obviously.

What are those things that can be done in order to positively impact net interest margins and increase our profit margins? Certainly, short-term interest rates play a big part in net interest margins. Of course, with the Fed artificially keeping the prime rate as low as it can be, the expectation is that we're not going to get any relief relative to short-term interest rates any time soon.

Geography is another component that can impact net interest margins. If you're a financial institution that operates in an environment that might not be very competitive, that gives you an opportunity to offer lower deposit rates and to charge higher loan rates on your products. It is more than likely, though, that most everybody on the phone today is not in that kind of a geography. Most everybody on the phone today, I'm sure, is faced with plenty of competition, so we can't rely on geography and, of course, we can't rely on short-term interest rates with any help from the Fed.

As marketers, as retailers, there are a couple of things that we can do to positively impact net interest margins. One is the accountholder relationship. Obviously, the more products and services our accountholders have, the more profitable that accountholder is, the more interest income they are generating for us. As marketers, as retailers, anything we can do to strengthen the accountholder relationship is a positive way to improve profit margins.

Another way that we can positively impact net interest margins is by increasing our credit portfolio. Obviously, with loan yields far exceeding investment yields, far exceeding the yields we see from deposit products, and certainly from non-interest income revenue, loan yields are something that we can rely on as marketers and retailers in order to positively impact net interest margins. We'll talk more about that in a little bit, but with the opportunity analysis, it gives us as marketers and retailers that window through which we can strengthen the accountholder relationship and through which we can continue drive loan demand at our financial institutions.

Let's take another look at another financial chart that I want to bring up today. On the next slide, we're going to look at the efficiency ratio. The efficiency ratio, obviously, is we're comparing our operating expenses to interest income. With the efficiency ratio, there are ways that we can positively impact the efficiency ratios. However, it is likely that the efficiency ratio will never fall below 50%. As marketers and as retailers, we've got to do whatever we can to make sure that we are spending our marketing dollars as efficiently as we possibly can.

Now, just like with net interest margins, we can impact efficiency ratio in a couple of ways. We can certainly do that through improved process flows, meaning that we get better at the way we implement initiatives. We get more efficient at the way we implement initiatives. Also, we can impact efficiency ratios through increased revenues, through increased interest income, by driving more product into the hands of our accountholders.

Those are a couple of slides that I wanted to share with you as we get ready to talk further about the opportunity analysis. With that, let's stop here and just check and see if we have any questions that our attendees today have asked. Andrew, any questions out there?

Andrew: Yes, Steve, we do have a couple that have come in. The first one: In particular, for 2017, are there any specific products I should focus on to impact net interest margin and efficiency ratio?

Stephen: Sure. Good question. The products that I would recommend we focus on are going to be credit. Certainly, mortgages. Those are the high-dollar, the high-balance products that are going to drive plenty of ROI, plenty of interest income. Certainly, home equity loans, home equity lines of credit. In most if not all areas of the country, we're seeing equity increase coming off of the 2008 recession, where we saw many geographies around the country underwater relative to home equity. For the most part, home equity has come back in pretty much most if not all geographies. Those are the two products that, if I were a marketer today, I would focus my energies on in order to positively impact net interest margins.

Andrew: All right. Very good. Next question that came in has to do with current events. What fallout do you see coming from the Wells Fargo situation?

Stephen: Another good question. Certainly, time will tell, right? The CFPB is starting to get their hands around the Wells Fargo situation, and I would suspect that the CFPB is going to more than likely come down, and come down hard, not only on Wells Fargo but more than likely on the entire financial services industry. I hope and pray that we don't end up in a situation where anyone who wants to open up an account with a bank or a credit union needs to go through forms that need to be completed in triplicate or more in order to attest to their willingness and desire to open up that account, but I would expect that things are going to happen. Ultimately, it's probably going to be more difficult for us to cross-sell products and services to our accountholders.

Andrew: All right. Very good. That's all we have for right now. We can continue.

Stephen: Excellent. Thank you very much. Good questions, Andrew. Thank you. All right, so let's start taking a look at the opportunity analysis. The opportunity analysis, it is a deep-dive into your accountholders' relationship with your financial institution. There are many organizations out there that will provide this kind of information. I know in my former life I was on the banking side, as I mentioned, for 30+ years, and it was not unusual for my financial institutions to work with relationship vendors out there would come in and take a look at our accountholder relationships, what those balances looked like, what penetration looked like, so on and so forth.

There are some key differentiators with the Harland Clarke opportunity analysis that certainly I believe spell a different what the opportunity analysis offered by Harland Clarke provides and those analytical tools that other vendors may provide. That is those last two bullets on this particular slide. With the opportunity analysis, we're certainly going to provide you with that key insight and information into your accountholder portfolio. We're going to help you identify where your opportunities are and where your risks are.

More importantly, we're going to compare you to an industry benchmark. Now, Harland Clarke maintains an industry benchmark of better than 100 financial institutions around the country, and when we look at a bank or a credit union accountholder data, we are going to compare that to our industry benchmark. Let's face it, we know how our financial institution is performing, but we're always curious about how we compare to other financial institutions. Here's where the industry benchmark comes into play: It gives financial institutions that keen insight, that perspective on whether my performance numbers are truly good or whether there is room for opportunity. That is one key differentiator with the Harland Clarke opportunity analysis.

Another key differentiator, and here is really I think the big differentiator, is the fact that we provide actionable recommendations and a roadmap on what a financial institution can do with all of the data that comes out through the analysis. Now, just as an aside, I know in my former life, as I mentioned, I've gone through plenty of analytical presentations that took a look at my accountholder base, and oftentimes I walked out of those one- or two-hour, or even half-day, meetings with printouts, or maybe binders, or take-ones, whatever the distribution happened to be. No sooner did I get into my office that, more often than not, that packet of information that I received ended up in a bookcase and was never pulled out again. The reason for that was simply because it was data overload.

Personally, I never knew what I needed to act on in order to make the biggest impact for my financial institution. In fact, I was paralyzed by the analysis. That probably holds true with some of you on the phone today. A key differentiator of the Harland Clarke opportunity analysis is we're going to show you what to do with all of this information so that as a marketer, as a retailer, you have an action plan; you will have a roadmap on how to put that information into play in order to take advantage of those opportunities in order to minimize those risks that are going to be identified through the opportunity analysis, so a couple of key differentiators that I believe spell the difference and make the opportunity analysis such a valuable tool.

Let's go to our next slide. On the next slide, let's take a look at a couple of things that you'll see from an OA. First off, taking a look at the top half of this slide, you're going to see things like product penetration, and in this case, we're looking at product penetration relative to credit products. As an example, the green bars on this particular slide might represent your financial institution's numbers. For example, if you go all the way over to the left-hand side, you'll see that this particular financial institution, better than 7%, let's say, of its particular accountholders have auto loan penetration.

The orange or the salmon-colored bar represents the industry benchmark. In this case, industry benchmark auto penetration is a little better than 1%, so now as a marketer I have a better feel for how is my institution performing relative to auto loan acquisition compared to that benchmark. That helps me identify the opportunities, among other things. It also helps me identify where my shortcomings might be. You'll see that sort of information for credit products, for deposit products, and at the bottom you'll also see if for engagement services.

Now, in this case, we're looking at things like online banking, bill pay, debit cards. Eventually, we'll be able to show these numbers for mobile banking penetration, as well. We show these numbers for engagement services because at Harland Clarke we believe that engagement services, particularly bill pay, is key to solidifying the accountholder relationship with the bank or the credit union, particularly bill pay. We find if that consumer is actively using bill pay, the likelihood of that consumer attriting from the financial institution is nil, and that consumer's relationship with the financial institution is as solid as granite. Not only will you see these penetration numbers for balance-bearing products and engagement services, you'll also see balance comparisons, as well, or deposit and credit products, comparing your financial institution to the industry benchmark.

Let's take a look at our next slide. Here's another key item that you'll see from an opportunity analysis, and this revolves around the relationship, and attrition in particular. In this case, we're looking at attrition relative to the accountholder's tenure with the financial institution. We've got our green bar, which in this case is your financial institution. We've got our salmon-colored bar, which, again, in this case is the industry benchmark that Harland Clarke follows.

You can see in this particular sample the financial institution's attrition numbers or attrition percentages are actually higher than what we see with the benchmark. There's a problem, right? This particular financial institution is losing accountholders at a faster clip than what we see with the benchmark, so red flags go up. We'll talk more about what this type of slide results in as we get a little bit further into today's presentation and talk about that roadmap or that action plan.

Take a look at our next slide. We're drilling down on our next slide now to take a look at the key metrics relative to your particular accountholders on the left-hand side and comparing them to the industry benchmark on the right-hand side. On the left-hand side, we're looking at new customers. With the opportunity analysis, we identify new customers as anyone who has been with the FI up to one year. We also show this information for existing customers, and existing customers are those accountholders who have been with your financial institution for better than a year.

In this particular sample, we're showing you new customers, and if you take it from top to bottom, we're showing you things like the number of new customers who have joined the financial institution or new members who have joined the financial institution over the past year, the percentage of student body. Drilling down a little bit, you'll see that we're looking at the overall banking relationship. What does that particular accountholder's deposit and credit portfolio look like relative to share of wallet and while comparing that number on the right-hand side to what the benchmark tells us?

If the share-of-wallet relationship is better than benchmark, great. If it's lower than benchmark, then there's an opportunity that we present to the financial institution around the lines of, "Look, your new customers or your existing customers who have relationships with you may have a deeper share-of-wallet relationship, so you as a financial institution are doing a great job in grabbing balances from your accountholders." On the other hand, the data may show that your overall balance relationship with your accountholder is lower than the benchmark, so there's opportunity for the financial institution to focus on cross-selling products and services to that accountholder in order to obtain more balances and get back on an even keel or better with the benchmark.

As we continue to drill down on the left-hand side, we're looking at things like cross-sell relationship, what is the number of products and services that new and existing customers have with your financial institution, and on the right-hand side, we compare that with the benchmark. If the cross-sell relationship is better than the benchmark, great. What are you doing as a financial institution to get so many products and services into your accountholder's hand? If on the other hand that cross-sell relationship, that products-per-accountholder relationship, is not where the benchmark is, then, again, that tells us that maybe there's an opportunity for this particular financial institution to conduct those cross-sell programs to strengthen that relationship with the accountholder.

Drilling down a little bit further on the left-hand side, there's data that we append. We append things like age, things like home income, and things like home ownership. Through the opportunity analysis, we have a resource through the US Census Bureau that provides that data to us. Again, we're able to compare that to the appended information for the benchmark. Things like age, for example.

One of the things that I will focus on when I deliver an opportunity analysis is age. For example, in this case, the average of the new customer in this example for this particular financial institution is 47 years. On the right-hand side, the benchmark average age is 43. What is this institution doing to attract new accountholders?

Obviously, we want to attract younger consumers, Gen-Yers, Gen-Xers, those consumers who are entering those life stages where their need for financial products and services is more pronounced. A conversation point with this institution might be, "What are you doing to attract new accountholders? They look a little bit long in the tooth. Maybe you're not using the proper marketing channels focusing on the younger demographic segment."

Then drilling down a little bit further on the left-hand side, we're going to look at those balance-bearing penetration numbers, starting with deposit and engagement services, as well as average balances. Then at the bottom, we're looking at credit penetration and average outstanding credit balances and with both deposits and credit, as well as engagement service, we are always comparing you to the benchmark on the right-hand side in order to insure that we're putting things in perspective.

As I like to say, I know with the Red Sox how many games they've won, how many games they've lost. I don't know anything – I can't put that into perspective until I take a look at the standings every day in my local paper to see whether those wins and losses are a good thing or a not-so-good thing. Let's go to our next slide.

On our next slide, one of the things we talk about with the OA is our proprietary propensity model called Stratics. Stratics allows us to take a look at your accountholders and identify their purchase propensities for pretty much every and any product. At the same time, with Stratics, we're able to identify your accountholders' likelihood to drain balances from their accounts or maybe eventually up and leave the financial institution altogether.

Stratics is based on some 600 banking behaviors. Now, many propensity models out there focus on demographics. Stratics is different. There are some demographics involved, primarily age, income, home ownership, but for the most part, as you can see, it is relying on the way your customers bank or the way your members bank with you. Let's go to our next slide.

On our next slide, focusing first on the top part of this slide, as I mentioned, with Stratics, we can identify propensities for pretty much any and every product that you sell, ranging from checking to certificate accounts, to credit products, to insurances, even to investment service relationships. With Stratics, we're able to identify your accountholders' next most-likely product. What is the next most-likely product or service that your accountholder shows a propensity for?

At the same time, we're able to this from a small-business perspective. We're able to provide an opportunity looking at your small business portfolio to, again, help you identify where your opportunities and risks exist with your commercial or with your small-business portfolio. Let's go to our next slide.

On our next slide right here, here's again an example of how Stratics would work. Let me just very quickly focus your attention on the graphic on the right-hand side. With Statics, we put your accountholders into one of those seven different buckets that you see in the graphic. Starting on the upper right-hand side, high touch, high-touch elite.

Based on the propensities, let me direct your attention to the X-axis. We are looking at attrition on the X-axis, going from low attrition on the left to high attrition on the right. On the Y-axis, we are looking at purchase likelihood, starting with low purchase likelihood at the bottom, and as we move north, we're looking at high purchase likelihood.

Those consumers who are in the high-touch or high-touch elite bucket, based on where they sit on the quadrants, those particular consumers show a high likelihood to attrite there on the right-hand side of the X-axis, but they also show a high likelihood to buy more products and service from you; they are on the north side of the Y-axis. Typically, those are younger consumers who are entering those life stages where their need for more product and services is pronounced.

Then as you go counterclockwise, you've got the aggressive cross-sell and aggressive cross-sell elite buckets. Those are consumers who do not show a likelihood to attrite based on the fact that, according to Statics, they're on the left-hand side of the X-axis and on the attrition scale, but they also show a likelihood to buy more products and service from you based on the fact that they're on the high end of the Y-axis.

Continuing to go counterclockwise, there's our loyalty and loyalty elite groups. Those are segments that are typically older. They have longer tenures with the financial institution. They don't show a likelihood to buy more products or service from you, but there are certainly pinpoint opportunities. Oftentimes, checking, with those particularly consumers.

At the same time, they don't show a likelihood to attrite from the institution. These are your fans. These are those accountholders who are advocates of the financial institution. Oftentimes, when financial institutions tell me that they are looking to conduct referral programs, I will oftentimes tell them those are the customers, those are the members, in those two particular buckets, who you need to reach out to because they will bring the neighbors, the loved ones, the family members, the work associates into the financial institution because they are your word-of-mouth army.

Then that last bucket all the way over to the lower right-hand corner, the relationship bucket, who are they? Typically, older consumers. They have strong balances with the financial institution. They don't show a likelihood to buy more products and service. However, they do show a likelihood to attrite from the bank or credit union.

Those are consumers that you may want to focus your energies on because they do typically have strong share-of-wallet relationships with you, and we want to make sure that we're catering to those consumers and focusing cross-sell efforts on those consumers. Even though they don't show a likelihood to buy more products and service, we utilize Stratics to identify the right product to get to those consumers at the right time because they will buy from us if we're relevant when we communicate with them. Let's go to our next slide.

We've talked about Stratics. With Stratics, what we're able to do with Stratics is to segment your customer base into what I call demi-deciles. If you look all the way over to the left-hand side, there are 20 demi-deciles that we segment your customers into. As an example, if a financial institution were to say to Harland Clarke or say to me as a strategist I want to focus on cross-selling checking accounts, well, what Stratics allows us to is identify those customers, putting them into these 20 demi-deciles, showing those customers who show the highest propensity for a checking product. Those customers at the very top in Demi-Decile Number 1, it looks like there are some 2,400 or so customers within that particular demi-decile, those customers in that demi-decile, those 2,400 or so customers, have the highest propensity for, in this example, a checking account with my financial institution. The propensity to purchase decreases as we go from 1 through 20.

Now look at Demi-Decline Number 1. Go three columns from the left-hand side. There are better than 55,000 households at this particular financial institution that do not have a checking account with me. As a marketer, as a retailer who wants to cross-sell checking, that is an anchor product, no doubt about it. I can market checking to all 55,000 of those households. However, with my limited marketing dollars, and let's face it, when I was on the marketing side of things, I never had enough money in my budget to do all the things I wanted to do.

If I wanted to market to all 55,000 households, my marketing budget would get eaten up pretty quickly, so I needed to operate and market as efficiently as I possibly could. Rather than market checking to all 55,000 households, I would utilize Stratics and maybe market checking to the top four demi-deciles, again, all the way over to the left-hand side, Demi-Deciles Number 1, 2, 3, and 4. If I go two more columns in from the left-hand side, there are about 12,000 households within those four particular demi-deciles.

Those four top demi-deciles show the highest propensity for purchasing a checking account from my financial institution. I know that because as I go about halfway over on the top of this example, or I look at cumulative response rates, I can see what my expected response rates are going to be by communicating with those top four demi-deciles. Rather than communicating and spending money to market to 55,000-some odd households and utilizing too much of my marketing budget, I can become a smarter marketer, a more efficient marketer, by focusing on those top four demi-deciles, communicating with only 12,000 or so households, knowing that my response rates are going to be strong, knowing that I'll have money in my marketing budget to conduct the kind of direct campaign that I should, which is communicating consistently through a multitude of different marketing channels.

That's a very quick example on how Stratics can be put into play to help a financial institution to market its products and services. Let's go to our next slide, and let's stop here on our next slide. Andrew, we've just gone through a bunch of stuff. Do we have any more questions out there?

Andrew: We do. Thank you, Steve. We do have a few questions. We also have a poll question that we would like to ask our audience. If we can put that up, that will be coming. That poll question: Which third party or parties do you use for peer analysis or industry benchmark? You can choose one or more. If you do have other, you can add that to the chat window, and we can see that on our side.

As the audience goes through and makes their selection for the poll question, we did have a couple questions come in. I'll go ahead and ask those to you now. The first one: How do we arrive at the industry benchmarks?

Stephen: Great. Good question. We receive core customer and core member data from some 100 financial institutions around the US, and that data comes to us on a regular quarterly basis. That is the data that we utilize as part of our industry benchmark. It is all confidential in nature. When we deliver an opportunity analysis and we compare a financial institution to the benchmark, we're able to provide geographies on where the financial institutions are located. We're able to provide information on asset size ranges, but we do not share any other data relative to the benchmark. We don't share any financial institutions' names. Next question?

Andrew: Very good. Next question: Do you recommend marketing to individuals or households? As an example, a checking account for each person in the household or at least one in the household?

Stephen: I like to rely on – again, this is, I think, really more personal, but often I like to rely on targeting the individual in the household. I believe that, with direct marketing, the personalized we can make direct marketing, the better. We know that personalization counts for a lot when it comes to driving the call to action. That is my proclivity. I know there are institutions that really like to focus more so on the household, so I think it's really up to the institution and the direction that they want to go.

Andrew: Very good. I do have one more question for you. I would like to talk about the poll results real quick. As our audience can see, it appears that Callahan is the leader, followed by Raddon and BAI. Some of the others that have come in via the chat window are Touché Analyzer and also Cornerstone as those who we use for peer analysis. The last question that we have is when you measure e-services versus the industry standard, are you looking at all clients or just those with a deposit account?

Stephen: We are looking at – we do it a couple of ways. With one of the graphs that you saw early on where we looked at new customer versus new customer benchmark, you may have noticed that there was a line item in there under the overall banking relationship. What we show there is the average deposit relationship of new customers only if they have a deposit relationship with the financial institution. We do the same with credit. We look at the banking relationship from a dollars and cents perspective in a couple of different ways in that regard. With the chart that I showed early on, that is an overall number that looks at all accountholders and averaging out the relationship for all accountholders, whether they have a deposit relationship with you or not.

Andrew: Okay, great. Thank you very much, Steve. That's all the questions we have at this time. We can move forward.

Stephen: All right. Good. Now let's take a look at the plan. Here's that key differentiator that I mentioned early on. Lots of data comes out of the OA, and, again, data is data. Data is only as good as you use it. That key differentiator that comes out of the opportunity analysis is being able to build a plan for the financial institution. This is where things start.

It's what did we learn, what did the opportunity analysis tell us, what is the recommendation that we at Harland Clarke would provide to the financial institution, a recommendation based on our experience as marketers in the financial services world as well as best practice. What do we see other financial institutions out there doing? What would that action plan look like? With that, let's take a look at how this chart would build out on the next slide.

On our next slide, here are the key things that we learn from this particular sample opportunity analysis. All the way over to the left-hand side, we learn that this institution has a high attrition rate. We learn that, again, as an example, that there is an issue with cost of funds. Maybe CD penetration was too high, and as we know, even though we're in a low-rate environment, we've got to keep cost of funds to a minimum because net interest margins are low.

We learn that this particular financial institution has low loan penetration. When we looked at or when we compared the institution to the benchmark, it was significantly below the industry benchmark. We learned, Point Number 4, that there were a large number of households within the financial institution in the elite accountholder segment. Now, those are those customer or member value segments that we utilize Stratics for. That was the seven quadrants that I showed early on, those colorful boxes.

In those colorful boxes, there are some elite segments, and those elite segments are typically your higher relationship customers, your customers that might have better balances with you, more product penetration with you, simply more opportunity with you, more opportunity to purchase more product, maybe more likely to attrite from the institution. We learn in this particular analysis that there were several of those elite segment where we got strong product penetration and strong balances. We didn't want to do something about those particular households.

Then again, lastly, Point Number 5, in this sample there was some strong HELOC penetration among some of the customer or member value segments. One of the things that we know from experience is typically 30% to 50% of a financial institution's HELOC portfolio has either never been activated or is underutilized. Consumers have a lot more opportunity to draw – there's a lot of opportunity to draw off of that home equity line of credit than the consumer is taking advantage of.

That's what we've learned. Here are the five key points. Here's what came out of the opportunity analysis that told us that these were where the key opportunities were. Let's go to our next slide and show what those recommendations then might be.

ON this slide, again, building toward our marketing plan, let's take it from the very top. High attrition, we see a significant number of accountholders attriting in the first year. What do we recommend? Again, based on our experience and based on best practice, these are new customers who are attriting before their one-year tenure with the financial institution comes to an end, onboarding makes sense. Cost of funds, we see high CD penetration that are driving high cost of funds. Recommendation: CD maturity campaign. We'll talk more about that in a moment.

Low loan penetration, our next key finding, below the benchmark. Maybe a recommendation coming out of that would be a recapture campaign. Identify those consumers, those accountholders, who have a credit product at another financial institution. Next few point: large number of households in those elite accountholder segments. There may be lots of opportunity there for more product and service that we can direct to those particular accountholders. Maybe a retention campaign, that would make sense. Again, we'll talk more about in a moment what that would look like.

Then, lastly, high HELOC penetration. We know that 30% to 50% of those HELOCs are likely never activated or underutilized. A HELOC activation and utilization campaign would be a recommendation. Let's go to our next slide and see what these action plans would look like.

With high attrition rates, we're going to conduct an onboarding campaign that would comprise a multitude of touchpoints early on in the consumer's relationship with the financial institution. We might promote things like direct deposit and look at cross-selling key products and services. Relative to our next key finding, cost of funds, we talked about a CD maturity campaign. What we would recommend is targeting accountholders to open money market accounts and maybe investment service relationships as their CDs come close to maturity.

When it comes to low loan penetration, recommendation: maybe a recapture campaign where we would target accountholders who have credit products at other financial institutions, utilizing a prescreened approach, because in order to identify who they are, we would have to utilize or look at credit reports. We would encourage those consumers to refinance that loan at a lower rate with their current financial institution, which is, in this case, us.

Next key point: large number of accountholders in that elite accountholder segment. Again, they're elite accountholders. They show a likelihood for maybe more products and services from us, so a retention campaign might look like reaching out to these consumers two or three times over the course of a year with a direct-mail piece, followed up by a telephone call, where we would have a needs-based discussion with that consumer and find out what ways we can help that consumer when it comes to their needs for more credit or their needs for investment.

Then, lastly, a HELOC activation campaign might compromise a multichannel approach where we would send personalized messages through things like direct mail, maybe email, phone calls, among other things, where we might applaud the consumer for having the financial wherewithal to turn to our financial institution for a home equity line of credit and then encourage that consumer or educate that consumer on all the ways they can use a HELOC to help them out when it comes to tackling those big-ticket items that might be facing them.

Now, once we've gone through that process, the next step then is to start building up the marketing calendar. Here's what that marketing calendar might look like. First and foremost, at the bottom of this chart, this is what a marketing calendar might look like for an onboarding program. If you look all the way over to the left-hand side, we would recommend, let's say, a welcome letter, a 30, 60, 90, maybe even an anniversary day letter.

One of the luxuries of the opportunity analysis is that we're able to provide the marketer or the retailer with whom we're working with at the financial institution with numbers. Again, the output from this marketing plan is we want to make sure that the marketer fully comprehends where their marketing dollars are going to be spent and when they're going to be spent. With this particular calendar, for onboarding, you're looking at, from Month 1 through

Month 12, the number of onboarding pieces that would be mailed to support each particular campaign. You can see, starting with the top, the number of pieces for a welcome letter, starting with Month 1, then the 30-day, 60-day, 90-day, then eventually the anniversary letter. Let's go to our next recommendation.

Our next recommendation revolved around cost of funds. What would a marketing calendar look like for a CD maturity campaign? We would communicate with CD holders on a regular monthly basis based on what we know, again, from the opportunity analysis when it is likely that CDs are going to be maturing. Again, we're providing the marketer with quantities and dollars and cents eventually, once everything is agreed upon, so that the marketer can see specifically what is going out the door when.

Our next slide, we wanted to take a look at our low loan penetration. In this case, on the left-hand side we're looking at recapturing a number of different credit products. In this case, it might be an every-other-month reach-out, as you can see with the cross campaign, or maybe a quarterly reach-out with a loan-engine campaign, or maybe a shopper alert campaign where we're reaching out to consumers on a regular monthly basis. Let's go to our next recommendation.

Our next recommendation was communicating with those elite households. As I mentioned, and as you can see on this calendar, maybe we communicate with these accountholders twice a year. You can see in Month 3 and then coming back later on in the year with a direct-mail piece, that, of course, would be followed up with an outbound telephone call to our key or our elite accountholders, again, with the intent of engaging them in a conversation about how we can serve their future needs. Let's go to our next recommendation.

In this case, that's a HELOC activation and utilization campaign. You can see here every-other-month reach-out. There are our quantities, which we're going t provide to the financial institution, again, based on what we learned from the opportunity analysis. Let's go to our next slide.

Here is how all of that would be presented to a marketer or a retailer during the presentation of an opportunity analysis. This is what the data tells us. Here are the recommendations on the left-hand side, based, again, on what the data tells us. Then going from left to right, here is your roadmap, marketer. Here are the things you can be doing. Here are the number of pieces of mail that our going to go out the door, the number of emails that are going to go out the door month in and month out, week in and week out, so that you know specifically how the engine is working. You know what's going in the mail. You know the cost of everything so that you have a better handle on managing your budget in order to make sure that all the wheels are moving in the same direction to help you help your financial institution achieve its goals and objectives.

Andrew, that is my story and I'm sticking to it. Tell me what other questions we might have.

Andrew: Fantastic, Steve. Thank you so much. That is great stuff. We did have a couple of questions come in. Let's see if we can get those answered real quick. First, how long does it take to complete an opportunity analysis?

Stephen: Sure. Once we get a financial institution's data, it will take about six weeks after we receive your data in order for us to complete the OA. We will work with the institution's IT people or whoever might be handling you NCIF, if it's an NCIF that we receive, in order to properly map your data to our OA data requirement. Once all of that is completed, it's five, no more than 6, weeks before we're ready to present.

Andrew: Okay. Very good. In regards to onboarding, what is better to use for the welcome letter? Is it direct mail or email?

Stephen: Good question. I would say a combination of both. I am a big proponent of multichannel marketing. I don't believe that there is a single solution when it comes to marketing. With onboarding, I would advocate certainly direct mail, and we know direct mail carries a lot of pull. I saw a recent study from the Direct Marketing Association that direct mail still drives a 3.7% response rate among existing accountholders, so direct mail has a lot of pull. I would also advocate email following direct mail as a complement. I would also advocate an outbound phone call if the financial institution has the bandwidth or the capacity to do that.

Andrew: Great. One last question: Who does the mailing and the email, Harland Clarke or the FI?

Stephen: Harland Clarke handles all of that. As I like to say, we take a soup-to-nuts approach when it comes to direct marketing. We take all of this off of the shoulders of the financial institution so that marketers with limited staff can really better focus on those day-to-day fires that pop up and oftentimes take the marketer's attention off of the ball. Harland Clarke handles all of the machination behind these programs in order to allow the marketer and the marketing staff to really address those day-to-day issues that can oftentimes take their attention away from the marketing plan.

Andrew: Fantastic. We do want to thank everyone for attending our webinar today. We are just past the hour, so I would like to thank all of our audience and our participants for attending today. We hope that you all have a great day. A video, a recording of this webinar, and an email will be sent out next week when everything is available from our website. If you all do have any questions, please feel free to reach out to us, and we'll be happy to answer those for you. Thank you so much.