Harland Clarke Webcast
How to Use Account Holder Data to Achieve Maximum Marketing Performance TRANSCRIPT

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Nathan: Good day, and welcome to Harland Clarke's webcast, *Big Data. Better Results: How to Use Customer Data to Achieve Maximum Marketing Performance*. This webcast is being recorded and will be provided to you within a few days. If you have questions, please use the chat box located in the control panel. Your questions are private and are only seen by the presenters. I will now turn the call over to Christine Ahlgren with our Marketing Department at Harland Clarke. Christine, you have the call.

Christine: Great. Thanks, Nathan, and welcome to everyone who's joining us today. We hope you'll find significant value in this segment of Harland Clarke's *Informed Banker Series*. This series is designed to cut through the noise, and bring you succinct timely information on topics that are critical to community financial institutions. The feedback you've provided in the surveys we send out after each installment of this series has allowed us to tailor future topics to best meet your needs. Our next segment, *How to Remain Top-Of-Wallet*, will be held on March 30. In the session, we'll discuss how your institution's ability to keep the payments secure and convenient in a post EMV environment impacts cardholder satisfaction and loyalty. Keep an eye out for that invite, which should be arriving in your email boxes in early March.

For today's presentation on big data, better results, we're proud to bring you the insight of one of our own, Steve Nikitas. Steve will talk to you today about leveraging your account holder data to achieve marketing performance. Steve has 35 years of financial services experience in marketing, PR, retail banking, and operations. He's held executive level positions at financial institutions in New York, California, and Massachusetts where he developed and implemented programs that resulted in significant growth rates in loans, deposits, and accounts. As a senior strategist at Harland Clarke, Steve consults with financial institutions to craft marketing, retail, and campaign strategies to help financial institutions grow and prosper. Steve, thank you again for being with us today. The floor is yours.

Steve: Great. Thank you, Christine, and thank you for that wonderful introduction. Thank you, everybody, for attending today's presentation. I will do my best to make this the most exciting 25 minutes that you spend on your Wednesday. Again, thank you all for attending.

Over the next several minutes, here's what we're going to talk about. I will give you a quick view about what's going on in the industry relative to some key metrics, and then we'll jump into how to use data to boost your marketing and retail strategies, and how you can turn data into action. We'll make sure or I'll make sure that we leave ample time at the end of today's presentation to address any questions that you all may have. If you have a question, by the way, there's a chat screen in your GoToMeeting or your GoToWebinar window. Feel free to type your question into that chat screen. As I mentioned, I will make sure before we wrap up today that we address any questions that you all may have.

With that, let's go to our next slide. On our next slide, we are going to ask a question of everybody. If you don't mind, please select one of the answers to our question. Our question is when you look at 2017, what is your top marketing priority? Please select one. We've given you a handful of options: acquiring new account holders, deepen account holder relationships, increase wallet share, grow your loan portfolio, or encourage channel shift. By encourage channel shift, it is driving your customers or your members to do business with you either through online channels, or through digital channels, or mobile channels.

If you would take a moment to select one of those answers, we will look at the answers that you came up with in a moment here. Here are the results of our quick impromptu survey. A little over a third of you said your focus for 2017 is to acquire new account holders. An almost equal percent said you wanted to deepen those account holder relationships. Eleven percent said you want to grow or increase wallet share. Twenty-two percent of you are focused on growing the asset side of your balance sheets. We didn't see anybody, interestingly enough, who had a focus on encouraging channel shift. Everybody, thank you very much for quickly responding to our impromptu poll.

Let's go to our next slide. As we go through today's presentation, I'd like you to keep this in mind. That when it comes to big data or just data in general, maybe we could take the word big and throw it out the window. I know that sometimes there can be a negative connotation with it comes to big data as opposed to little data. Regardless of what kind of data we're going to talk about today, you can use it across the full lifecycle spectrum. Data can be used to make perspective customers or perspective members aware of your financial institution and your product and service offering. Data can be used to help you obviously go out and acquire new customers and new members. We utilize data from the very initial stages of an account holder's relationship with a financial institution relative to onboarding, relative to ways to deepen those relationships with account holders and stem attrition. Data can be used to help identify where we need or who we need to reach out to in order to get accounts and services activated and utilized. Of course, we use data in order to cross-sell, most effectively cross-sell to our account holders, and we use data for retention efforts. As we go through today's presentation, we will touch on – or as we talk about data, keep in mind that it can be used across the entire spectrum of that account holder lifecycle.

Let's go to our next slide. We saw your top marketing priorities, and they pretty much are right on par with what the information and what research tells us from the Harland Clarke perspective of what our clients' priorities are. In particular order, that's what our clients tell us. They want to go out. They want to first and foremost acquire new account holders. They want to deepen those relationships relative to product cross-sell. They want to make sure that they're grabbing appropriate balances in order – well, from a product cross-sell perspective and a shared wallet perspective to solidify the relationship as that particular customer or member's primary financial institution. Financial institutions across the board are still focused on growing the asset side of the balance sheet. We do see many financial institutions – although none of you responded that way today, we do see financial institutions really focused on encouraging their account holders to utilize those digital and mobile channels in order to access their accounts. Thank again all for responding to that quick poll. Just a little bit of information from our own surveys on what our clients tell us.

Let's go to the next slide. I wanted to start with this slide to really set things up for today's presentation. In preparation for this presentation, I went back, and I took a look at net interest margins. If you go on the x-axis, you'll see that this chart tracks net interest margins going all the way back to the early 1980s. Some of you may or may not have been around back then. Just as a point of reference, Ronald Reagan was president back then. We always talk about, for the past ten years or so, we've been in this artificially low-rate environment. We know the Fed has kept rates at or near zero since at least 2008 when we entered into what many people call the Grand Recession.

We often as bankers say, gee, you know what? When the Fed starts raising rates, we're going to see net interest margins give us a little bit of breathing room. Profitability is going to go up a bit, and all will be good, well, maybe, maybe not. This chart, again, if you go all the way back to 1984, track how net interest margins moved. You can see we had a peak of almost 5% back in the early 1980 – back to the early 1990s. Since then, things have steadily – for the most part, have steadily declined. The point I wanted to make here is when the Fed finally does start raising interest rates, it is likely that, that 3% spread that we've all experienced over the last eight years or so, it's probably not going to get a whole lot better than that.

Now, when it comes to net interest margins, we as financial institutions, we as marketers, we as retailers can make a difference, and let's go to our next slide.

As marketers, as retailers, there are some things that we can do to help our financial institution see better net interest margins. First, short-term interest rates, well, that's not something that any of us on the phone has any control over. At this point, it's Janet Yellen and the members of the Federal Reserve Board. They're the ones who are going to dictate where rates go. Later on today, I think before the end of the day we'll see where the Fed stands on that. Geography is another way that financial institutions can impact, and marketers and retailers can impact net interest margin. If your financial institution has the luxury of operating in that environment where they don't see a whole lot of competition, well, you can charge higher loan rates. You can offer lower deposit rates in order to help your spread.

However, looking at the list of attendees on today's call, I doubt that any of you are in those noncompetitive areas. That being said, there are a couple things that us on the phone can do today. We can impact in a positive way net interest margins by deepening relationships with our account holders vis-à-vis more products, more services in the hands of our account holders, more balances that we obtain from our account holders. The second thing that we can do is drive more loan demands because we know that loan yields are the way to really positively impact nets. Those of us on the phone, what can we do? Drive account holder growth. Drive deeper relationships. Drive demand for loans. That's where data come into play.

Let's go to our next slide, and that's how we can effectively use data. Let's go to our next slide. Here I want to share with you based on my own experience as a strategist of Harland Clarke what I see as best practice. Regardless of the size of the institution, whether you're a $100 million financial institution or a $20 million financial institution, you have loads of data at your fingertips that you can utilize in order to, again, drive deeper account holder relationships. Drive more loan growth within your financial institution. From a best practice perspective, what I see happening is financial institutions segmenting their account holder, their customer base, their member base to identify when those – or to identify what those propensities are for particular products and services. Then market to those particular customer or member segments to most efficiently utilize our marketing budgets, and make sure that we're offering the appropriate product to the appropriate account holder at the appropriate time.

Let's go to our next slide. We talk about data, right? As you heard Christine say at the outset of today's presentation, I've got actually better than 35 years of financial services experience under my belt. It may not look it based on the photo that you saw of me earlier on. I know I look like a Millennial, but rest assured I'm not. For years and years and years, we in the banking and the credit union world have been talking about utilizing data. We talk about it, but we don't necessarily do that good a job at utilizing it.

This is a chart I put together. It's a couple years old now, but it's probably still, I think, relative and pertinent. The question was from a Gallup survey among consumers in the United States. That when it comes to marketing, how does your financial institution market to you? The blue bars represent the responses of fully engaged account holders. Now, a fully engaged account holder, for purposes of this study, was an account holder who has three, four, five or more products and/or services in their wallet. A not fully engaged account holder in the green bar was somebody who had only one or two products with that particular financial institution.

Very quickly, the questions are left to right. When the financial institution made an offer of a product or a service to you, was the offer general or could it have applied to anybody? Two-thirds of the fully engaged customers said, look, that offer that that financial institution made to me – maybe it was via direct mail. Maybe it was email. Maybe it was somebody at the platform when I came in telling me about a promotion that the institution had. Two-thirds of our fully engaged customers said the offer could've applied to anybody. I'm not sure why it was being made to me.

If we go left to right – again, I'm going to focus on the blue bar for this one because these are our best customers who were responding. Four out of ten said when the financial institution did make an offer to me, because it was general and because it was probably not pertinent to me, it bothered me. It annoyed me. I found it to be intrusive. Right off the bat, we're finding that almost half of our account holders are telling us, when we do make them an offer, because we're not making it based on what the data tells us, we're angering them. We're annoying them. We know what happens when we annoy our customers. We know that the primary reason why a customer will leave a – or a member will leave a financial institution is because we did something wrong. Then lastly, 53% of our fully engaged customers are fully engaged members. Those folks who have more than two products with us, better than half of them are saying that that offer that you made to me, I already had the product, or I already had the service. While we talk about data, we don't necessarily do a good job of utilizing.

Let's go to the next slide. First step when it comes to utilizing and putting data into play. Again, we all have access to loads of customer information, loads of member information. If you don't have an MCIF within your institution, you've got a core data system. That core data system can tell us everything. When we talk about utilizing core data or utilizing MCIF data to identify where our sale and service opportunities exist, I encourage financial institutions to go through a diagnostic evaluation.

What can a diagnostic evaluation tell us? Going left to right very quickly, first off, a diagnostic evaluation will help us segment our account holders by purchase and attrition propensities. It'll help us identify attrition so that we can identify who those account holders are who show a likelihood of leaving my financial institution outright, or maybe doing less and less business with my particular bank or credit union and doing more business with a bank or credit union down the street. A diagnostic evaluation will allow us to look at things like product penetration or service penetration. Normally, when we talk service penetration, we're looking at things like engagement services: bill pay, online banking, debit card utilization. Those three services I call engagement services. We know if a customer or a member is actively utilizing bill pay, or online banking, or their debit card, they are tied into that financial institution, and likely consider that financial institution to be their PFI.

We also want to take a look at new account holders, and segment new account holders from existing account holders. It's important to segment new account holders while we do a diagnostic evaluation to make sure that we have deep relationships with those new account holders. Among other things, when we attract new account holders, we're attracting those account holders who will have deep relationship with us. If possible, we want to do some product benchmarking. There's lots of information out there online where we can identify benchmarks for financial institutions our size. If you're curious about that, feel free to reach out to me, and I can give you more information on how Harland Clarke can help you. Then lastly, with a diagnostic evaluation, we want to eventually formulate an action plan, right? I'm of the opinion that data is data, and data is not any good unless you can do something with it. With a diagnostic evaluation, when we analyze our data, again, whether it's core data or through an MCIF, at the end of the day, we want to make sure that we're acting on that data, and we're putting it into play based on what the information is telling us.

Let's go to our next slide. This is something that – this is an exercise that I share with financial institutions with whom I'm involved. In my role at Harland Clarke, I'm probably involved with probably close to 100 to 150 financial institutions on a regular basis. When we do a diagnostic evaluation, that diagram that you see on the right-hand side is the output. In general, what a diagnostic evaluation does, if you look at the x-axis of the diagram, it allows us to identify attrition likelihood going from low attrition on the left-hand side of the x-axis to increasing attrition likelihood as we go to the right-hand side. It also allows us to identify purchase potential going from low likelihood to buy a product or service from us at the very bottom of the y-axis to those account holders who show a high proclivity to buy more products and service from us.

A diagnostic evaluation, as you look at the particular diagram, what this does is it segments your customer or your loan member base into one of seven different segments. You can see you've got four large boxes and three smaller boxes. It segments your account holder base into those different seven segments where now we know who our account holders are who show a likelihood to buy more product and service from us, or who those account holders are who show a likelihood to either do less business with us, or out and out close their relationship with us and move on and do business with a totally different financial institution. As a marketer, what does it do for me? It allows me to be more effective and more efficient in the way I market my product and services, and it allows me to more widely spend my marketing dollars.

Let's go to our next slide, six things that you can do to stack the deck in your favor when it comes to utilizing data. First off, utilize it. Again, you've got lots of data available at your fingertips. Prioritize that data. Make sure that as you look at that data that it is in align with your key metrics for 2017 and beyond. Be account holder-centric as opposed to a customer – as opposed to product centric. We want to make sure that we are looking at the needs of our account holders. Focus on the right account holder with the right message at the right time. Focus on growing wallet share. Then lastly, make sure that we are aligning our marketing and retail operations with the rest of the organization.

Just as a point of reference, in my role as a consultant with – or a strategist with Harland Clarke, I bump into financial institution after financial institution where silos exist. Marketing is not talking to retail. Retail is not talking to IP. Nobody is talking to lending. Those are the institutions where I see the greatest challenges in helping them get from point A to point B.

Let's go to our next slide. When it comes again to what we look at with data, it runs the gamut of all of our products and services. Whether we're selling checking accounts in the upper left-hand corner or whether we want to promote mobile banking in the lower right-hand corner, with data it runs the gamut of our entire product and service portfolio. You can use data and financial institutions do to sell virtually every and any product or service that that financial institution offers.

Next slide, so we talk about an action plan. Next slide, we've done our analysis. In this particular case, I wanted to share this slide with you. Many of you who replied to the survey, it looked like almost a quarter of you said growing the loan portfolio is important. Many of you said deepening relationships, and getting more wallet share from your account holders is critically important in 2017.

If you were a financial institution with whom let's say I might be involved in a strategic relationship, I might show you this slide, which takes a look at loans and deposit ratios with banks in the blue bar or in the blue line and loan to share ratios among credit unions in the green bar or green line. This data goes back to 2013. You can see back in 2013 for both banks and credit unions the loan to deposit/loan to share ratio was 69, 70%. It's bumped along since then, and at the end of the third quarter of last year, a little over 71% for banks, a little over 78% for credit unions. Now, as a financial institution, we exist to provide credit products to our account holders. I like to say that that is the sole reason the bank or credit union exists, which is to lend money, and 78.6% at 71.19%, we can do a better job of lending money to our account holders. In fact, if you look at the breakout box in the upper left-hand corner, back before the recession, Q3 of 2007, that was the bank loan to deposit ratio back then, 93%.

Back then we were doing a pretty good job of it. Now, maybe there were some quality issues, obviously, that we learned about, but nonetheless, we were doing a good job of lending money out, which is why we exist. Slowly but surely, we're getting back there. Growing our loan portfolio is something that we can do. That's where data comes in. To identify who shows the likelihood for a mortgage? Who shows the likelihood for a home equity line of credit? Who shows the likelihood for a car loan?

Again, if you are financial institution with whom I work, let's go to the next slide, coming out of all that data analysis that we do, this might be a marketing calendar that we would put in front or that I might put in front of you. As you go from top to bottom in the yellow bar, with this particular financial institution, the data tells us that onboarding is necessary. Why? Maybe those new account holders don't have as deep a relationship with us as we like. In this particular case, the data tells us and the action plan bears it out that a 30, 60, 90-day onboarding program is something that ought to be implemented. The data also tells us that we ought to do some cross-selling. In this case, there are four different loan products that we ought to be cross-selling to our account holders: mortgages, home equities, auto loans, and credit cards. You can see under the cross-sell bar in the blue numbers that every other month this particular institution is going to cross-sell to 12,000 account holders.

We're going to conduct a recapture program every quarter to some 30,500 account holders who have a credit product at a different financial institution. A trigger program is going to be implemented where every month we're going to reach out to over 5,000 account holders who apply for a credit product somewhere else. You can see that there's a CD maturity program in there as a way to help a financial institution lower its cost of funds. There's a retention program built in, and then there's a home equity activation and utilization campaign. Just some information on what would come out of a diagnostic evaluation. This is the kind of marketing plan that a financial institution can develop.

With that, let's bring us to our next slide where we have a couple of minutes left, and let's answer any question that may have come in. Christine, do we have anything out there that our attendees have asked?

Christine: We do, Steve. Given the enormous amount of information that you just gave us in that really quick period of time, we've only got a couple minutes left. I'm going to give you a couple of the questions that have come up multiple times in a chat forum, and then we'll wrap up for today.

Steve: Sure. Okay.

Christine. A couple of questions I wanted to present were what kind of lift do you see when data is used to identify marketing opportunities, and do I need an MCIF file to realize a data-driven marketing plan?

Steve: Sure. Let me answer the first part first. The second part, I'm sorry, the MCIF portion of that. The answer to that is no. You can utilize core data if you don't have an MCIF system. I speak from experience in a former life.

The second answer to the question that you asked, Christine, relative to the kind of lift we see, the Direct Marketing Association says with a marketing campaign that's conducted by a financial institution, a 1½ to 2% response rate is something that would be considered a really good response rate when a financial institution conducts the type of direct marketing programs based on the calendar that I just showed. When we use data, when we're smarter about the way we're identifying who shows a likelihood for a product or service, we see response rates, depending upon the type of product, sometimes as high as 6, 7, 8% response rate with ROIs that can be 4, or 5, 600% return on a financial institutions marketing investment. Depending upon the type of initiative, the response rates can vary, but across the board, when data is used, when we're reaching out to the right person at the right time with the right product and/or service, we always will see significant lift.

Christine: That is fantastic, Steve. Thank you again so much for sharing with us today. I'd also like to extend a very sincere thank you to the many financial services professionals who made time in their busy schedules to be with us today. I hope to see you all again at future *Informed Banker Sessions*. Nathan, any closing notes?

Nathan: Yeah. I'll just mention that, in the next 24 hours, we will send out a brief survey, and we welcome everyone's feedback. The presentation and recording will be sent to you within a few days as well. This will conclude the webcast. Thanks for joining us.

