Harland Clarke Webcast 03/22/17
The Latest on New Household Acquisition
TRANSCRIPT

Presenter: Stephen Nikitas, Senior Strategy Director, Harland Clarke

Nathan: Good day, and welcome to Harland Clarke's webcast, The Latest on New Household Acquisition. 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 presenters. I will now turn the call over to Stephen Nikitas, Senior Strategy Director at Harland Clarke. Stephen, you have the call.

Stephen: Okay, great. Thank you very much, Nathan, and good morning, everybody. Welcome to our webinar today on new household acquisition. I will be your presenter over the course of the next 60 minutes. I am a senior strategy director with Harland Clarke. I have been with Harland Clarke now for just over six years. In my role of a senior strategy director with Harland Clarke, I help financial institutions to understand how marketing services programs can help them to continue to grow and prosper. I come to Harland Clarke with better than 30 years of experience at financial institutions in New York State, California, and Massachusetts.

With that, let's go and take a look at our agenda and what we're going to talk about today. I'm going to talk a little bit about – start out just telling you what's going on in the marketplace. From there, we'll segue into discussions about the consumer decision process when it comes to obtaining checking accounts and how financial institutions can best react to that relative to strategies and product innovations that we know will resonate loudly with not only existing customers and members who do not have a checking account with our financial institutions but also prospects. Then, we will wrap up the presentation with some key takeaways. We'll make sure that we leave time to address any questions that you all may have based on anything that we go over.

Let's take a look at some industry data, and on this next slide, we're going to take a look at net interest margins. I love this slide. I put this slide together a couple of months back for a similar presentation. This particular chart takes a look at net interest margins going all the way back, if you go to the left-hand side of this chart, back to the Ronald Reagan administration back in the early 1980s.

You can see way back then, end of the third quarter of 1984, net interest margins were probably about 3.75%. As you go left to right on this particular chart, you can see that starting around that peak in 1993 or thereabouts, net interest margins started to drift downward. We saw a little bit of a bump in the

2008, 2010 timeframe. Then, that interest margin again continued to decline.

I show this because a couple things. First off, you see the breakout on the right-hand side? Toward the tail end of last year, we saw net interest margins fall below 3% for the first time at least going back to 1984. That's how far I could put this chart together. That was a historical event in the third and fourth quarters of last year.

The other reason I put this chart together is because we're now in an environment where, slowly but surely, we see the Fed starting to raise rates, right? We saw what happened in March. Fed made a decision that they're going to give us, what, our second rate increase over the last ten years or so with an expectation that slowly and gradually, we'll see interest rates start to go up again.

That does not mean that, from a profitability perspective, we should expect that our financial institutions will start to see a little bit of relief, a little bit of breathing room because as you can see on this chart, for a very short period of time in the early 1990s, net interest margin came close to about 5%. Other than that period, net interest margins barely get above 4%. Even though the Fed will start raising rates, it's likely that, from a profitability perspective, we're going to continue to be pressured to generate profit for our banks or our credit unions.

Let's go to the next slide. Now, while profit is going to be under pressure and net interest margins are obviously going to slowly escalate, there are some things that we as marketers and retailers can do. On this particular slide, we're looking at those four items that, in general, impact net interest margins: first, short-term interest rates, right? That's out of our control. Unless Janet Yellen or somebody on the Fed is on today's call, it is likely that none of us on the call can do anything about short-term interest rates. That's really in the domain of the Fed.

The other thing that can impact short-term interest rates or net margin, I should say, is geography. If our financial institution happens to operate in a less competitive environment, then we can offer low deposit rates and high loan rates. Looking at the attendees who are on today's call, I don't see anybody out there who is operating in that kind of an environment where they basically have a monopoly in your particular geographic footprint. We can take geography out of the equation, as well, when it comes to impacting that interest margin.

There are two things that we as marketers, we as retailers, we as operation people on today's call can have some say relative to positively impacting profitability and net interest margins within our bank or credit unions. First off, account holder growth, right? We attract more customers, more members, and with those customers and members that we attract, we want make sure that they have deep product and service relationships with us. When we go out and look to attract new account holders, we want to make sure that we do our due diligence relative to analytics and identify those prospective account holders who we know will have a deep and long-lasting relationship with us.

The fourth thing that we can do is we can generate more loan demand. The same thing relative to customer or member acquisition: when we identify those prospects that we want to reach out to – and in this case, we're going to talk today primarily about checking acquisition. Nonetheless, with checking acquisition, we can also identify those account holders who eventually will show a demand for our credit products.

Typically, who are those account holders going to be? They're going to be younger consumers, right? They're going to be those consumers who are entering or in the middle of those life cycles where their need for credit products will be tantamount because of where they are relative to starting families, growing families, putting kids through school, buying homes, putting additions on the home.

It's a couple things to keep in mind. Yes, net interest margins are low, likely that we're not going to see a whole lot of relief even when the Fed starts raising rates, but B, we can have some impact within our organizations when it comes to ensuring that our net interest margins are as high as they possibly can be. Let's go to our next slide.

On our next slide, we're going to take a look at checking acquisitions. As a marketer, as a retailer, likely many of you on the phone today, for 2017 your marching orders may be go out and get new account holders, right? We know we can never have enough members. We can never have enough customers, but we have to make sure that those customers and those members that we are attracting to our financial institution are going to be those customers, as we just said, who are going to have deep product and service relationship with us. Product is relative to deposit but just as importantly relative to credit products.

When we look at who we should be reaching out to, I like this slide because it tells us pure and simple that it's that younger segment of the population, those millennials, those 18 to 34-year-olds, are the folks that we know, based on research, are the ones who are interested in changing their primary financial institution. As you consider crafting acquisition campaigns, we want to make sure that the message, that the product that we're putting in front of those particular prospects, are going to be ones that will appeal to a younger consumer set because we know that on any given day, 18%, that bar all the way over to the left, 18% of millennials are in the mood to switch PFIs. As we would expect, as you get older, as we go left to right on this particular chart, as you get older, the likelihood that a consumer is going to switch PFIs drops and drops pretty dramatically.

Let's take a look at the next slide. Why is it so important for us to be going out there and leading with checking when it comes to account holder acquisitions? I love this slide. I'm not going to go through every one of these rows. You're going to get a copy of this presentation shortly after the conclusion of today's event, so don't worry about writing down notes or taking a snapshot of this particular slide. You certainly can if you like, but you'll get a copy of the presentation. I like this slide because to me it is really a testament to the importance of checking.

Let's take some of these rows from the very top. Profitable checking accounts: roughly two out of every three of our checking account holders is profitable for our financial institution. That may be good. That may be bad. To me, maybe it's because of what side of the bed I rolled out this morning, but when I see 35% of our checking account holders are not generating any profit for my institution, that is a cause for concern, right? That's a big chunk of my membership, a big chunk of my customer base.

As I go down this slide, some key things to look at: if I've got a checking account with that financial institution, my average deposit balance is better than $10,000. If I've got a checking account with that financial institution, my average outstanding loan balance is almost $9600. All good things, right? That checking account holder has multiple products and services with my institution in addition to just that transaction account.

The other benefit from having that active, engaged checking account holder within the institution comes when I look at non-interest income. In general, an active checking account user is generating about $150 of NII for my institution. We've got almost $9 in checking account services. We've got $81 in NSF fees. We've got other miscellaneous fees of more than $7. If that account holder is actively swiping that debit card, and actively meaning at least 12 times a month, they are generating another $50 annually in interchange income for my financial institution.

These days in my role as a senior strategy director for Harland Clarke, it seems like increasingly, financial institutions are reaching out to me and asking what do I got to do to get my debit card holders to swipe that card more vigorously than they currently are? One thing that, on the phone, that you might want to think about doing today is take a look at your debit card portfolio and see on average how many times your debit card holders are swiping that card. If they're swiping it 12 times or more a month, rest assured they're generating a lot of non-interest income for your institution. If they're not swiping that card 12 times a month, then you might want to think about ways to reach out to those folks and encourage them to use that card more frequently.

The other three rows: single-product households. Again, a little bit alarming and as we would expect, the 32% of single-product households pretty much correlates to that 35% of unprofitable account holders. Again, that checking account holder comes in the door, as a marketer, as a retailer, it's my responsibility to make sure that I am cross-selling those new checking account holders as well as my existing account holders who may be single-account customers or members with my institution and deepening the relationship with them. We've got basically one out of every three of our checking account holders: A, unprofitable, B, that's the only product they have with my institution.

The last two rows, in my mind again, are probably cause for concern. What's the average age of my checking account holder: 51. In fact, what we know is that better than 50% on average of a checking account holder within a bank or credit union today is better than 50 years of age. We are starting to get checking account holders who are a little bit long in the tooth. They're getting to that point where their life cycle needs for more products and services with my institution is getting on the back end of the scale, if you will.

As a retailer, as a marketer, I need to be focused on driving younger consumers in the door because the study tells us that that checking account holder within our institution is getting a bit old. Nothing wrong with getting old; I want to get there myself someday, but in our financial institution, we really need to drive that average age from 51 down to a much lower figure than it is in order to make sure that we've got engaged account holders who are utilizing the full breadth and depth of our product line. Let's go to our next slide.

When it comes to checking accounts, and we've talked about reaching out to younger consumers, what are the reasons why people open up a checking account? Here's a pretty lengthy list. Again, I won't go through every one of these but just a couple I wanted to point out to you. First off as we would expect, one out of every five people who open up a new checking account today is doing it because they moved into a new geographic area. I graduated from college. I took a job 1,000 miles away from home. I need a way to manage my money, to direct my pay. I open up a new checking account.

The other two rows to me that I think are really interesting is that received a better offer. Again, one out of every five consumers say they opened up a checking account because they saw a better offer out there. In fact, the next row, access to more advanced features, roughly one out of every five consumers says the same thing. I saw a checking account there that offered more bells and whistles potentially than the account that I currently have.

The point I want to make with those two particular rows is that people are only reacting to a better offer or only reacting to better features when we communicate with them and tell them about our checking accounts. It is imperative that we get out there and we talk to our consumers and our prospects about our checking products. One out of five consumers tell us they open up a checking account because they get a better offer. One out of five consumers tell us they open up a checking account because they see better features. The only reason they're doing that is because a financial institution or financial institutions are proactively out there communicating, promoting their products to people within their geographic footprints. The key takeaway here is if you're not promoting checking, you ought to be promoting checking because people will react. Let's go to the next slide.

This is a slide that – I really like this slide. Some of you on the phone may have seen the Bank of America news earlier in the week about their new branch network that they're trying out in, I believe, it's the Milwaukee region and Denver if I'm not mistaken.

Just as a quick aside, what Bank of America is doing is that they're putting up branches now that have only one or two people left in them. They're driving people in those particular branches to ATMs and interactive kiosks. At the same time in those branches, what they're doing is they're giving customers access to private conference rooms, and they get access to that private conference room with a swipe of their debit card. In that conference room, then on the screen, on the TV monitor will appear a Bank of America financial service rep who can provide advice and consultation to that customer.

Bank of America is recognizing that consumers less and less are coming into a branch location to conduct a transaction. Consumers increasingly are coming into a branch for either problem resolution or, more importantly, advice and consultation. Studies tell us that younger consumers, those millennials, those consumers who we know we need to attract with acquisition efforts – millennials want advice and consultation. They want their financial institution to provide information that will help them get from point A to point B.

Now, these two donuts that you see on this particular screen asking consumers how do you characterize your relationship with your bank or credit union. Let's take a look on the left-hand side in 2014. In 2014, 71% of consumers said that my relationship with my financial institution is transactional oriented. What happens? I go to a branch. I make a deposit. I make a withdrawal. I might check a balance. That's it. Three out of ten consumers said my relationship with my financial institution is advice and consultative oriented, which is what younger consumers tell us they want.

We know that, but look what happened when the survey was done in the following year in 2015. It seems it actually got worse. Roughly eight out of ten consumers said you know what? My relationship with my financial institution is really transactional. Only two out of ten consumers said I'm getting advice and consultation from my financial institution.

Somewhere along the line, there's a disconnect. The consumer is telling us, particularly the younger consumer, is telling us that they want consultation. They want help getting from point A to point B financially. They don't want that whole branch to provide transactions. They want to walk into that branch and get advice and information on how to succeed financially.

Unfortunately, the perception among consumers is that we're not providing or we're not there yet. We're not providing that type of service that the customer or the member is looking for. We need to be careful because we've got a lot of alternative banking measures going on out there.

In fact in a couple of weeks, I'm speaking at an alternative lending conference in New York City. We know that that's a particular market that is gaining strength and that has its sight set on stealing as much credit opportunity away from banks and credit unions as they possibly can. We need to make sure that we act to what the consumer is perceiving and what they want. Unfortunately when I look at this slide, we're not quite doing that yet so just a word to the wise on the phone.

If you haven't had a chance to take a look at that Bank of America pilot that they're doing in Milwaukee and Denver, I'd urge you to go online and take a look at what their new grand structure will look like, pretty interesting. Let's go to the next slide.

When it comes to checking acquisition, what is it that consumers are looking for? Let's look at the donut on the left-hand side first of all. Oftentimes in my role as a strategist, I'll work with financial institutions, and we'll talk about who we want to target when it comes to new checking accounts. All too often, what I find happening is that financial institutions are forgetting about their own checking account holders and their particular needs.

What the donut on the left-hand side shows us is that the majority of our – where there's a great opportunity, I should say, for us to get two or more checking accounts in the hands of our consumers. In fact, if you look at the slices on the left-hand side, you can see that within a particular household, 33% of households have 2 checking accounts, and then 17% of households have 3 checking accounts or more. When we think about acquisition, let's not just focus on prospects, but at the same time, let's make sure that we're looking at our own account holders and seeing if we can, at the very least from our product perspectives, get more checking accounts in their hands.

If you look on the right-hand side, why does that household who's already got a checking account with us want a second or third checking account? Primarily to handle household expenses, right? We're paying the mortgage with this account. We're paying all the household bills with this account. We're using this particular account over here for fun money or day-to-day money, whatever it happens to be. Consumers are telling us they want multiple checking accounts. Let's not lose sight of that when we cross sell. Let's go to our next slide.

When it comes to getting two or more checking accounts into our consumers' hands, who wants two or more checking accounts? Let's look at the bar chart on the left-hand side. You can see that there's that younger consumer segment, that 18 to 34-year-old group, that millennial group who says that they are either very likely or somewhat likely to open up a second or a third checking account. Again, we're going to attract those younger consumers when we're conducting our acquisition campaigns, but let's not lose sight from a cross-selling perspective that just because they've opened up one checking account with us among all the other products and services that they may be interested in acquiring from our bank or credit union, we need to make sure that if there is a need out there for a second checking account, let's put it in front of those consumers.

In fact, when you look at the donut on the right-hand side, why are they getting a second checking account? Not necessarily so much to replace an existing account as opposed to, again, I need that second account to handle expenses, to handle finances, to handle day-to-day within my particular household, so I have a need for that second or that third checking account. Let's go to our next slide.

We're going to segue here and take a look at the consumer decision process when it comes to primarily where do I go when I want to open up a checking account. This slide no surprise, right? Let's take a look at the very top. What drives me to an institution when it comes to opening up a checking account? Roughly four out of ten consumers say the branch has to be convenient to where I live or convenient to where I work. No surprises.

In fact, go down a couple of rows. Almost three out of ten consumers are saying that I need to be close to an ATM, close to my cash, before I make a decision relative to where it is I'm going to open up a checking account. Things are changing. Things are changing. Let's go to the next slide.

Recent studies tell us that robust online and mobile services are increasingly playing a large part in the decision process when it comes to why a consumer goes where they go to open up a checking account. On this particular chart that we've got here, we've got responses in blue for 2014 and responses in green for 2015. The question was asked what makes my financial institution convenient. Let's go all the way over to the left-hand side.

Back in 2014, 20% of consumers said you know what? Having that financial institution that has a leading or robust online or mobile banking service, I consider them to be convenient. Look what happened when the survey was done the following year. We saw a full six-percentage-point jump when that same question was asked. We see an increasing importance when it comes to the financial institution promoting their online and mobile banking services.

Now, the branch is still important. Go over a couple bars – as we go to the right-hand side, go over a couple bars and look at branches nearby. The branch is still important. Not as important as it was in 2014 when 30% of consumers said I need to have a branch nearby, but still important; 18% of consumers a year later said having branches close by is still important to me.

It's important that when we promote checking as a way to acquire new account holders, we want to not only talk about the convenience of our branch network because, let's face it, branches are always going to be important. Their role is certainly changing, but their proximity to where I live and work is still critical to getting that account holder to react to whatever promotional material I'm putting in front of them. Increasingly, what we're finding is that promoting your mobile application, your robust online capabilities is going a long way toward convincing consumers that you're convenient.

Just as an aside, one of the things I do in my role at Harland Clarke is I help financial institutions facilitate focus groups. I was in Orlando for the tail end of last year conducting a focus group for a financial institution down there. I was there for about a week, and I probably had a couple hundred people go through the focus groups.

Among other things, one of the key takeaways for me was how consumers are accessing their accounts. Here's what I heard I would say across all demographics among those 200, 250 people that came through the focus group session that I had late last year in Orlando. What they said to me was some of them still go to the branch, and when they go to the branch, it is primarily to either A, resolve a problem or B, get advice and consultation on what they should be doing with their accounts.

When it comes to transactions, though, overwhelmingly what I heard was I transact with my financial institution with my smartphone. I don't use my laptop. I don't use my desktop. In fact, what I'm hearing people say is you know, I don't fire up my laptop or my desktop like I used to. Everything I do these days is on my smartphone. I am accessing that financial institution from my smartphone. If I'm looking at balances, if I'm doing transactions, moving money from one account to another, I need to make sure that I communicate to that prospect as well as that existing account holder that everything that they can do at a branch, they can do from that device at the end of their arm, that they don't need to come to a branch location. They can do everything from their smartphone.

When we consult with financial institutions when it comes to acquiring new households, we will always stress yes, it's important to promote your branch network, but it's also critically important that you talk about your mobile and your online capabilities because these days that's what consumers are looking for. Not just millennials but that goes across all age demographics.

We're reaching out to consumers. How important is it to reach out to consumers? Let's take a look at the next slide.

I mentioned early on when we talked about consumer decision-making process relative to people moving or people opening up checking accounts because they saw new features, etc., etc. When it also comes to opening up a checking account, what was the consumer's mindset? In other words, what did they consider when it came time to open up a checking account? I like this slide, and I would direct your attention on this particular slide to the blue and the green segments of the donut.

The blue segment says that 32% of consumers when it came time to open up a checking account knew exactly who they were going to go to. The green slice of the donut says that the consumer, 32% again, had one financial institution in mind when it came to opening up a checking account. Roughly two-thirds of consumers say I pretty much knew where I was going.

When I see this slide, again, it says to me – it reiterates the importance of promoting your products and services within your geographic footprint to your prospects because, again, we know that roughly one out of every five millennial consumers is open to opening up a new checking account and changing their primary financial institution. What we know from this particular slide is that when we promote, when we create that level of awareness, what I like to call TOMA, top-of-mind awareness – when we create top-of-mind awareness among consumers by reaching out to them with direct mail, with email, with online advertising, with search engine manipulation, whatever the process – when we create that level of awareness within the consumer, they will come to us and open up that checking account. Let's go to the next slide.

When it comes to checking, what are consumers looking for? Again, first let's look at the donut on the left-hand side. Almost two out of every three consumers say when I open up a checking account, what do I want? I want free checking. I want free checking. I don't want to have to pay for service charges if I can avoid it. I want to see if I can get fees waived. Two out of every three consumers say they want free checking.

If there are fees associated with that checking account, what are they, on the right-hand side, that basically consumers are okay with as long as there is a way to avoid that fee? Consumers are okay if you tag a minimum balance requirement on your checking account. Consumers seem to be okay, 43% of them anyway, say if you make direct deposit mandatory in order for me to avoid fees, I'm okay with that.

Lots of other reasons, as you go down the list. In some cases, you've got to have certain products and services. In some cases, you've got to have certain deposit products, etc., etc., or you've got to conduct certain transactions with your debit card. Consumers not so much okay with those requirements, but minimum balance requirements, direct deposit requirements when it comes attached to a checking account and as a way to avoid fees if I overcome that balance or if I establish a direct deposit with you – consumers are okay with that and will open up a checking account with you. Let's go to our next slide.

This is a slide that I just put together for this presentation. Let me walk you through what this is, and I'll explain my rationale here. What I did when I put this slide together is I went back roughly ten years ago. I went back to 2007 and I looked at the minimum daily balance requirement to avoid fees for both interest-bearing checking accounts in blue and non-interest-bearing checking accounts in green.

Let's look at the blue bars and let's go all the way over to the left and look at 2007. Back in 2007, banks and credit unions that were requiring minimum daily balances in order to avoid fees on average said you've got to have $3316 and some change in that checking account if you want to avoid a fee. Okay. If it was a non-interest-bearing checking account as you can see in the green bar, it was a little over $155.

Look what's happened since 2007, a scant 10 years ago, right? The minimum daily balance has more than doubled for that interest-bearing checking account. Similar or ditto for the non-interest-bearing checking account. It went from 155 and some change to almost $671. When we promote checking – when we consult with financial institutions and talk with them about conducting checking or household acquisition campaigns and leading with checking, what ought we promote in order to capture the attention of the consumer? Pure and simple, my advice to financial institutions is promote your most basic checking, promote your checking that is as close if not free as possible because that is what the consumer is looking for.

Let me explain that a little further. I look at this slide, and I say who can afford to keep a $7,037.07 minimum balance in their checking account? Heck, I saw something online today in one of my online newspapers that, if I remember correctly, it said something like 40% of Americans couldn't come up with $2,000 cash if they needed to cover an emergency. 40% of American consumers can't come up with $2,000, and yet if we're offering an interest-bearing checking account, we're, on average, requiring that consumer to have more than $7,000 in it in order to avoid fees.

I am now going to share this slide with my clients and say look, when it comes to checking acquisition, you want to acquire new households, don't go out with an interest-bearing checking account because right off the bat, you're going to lose the interest of a big segment of the population who, regardless of all the bells and whistles on that interest-bearing checking account, they don't have the money to put in that account.

In fact, if you look at the base breakout quote on the left-hand side of that box, almost 100% of all the checking accounts that are out there today are either free or waiving monthly fees if certain requirements are met. Those certain requirements are primarily direct deposit. If you're thinking about conducting a checking acquisition campaign in order to acquire new members or new customers, my advice is go out there with your free, your basic, your almost free, or your checking account that allows that consumer in one way, shape, or form to easily avoid fees.

Here's the other thing. I didn't include the slide in this presentation. I didn't think I would have enough time to go through it, but let's go back to 2016, that bar all the way over to the right-hand side, that bar that says you have to maintain a minimum daily balance of $7,000 to avoid fees. On average, at the end of the year last year in conjunction with that particular bar, the average interest rate that a financial institution was offering on an interest-bearing checking account was a whopping six basis points. Six basis points. That's not going to resonate very loud when it comes to customer acquisition.

Again, my takeaway when I look at this particular slide is go out with free checking or a way to easily get free checking by avoiding fees because if you don't, the consumer is wise enough to understand what's a good offer for them, and an interest-bearing checking account going that way may not be a good offer for them.

Now, when that prospect comes in the door and opens up a checking account or enquires about our checking accounts, that's when we can conduct our needs-based conversation with that consumer. If an interest-bearing checking account makes sense for them because maintaining a $7,000 minimum daily balance is nothing to them, then let's sell them an interest-bearing checking account. We've got to get consumers in the door, and the best way to do that is to promote free or nearly free checking. Let's go to the next slide.

Let’s talk a little bit about relationship strategies and what we can think about when it comes to checking acquisitions. Let’s take a look on the left-hand side.

On the left-hand side, we asked consumers if we were to bundle products and services with our checking account potentially as a way to avoid fees, would you be interested in that, and 45% of consumers as they start from 12 o’clock and go clockwise on this particular slide or donut – 45% of consumers, almost half, are saying that yeah, if you package products with my checking account as a way to avoid fees, yeah, I’m okay with that. Not a problem.

Then on the right-hand side again, confirming or reiterating what we talked about a little while ago, if I can avoid a fee by maintaining a reasonable minimum balance not only in checking but in other deposit products, yeah, I’m okay with that. If I was going to maintain a certain outstanding balance on credit cards, am I okay with that in order to avoid fees? Yeah, I’m okay with that, too. Let’s go to our next slide.

Many institutions with whom I work are involved in reward programs, ScoreCard Reward points, for example, among others. I bring this slide up because as we promote checking acquisition to prospective households, are they interested in our reward programs? The answer is yeah, they’re pretty interested. In fact, if you look at the left-hand side on this slide, one out of every four millennials are saying yeah, if you’ve got a reward program out there that rewards me every time maybe I swipe my debit card or put whatever I purchase on a debit card and start to build up those balances, yeah, I’m interested in that kind of a reward program.

As we think about household acquisition, we know, again going back 40 or so minutes ago, that younger consumers, millennials, 18% of them, one out of every five roughly, are interested in switching their PFIs. At the same time, we know that they’re also interested in reward programs. In fact, if you look at the right-hand side, overwhelmingly, again, 18 to 34-year-olds find value in reward programs, right? They value that if we’re going to put a reward program in front of them, they not only are interested but they help to differentiate my financial institution from all those other bank and credit unions in town. If you’ve got a reward program, again, ScoreCard Rewards comes to mind, promote it loud and often because younger consumers are really interested in those kind of programs, and it can serve as a differentiator.

I will tell you, though, to be careful because, again, in my role as a strategist, what I see a lot in financial institutions is they adopt a reward program, they roll it out, and they make a big splash when they roll it out. They tell the world about their new reward program and how they can offer them points to get merchandise, or go on vacation, or do this, or do that. After the roll-out period, the reward program tends to end up on the back burner somewhere, put on a shelf, and oftentimes never heard from again.

In my role, what I advise financial institutions is if you've got a reward program, make sure you're tooting the horn as loudly as you can because studies tell us as you can see from these two charts that yeah, consumers want them. Younger consumers want them, those consumers who we know are going to have long and deep relationships with our financial institution, who are at that life cycle where the need for my credit and my deposit products is tantamount. They want those reward programs. Let's offer them to that particular segment of the population and make sure that we're out there all the time promoting it.

Okay, let's go to the next slide and some key takeaways. These key takeaways are going to revolve, again, around checking acquisition and the importance of, from a dollar and cents perspective, what checking acquisition can do for your institution.

This is a report that – and you'll see that the client is anonymous, but these are the actual results of a financial institution with whom I work. Let me set it up this way. It is a credit union, so if you look at the blue bar, you'll see member. With this particular checking acquisition campaign, as we advise, promote checking to your members whether they have a checking account with you or not, and at the same time, make sure we're out there promoting checking to our non-account holders or prospects.

In this particular endeavor, this institution promoted checking to almost 16,000 existing account holders and a little over 83,000 prospects. Grand total in the column all the way over to the right-hand side, they reached out to almost 100,000 account holders. Some key points I want to – go down. Let's look at the member column. How important is it to promote checking to my existing member base whether they have checking with me or not? Look at the household response rate three rows down. Talking to my existing member base, the household response rate was 7.77%.

Wow, that's really strong because we know the Direct Marketing Association tells us that in the banking world when we conduct a direct mail campaign – and by the way, these numbers are generated from a direct mail campaign. In this case, this particular financial institution reached out to members and prospects with a postcard. The Direct Marketing Association tells us that when we in the banking world conduct a direct mail campaign, a 1.5 to 2% response rate among existing account holders is considered to be really good, knocking-it-out-of-the-park results. In this case, this institution household response rate 7.77%.

Let's continue to go down the column. Their checking response rate was 1.13%. Their total account response rate a few rows down: 11.58%. Even though we may have been promoting checking to these account holders, they also opened up a wealth of indirect products: car loans, mortgages, home equities, certificate accounts, money market accounts, etc., etc. The account response rate was better than 11.5%.

Let's go down a couple more rows. Look at the balances: almost 8.6 million in balances among those accounts that were opened.

Go down a couple more rows. To get the household to respond, based on what this particular institution paid, was $4.20. It cost this institution $4.20, when all was said and done, to get a household to open up an account. It cost this institution $28.89 to get a checking account open. In general, checking accounts and all of those other indirect products, those mortgages, those home equities, those certificate accounts, those money markets – on average, it cost this institution $2.82 to get an existing account holder to open up an account with them.

I don't know about you, but when I see those numbers, I just get excited. I think wow, you can't do that with a newspaper ad. You can't do that with a radio commercial. You can't do that with a billboard.

Let's go to prospect column one column over. Let's take it from the top here. They reached out to almost 84,000 prospects. Household response rate: 41 basis points. Pretty strong for prospects, right? These folks don't have any relationship with me whatsoever. The checking response rate: 22 basis points. The overall account response rate: almost a full 1%. Among those prospects who came in and opened up an account, whether it was a checking account or an indirect account, 3.7 million in overall balances.

Let's look at the dollars and cents in the last three rows. What did it cost this institution to get a prospect household to respond? About $79. What did it cost this institution to get a checking account open? A little over $151.

Now, let me stop there for a second. There's a consulting organization called Callahan & Associates. Those of you who were credit unions on the line today may know who they are. Banks, you probably aren't familiar with them because Callahan & Associates deals only with credit unions. Callahan did a study two or three years back where they measured the average cost of checking acquisition among credit unions. I believe the study was done in 2014 if I remember correctly. It's a handful of years old but not ancient history by any stretch.

What Callahan found was that it cost, on average, a credit union back then about $440 to open up a checking account. Now, that included the incentive. That included all the marketing cost, all the retail cost.

In this particular case, this institution opened up a checking account for $151 and some change. Now, the incentive in this case was 50 bucks. Let's throw the $50 on top, and in this case, it was $201 to get that new checking account opened by someone who does not even have a relationship yet with this institution. Very attractive numbers. On average, what did it cost this institution to get a prospect to open up an account in general? Thirty-three bucks and some change. Good numbers, really good numbers.

Last column that I'll point out just a couple of things here: household response rate, 1.59% for both prospects and members; total account response rate, 2.68%; checking account rate, 36 basis points. Look at the balances of the 12 million: 330. Strong balances. Lastly, those bottom three rows. On average, blended members and prospects: roughly 21 bucks to get a household to respond, $90 before the $50 incentive to get that checking account in the door, and then just $12.19 to get an account open. Really good numbers.

Now, this is a snapshot of one mail drop. If any of you on the phone are interested in doing household acquisition, and you more than likely are because you wouldn't be on the call today – when it comes to household acquisition, what we want to do is we want to be out there as frequently as we possibly can. We want to develop a cadence that has us in front of the prospect and the existing account holder frequently. One of the cadences could be every six to eight weeks. At the very least, it could be once a quarter.

When I consult with financial institutions about household acquisition, I always stress the importance of looking at this as a journey and not a destination, and a journey meaning be out there frequently, at least quarterly. Look at it that way. Commit to maybe a year of doing it, maybe four drops over the course of a one-year window, maybe seven or eight drops over the course of a one-year window, whatever your budget can provide for. It is important to be out there frequently and not look at household acquisition as a one-and-done approach because we have to build a level of awareness among prospects in particular but even our own account holders that we have products and services for them that certainly can fit their particular or solve their particular needs at that time.

With that, let's go to our next slide. That brings us to the conclusion of today's presentation. Let me see what questions we have here on our chat. Hold on here. I'm going through this, what questions you all have asked.

One question asked here is how long does typically does it take a financial institution to prep an acquisition campaign. I would say that can take anywhere from eight to ten weeks. Here we are, it's the end of the first quarter of 2017. If you're interested in conducting acquisition campaigns, consider the fact that it's going to take eight to ten weeks before you can get anything in the mail or any email out the door, etc., etc., etc. That takes us to almost the middle part of the year. Those of you on the phone, if account holder acquisition is one of your key metrics for 2017, I would encourage you to get going pretty quickly in order to make sure that you can hit that metric without any problem whatsoever.

Let's see what other questions we have here that came in. You talked postcard. You mentioned self mailer. You didn't mention letter. Is there any particular type of mail piece that's more effective than the other? The answer to that I would say is no. The Direct Marketing Association says all three types of that kind of missive can be very effective. Post cards get read. Self mailers give us a little bit more real estate. Certainly, existing account holders will open a #10 envelope when they see it in their mailbox.

Based on your budget, based on the amount of people that you want to reach out to, really, that can go a long way toward dictating what type of media you're going to use. Oftentimes, I will encourage financial institutions who are heavy on the prospecting side to either use a postcard or a self mailer because that allows you to portray that offer a little bit more boldly, a little bit more overtly if you will, to the prospect who may not know you and give you an opportunity to make sure that your offer gets noticed and gets read.

That looks to be all of the questions that I have. Why don't we wrap up? It is a few minutes before the top of the hour. I know you're all very busy, so I want to thank everybody for attending today's webinar. I hope you all found this helpful.

Again, you all will get a copy and a recording of the presentation within the next several days, so be on the lookout for that. Thank you for attending and continued good look at your financial institutions. Let's make this a continued prosperous 2017. Thank you all very much. Bye-bye.