Harland Clarke Webcast 04/25/17
The Marketer's Guide to Justifying Your Existence
TRANSCRIPT

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Nathan: Good day, and welcome to Harland Clarke's The Informed Banker webcast series, "The Marketer's Guide to Justifying Your Existence, Part 1: How To Use Analytics To Attract The Right Account Holder." This webcast is being recorded, and we'll be providing it 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 they're 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: 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 The Informed Banker series. The series was 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 the series has allowed us to tailor topics for future sessions to best meet your needs. Our next segment, Millennial Money Chatter: A Guide to Millennial Financial Discourse, presented by our friends at Harland Research will be held on May 9th. In this session, we'll discuss the financial language, communication styles, and perceptions of Millennials, as it relates to their finances. Keep an eye out for that email invitation, which should be arriving shortly.

Today's presentation is the first in a three-part series created by our very own Steve Nikitas of Harland Clarke. "The Marketer's Guide To Justifying Your Existence" was developed to provide financial services marketers with the tools they need to effectively communicate the bottom-line impact of marketing spend. In a moment, Steve will provide you with the details in each of the three parts in this series.

Now, just a little bit about Steve before we get started. Steve has 35 years of financial services experience in marketing, PR, retail banking, and operations. He's held executive 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 crack marketing, retail, and campaign strategies to help financial institutions to grow and prosper. Steve, thank you, again, for being with us today. The floor is all yours.

Steve: Great. Thank you very much, Christine, and good afternoon, everybody, and thank you for attending today's session. As Christine mentioned, this is actually the first of three sessions that we're going to be conducting that I hope and I expect, when all is said and done, it will give marketers information on how they can justify their existence before their CEOs and before their senior management teams to help you show how marketing is making a positive impact on your bank or credit union.

Today, we're going to talk about ways to measure the success of account holder acquisitions. We'll come back middle of the summer with Part 2 of this presentation, where we'll talk about looking at the impact of those cross-sell marketing initiatives that you may be planning on conducting, and then we'll wrap things up as we get a little bit closer to winter. Here we are, we're not even in summer yet. We're already talking about winter. Later on this year, we'll wrap things up, and we'll take a look at ways to measure the lifetime value of those customers and members that you bring in through your marketing initiative programs or with whom you deepen relationships with your marketing initiatives.

With that, let's go to our next slide. In our next slide, what I thought I'd do here is I wanted to talk very quickly about – just present some industry information here. The first thing I wanted to look at here is net interest margins, and this chart takes a look at net interest margins, going all the way back to the early 1980s, way back to the Ronald Reagan Administration. I thought this would be opportune at this time because as marketers, we really need to be keen on profit margins. We really need to know how profit margins and what products provide the greatest lift, if you will, when it comes to impacting the bottom lines of our organizations. I thought this slide would be very helpful to show going all the way back to 1984, and you can see starting back then, net interest margins were operating somewhere around 3 ½%. As you follow that graph and you go left to right, you can see that in the early to mid-90s, we hit about 4 ¾, almost 5% with the net interest margins.

Then, things fell steadily down from there to the point where in late 2015, early 2016, we saw, at least going back 30, 35 years or so, net interest margins fall below 3% for the first time. At least, since I measured on this chart, and that was a really historical event, when NIMs fell below 3%. What did that do to financial institutions, and what did that do to marketers and retailers? It put a whole lot of pressure on us to make sure that those initiatives that we conducted were initiatives that were really going to help the bottom lines, knowing that profit margins were very slim. As marketers, we really need to be cognizant of net interest margins within our financial institutions. Christine, that's some information that I thought would help our attendees on the phone today. How does all that sound?

Christine: That's fantastic, Steve. It brings the question to mind, though. Can you talk a little bit about what factors might impact these net interest margins you're talking about?

Steve: Absolutely, and with that let's go on to the next slide, and on the next slide, here are the four key things that really impact net interest margins. Now, some of these are out of our hands, but as marketers and retailers, we can take responsibility for some of these factors that will positively or negatively impact net interest margins. The first factor is short-term interest rates, and none of us have any impact or any sway relative to short-term interest rates. That's Janet Yellen and the Federal Reserve. The second factor is geography, and if we're operating in competitive areas or market areas that are not so competitive, maybe we don't have as many banks or credit unions in our market area as others. Then, we can charge lower rates on our deposits and higher rates on our loans.

Looking at the list of attendees for today's conference or today's webinar, it is likely that none of you are in less competitive areas, but where can marketers and retailers make an impact, a positive impact on net interest margins? First off, it's getting deeper relationships with our existing and new account holders. It's grabbing more share of wallet; it's getting more products and services into our account holders' hands. The deeper the relationship, the more account holders we have with strong products/service per customer or per member ratios, the better off for our financial institutions. Then, the fourth way that we can positively impact net interest margins is through generating loan demand. Generating loan demand, stronger loan demand, stronger balance sheets means that our net interest margins are going to strengthen. Christine, does that help?

Christine: That's interesting, Steve. I wondered if you could, maybe, give us some broad insight into other measures that might be helpful for a marketer to know about? Beyond what you've just explained about.

Steve: Sure. Absolutely.

Christine: Thanks.

Steve: Let's take a look at another one on the next slide, and the next ratio I'd like to take a look at here is efficiency ratio. Efficiency ratio is basically what it costs our financial institutions to make a dollar. What I did on this slide is I went back to the third quarter of 2013, and back then, on average, it was costing a bank or a credit union 64.62 cents to make a dollar. You can see things have hovered around that figure, and the latest figure I have, all the way over to the right-hand side, at the end of last year, on average, a bank or credit union was

spending about $65.31 to make $100, so we can positively impact efficiency ratios. Again, I want everybody on the phone to be cognizant of what those efficiency ratios are, because we may be able to play a hand in what happens.

In fact, let's go to the next slide, if we could, and I'll talk about some of the ways marketers can positively impact that efficiency ratio. First off, we, as an entity, can decrease our costs. We can do more with less, and I'm sure most of us on the phone at one point in our lives have been asked by our CEOs, or our CMOs, or our board of directors to do more with less. Nobody wants to hear of that, but that's a fact of life. Geography is also coming into play when it comes to efficiency ratios. Again, if we're operating in areas that are not so competitive that can help us to improve our efficiency ratios by offering lower deposit rates and higher loan rates, but again, it's highly unlikely that any of us on the phone have that luxury.

Where we can make an impact, a positive impact, on efficiency ratios is through improved workflows and economies of scale. We think they are better at doing the things that we do, and often times in my role as a strategist with Harland Clarke, I will advise financial institutions that they really should look at third-party partners in a lot of the marketing initiatives that they are looking to conduct, because oftentimes, those third-party partners have that expertise that will enable initiatives to get done that much more quickly and much more accurately and efficiently without a lot of churn, without a lot of marketing dollars wasted, a lot of marketing dollars wasted. Then the fourth way that we as marketers can help impact the efficiency ratio is by driving revenue, those initiatives that we can implement that will generate more loan demand and at the same time generate more revenue through non-interest income initiatives that might be targeting, for example, checking acquisition or checking cross-sell campaigns.

Christine, does that help?

Christine: Steve, if you don't mind I'd like to – yeah, I was going to say I'd like to jump in after that. I just heard you talking about loan programs and the positive impact they have on revenue, so that leads me to think – to ask you what do financial institutions have in terms of opportunities to grow those loans to have that positive impact in their revenue line items?

Steve: Great question, Christine, and let's go to the next slide and I'll talk more about that. On our next slide, what we're looking at here is loan-to-share ratios if you're a credit union, loan-to-share ratio in the salmon or brown-colored bar, and loan-to-deposit ratio in the blue line if you happen to be a bank. I am of the opinion that a financial institution exists for one reason and one reason only, and that is to lend money. When we look at loan-to-share ratios around 78%, loan-to-deposit ratios a little over 71%, what it says to me is that as a financial

institution – and by the way these are averages for both charter type of financial institutions, but what it says is we've got room to grow our loan portfolio. We are not doing what a lot of financial institutions purely exist to do, and that is lend money.

You can see all the way over to the right-hand side where efficiency ratios, or I'm sorry, where loan-to-deposit and loan-to-share ratios stood at the end of last year. To put that in perspective, look at that little breakout line on the upper left-hand corner. When we go back to the third quarter of 2007, on average for both banks and credit unions, the loan-to-deposit/loan-to-share ratio stood at better than 93%. Back then before the recession, before The Great Recession, if you like, we were doing a great job of getting credit into our consumers' hands, into our account holders' hands, and since then we really have struggled on both the bank and credit union side to get back to that level. Now, certainly there's a lot of reasons for that, but again, we have opportunity to grow that number. Christine, sound good?

Christine: Yeah. I wanted to ask you a follow-up question because obviously the topic of loan growth is quite important and you've mentioned some really important components here, but I'm wondering if financial institutions aren't sure their account holders are going to be receptive to offers with so much competition out there, what should they do? What should they be thinking about from a strategic perspective?

Steve: Great question, and there is certainly a lot they can do. In fact, it's interesting. I read earlier today about the Wells Fargo shareholder meeting, and there was lots of disruption at that shareholder meeting around the whole concept of cross-selling to the Wells Fargo account holders and the way the bank went about it. That's all well and good, but let's takes a look at the next slide for a moment, and this is a slide that I really like to show, and let me just put everything in perspective here. This was a survey done a couple of years ago, and the question was asked among American consumers, when you open up a product at a bank or a credit union, what drove you to open up that particular product or service?

The big slice of this particular doughnut, as I call it, that big slice on the right-hand side, 59%; 59% of the American public, when the question was asked, responded by saying you know what? Nothing really encouraged me to do it other than the fact that I knew I needed a new car, so I went to my bank or credit union and got a car loan. I moved to a new geography so I went to my bank or credit union and opened up a checking account. My wife is pregnant, we're expecting another child, and we need more room in our house, so I knew I needed a home equity line of credit to do an addition or to do some updates around the house.

That's great, but I think the real story in this particular chart is the other 41%

that you see on the left-hand side of this doughnut. What 4 out of 10 people in America, what 4 out of 10 consumers said, the reason that they eventually opened up an account with another bank or a credit union was because that financial institution did something to prompt the consumer that an account at the institution was exactly what they needed to solve their particular financial need. I like this chart because it says to me if we are not talking to our account holders, they may very well never come to us for a checking account, for a credit product, for a particular service that we offer. The consumer wants us to be in front of them and tell them about all of the promotions, all of the products, all of the services that are available to help them meet a particular financial need or demand.

In my role as a strategist with Harland Clarke, often times financial institutions will ask me, or will exhibit a little bit of trepidation about being in front of their account holders with a particular product or service offer. I always like to show this slide because to me, it really lays testament to the fact that consumers want us to talk to them, and when we do talk to them, eventually when the need arises and we build up that level of awareness among the consumer, they will react. Four out of ten of them will react and turn to our financial institution for help with whatever problem they may have.

Now, let's go to the next slide. When we talk about reaching out to consumers, I wanted to show this slide because this is some information from a Direct Marketing Association study that was done late last year. It looked at direct marketing response rates and the types of costs involved in acquiring new accounts among our account holders. Let's take a look all the way over to the left-hand side, and all the way over to the left hand side we've got three bars. The first bar, on average what is the direct mail response rate when we're talking to our existing account holders or existing customers if you happen to be a retail operation? When we conduct on average, according to the DMA, a direct mail program that's putting in front of the consumer a product or service that we sell, the average response rate is 3.7%, pretty good, really good. If we're reaching out to prospects, in the green bar, the average response rate is 1%, so a 1% response rate talking to people who are not even account holders at our financial institution. In my eyes that's a pretty good response rate. If we happen to have the luxury of having an outbound contact center or working with a third-party entity that could provide outbound contact center services, look at those response rates when we conduct any sort of an initiative, up to 10% response. That is really – in this baseball season that is really knocking it out of the park, if you will.

Now, the middle set of bars, what does it cost us to acquire an account when we employ different types of marketing channels? We'll start with email, so if we're conducting an email campaign, on average, according to the Direct Marketing Association, a financial institution can acquire a new account for

anywhere between $11 and $15. Direct mail moves up a little bit to $19. You can see mobile and social media pretty effective way to acquire new accounts, paid search a little bit higher, and then internet display advertising, a little bit higher than all of that. Nonetheless, I think everybody on the phone today would agree that those are very, very attractive acquisition costs, if you will, when we're trying to put a deposit account, a credit account, any sort of service in front of our account holders and encourage them to obtain that particular product or service.

Now, all the way over to the right-hand side, we've talked about channels, but let's drill down a little bit and talk on this particular chart about direct mail and what kind of direct mail format works the best. You can see, starting all the way over to the left-hand side, putting something unusual in a mailbox drives response, that over-sized envelope, response rates as high as 5%. Postcards, I know in my role often times financial institutions will try to be as cost-efficient and cost-effective as possible; they will ask do I really need to send a letter or can I simply send a postcard? You can see even there postcards carry a lot of lift, as does other forms of communications, including catalogs at almost 4%, and then all the way over to the right-hand side, there's our tradition #10 envelope, letter size envelope driving our 3 ½% response rate, so all strong response rates regardless of the channel that we use, so we're talking to our account holders. We're talking to our prospects utilizing direct mail or maybe outbound phone calls or maybe email.

As a marketer, and having been a marketer in the financial services world for about 30 plus years before I joined Harland Clarke a few years ago, it was always imperative that I was able to justify to my senior management team how I was spending my marketing dollars. Those of you who are on the credit union side of the house who are attending today's presentation, I'm sure you've heard your CEO say, we are spending our members' money. Those of you who are in a publicly held bank, I'm sure you've heard your CEO say, we are spending our stockholders' money, so you need to justify to me why marketing should get the kind of budget that they get.

Let's go to the next line. One of the things that I think you, as a marketer or a retailer, could show is information like this. What this is is actual responses to a credit cross-sell initiative that I was involved with, with a financial institution recently. One of the ways we measured success in the particular initiative was to take a look at the number of letters that were sent out each month – that's the tall brown bar that you see going back to December 2015 – and measuring against that the number of loan applications that were submitted, as a result of those letters sent.

One of the ways that we recommend that marketers or retailers can show their success of a direct marketing campaign is to pony up what was mailed to the

account holder or to the prospect, versus what eventually was submitted by the recipient of that mailed piece, or that emailed piece, or that outbound phone call, whatever the channel happens to be. On this particular side, we're looking at direct mail. If you go all the way to December 2015, all the way over to the left hand side, you can see in that particular month we reached out to 1,224 account holders. Eventually, those 1224 account holders, looking at a 60-day window, submitted 55 loan applications.

Go left or right. You can see how that plays. All the way over to the right hand side, you can see in December 2016 we mailed out 949 letters to the account holders of this particular financial institution, and 10 applications were submitted. Don't let the 10 surprise you. With all of the campaigns that we conduct, and something for you to consider, is what kind of a response window are you going to look at before you start measuring?

With this particular program, we have a 60-day response rate. Those 10 loan applications that were recorded at the end of December – we will actually go 60 days out, from the end of December to the end of February, before we close the window on reporting. If we were to take a look at this graph today, that 10 most undoubtedly would be higher – closer to 50 to 60 applications submitted.

Christine: Hi, Steve. This has been fantastic information. I just wanted to give you a heads up that there are a few questions waiting for you, so let me know when you're ready for those.

Stephen: Let's go to our next slide. We've taken a look at hard numbers, the number of the letters mailed compared to the applications submitted. How do I put this in terms that might be easy for a CEO or senior management team member to digest?

Let's just do some simple math. My numerator is the number of applications submitted. My denominator is the number of letters mailed. You can see, again, starting all the way over to the left, 4.5% response rate. You can see going from month to month to month what those response rates look like. Again, keeping in mind that our reporting windows at the tail end of 2016 have not yet closed.

Next slide, if you would. I can put this in a tabular format to make it easier for people to take a look at. All the way down at the bottom of this particular chart – here we're looking at a 13-month window. My totals at the bottom – we know about 16,201 mail pieces during that 13-month window. We took in 687 loan applications. My overall response rate for this particular campaign came in at 4.2%.

Then our next slide – I always want to put dollars-and-cents to everything I do. Not only do I want to show what was mailed and then what eventually was

submitted, but I want to take a look at the disposition of those, at least in this case, those credit applications that came in. If you take a look at the top row on this particular chart, what we're doing here is we're showing applications that were funded, approved, showing as still in process, that the account holder may have withdrawn, that might have been declined.

In this particular case, if you look on the left hand side we conducted cross-sell initiatives for credit cards, mortgages, and personal loss. If you go all the way down to the bottom row, you can see that during the course of the 13-month window about $3.5 million in loans have been funded. Another roughly $9.4 million were approved waiting to be funded. We had another $23 million in loans in process, $1.5 million in loans was withdrawn by the account holder, and then the financial institution declined about $6 million in loans – all helpful information because now I can apply my loan yield or – let's go back to that net interest margin that we talked about earlier to my funded, approved, in-process balances, and generate a return on my marketing investment that, in this case, I'm sure will impress the senior management team and the board of directors at this particular institution.

Go to our next line. That is what I wanted to talk about today, Christine. I know we've got a couple of minutes left and I think you had mentioned that we had a couple of questions that came in. Feel free to fire away with any questions.

Christine: We do have a few but I think we're only going to have time for one or two, so let's start here. How much of a list does multi-channel communications provide?

Stephen: We always espouse using as many communication channels as possible. We know that when we conduct a direct mail campaign, if we complement that with an outbound email campaign, studies tell us that there will be about a 28% increase on the left. Drop a direct mail piece. A week or so later, no more than five days I would say, follow that up with a complementary email that reinforces the message in the direct mail piece, and studies tell us that we'll see about a 28% increase on the left. Of course, if we can follow that up with an outbound phone call, the impact on the left is even more significant, as we're able to get people on the phone and engage them in a conversation about how the financial institution can help.

Christine: Thank you, Stephen. In the interest of letting everyone go at the promised time, I'm going to have to end there. As a follow up from today's program we're going to be sending email out to the folks that are on this call, which is a survey asking for your feedback on this presentation and future presentations you'd like to see. We'll also, at a later date, share the recording and the transcript for those of your colleagues who may have missed today's session.

Steve, thanks again for sharing with us today. I'd like to extend a very sincere thank you to the many financial services professionals who took the time to be with us today. I hope to see you all again in future Informed Banker sessions. Nathan, any closing notes?

Nathan: No, that does it from us. Thanks for joining us. This will conclude the webcast.

Christine: Thank you.