HARLAND CLARKE®

Yes, It Really is Possible to Grow *Non-Interest Income*

It's no surprise that financial institutions rank "profitability improvement" among their top three priorities. However, an environment of low loan demand, increased competition and stricter regulations has made this challenging.[1] So, how can a financial institution achieve greater profitability in light of these challenges? Growing the loan portfolio — and its associated interest income — is an obvious answer. But another profitability builder gaining markedly increased attention is non-interest income.

Non-interest income is approximately ***34 percent of bank income***[2] *and almost* ***27 percent of credit union income.***[3]

Non-interest income comprises approximately 34 percent of bank income[2] and almost 27 percent of credit union income.[3] The problem is fees — the major source of non-interest income — are generally unpopular. They're often cited as a reason why account holders switch financial institutions. **So the key to building non-interest income is doing so in ways that are less painful for account holders,** such as:

- Driving acquisition, activation and utilization of foundation accounts
- Cross-selling loans
- Cross-selling investment and other services

Growing income through portfolio expansion, increasing transactional volume and cross-selling enables financial institutions to increase revenue in a way that is acceptable to account holders.

Let's examine four easy ways you can increase non-interest income.

1 Checking Account Acquisition, Card Activation and Utilization Initiatives

The checking account is the way into a financial institution. In fact, capturing the first check order may be the best indicator of primary financial institution (PFI) status. Why? Because 73 percent of U.S. consumers turn to their "main bank" for their checking account.[4]

Of course, a debit card is a natural companion to checking and debit card payments continue to grow more than any other payment type.[5]

Opportunity: On average, an *active* checking account annually provides a total of $156 in overdraft, service and miscellaneous fees. Together with an active debit card — 15 or more swipes per month — active checking account holders contribute $415.63 a year in revenue. Unprofitable checking accounts contribute just $92

[1] Deloitte, *2015 Banking Outlook*, 2015
[2] FDIC, *Annual Bank Income Report*, 2014
[3] National Credit Union Association, *Quarterly Report*, February 2015
[4] Ernst & Young, *Global Consumer Banking Survey*, 2012
[5] Federal Reserve, *Payments Study*, 2013

per year.[6] Keeping account holders active is key to profitability. Financial institutions have an opportunity to increase that profitability even more — to approximately $212 per year — by implementing strategic onboarding activities that engage new, inactive account holders.[7]

Action: Implement acquisition programs that target those account holders with whom your financial institution is likely to achieve PFI. Then strengthen this new relationship with onboarding and cross-sell programs that make it easier for account holders to transfer bill payments and direct deposits, and encourage debit card activation. Promote checking account utilization with engagement services, such as check writing, debit usage and online bill pay to move account holders into "profitable" checking account holder status.

2 Mortgage and Home Equity Acquisition Initiatives

According to the National Association of Realtors®, existing home sales are up 6.1 percent from 2014 and are expected to remain above five million in 2016.[8] In addition, equity is coming back in most, if not all, markets.

Opportunity: Average mortgage closing costs in the U.S. are $2,539 on a $200,000 mortgage, up nearly six percent from 2013.[9] As mortgage loans increase, non-interest income — appraisals, applications, title searches, attorneys' fees and document preparation — also increases.

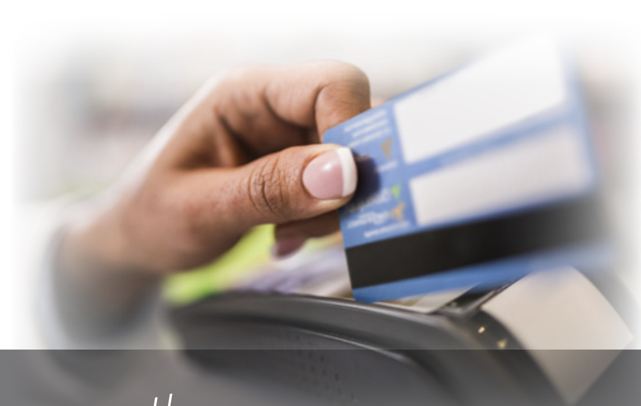
Plus, if the financial institution is selling mortgages on the secondary market, it is typically earning one percent in origination fees on top of closing costs.

Action: Targeted, data-driven loan acquisition programs are a must. With the non-interest income generated from every closing, these types of targeted cross-sell programs quickly pay for themselves.

3 Investment Services and Complementary Assurance Services

With a recovering economy, consumers are now seeking information on how to manage, protect and preserve their assets. In a study on retail banking, Cisco Systems revealed that 69 percent of U.S. consumers would exchange personal information for more personalized service, higher security against identity theft and greater simplicity in managing their finances. These findings further indicated[10]:

- **73 percent** want advice on increasing their savings
- **67 percent** want financial education
- **47 percent** want an assessment of their financial status



*15 or more debit card swipes per month contributes **$415.63 a year in revenue.**[7]*

[6] StrategyCorps, *The Profitability of the Average Checking Account*, 2013

[7] Javelin Strategy & Research, *Convert "Silent" Attrition in Banking Engagement and Profits*, February 2015

[8] Realtor.com, *Don't Break Out the Home Seller Hankies — Existing Home Sales Down, Prices Still Up*, May 2015

[9] Bankrate.com, *Closing Costs Survey*, April 2013

[10] Cisco, *Cisco Customer Experience Report*, April 2013

Managing money is not the only matter on the minds of U.S. consumers. They are also concerned about insurance. While 85 percent of consumers say that most people need life insurance and 65 percent say they personally need it, only 62 percent say they have it. However, 45 percent indicate they will likely buy insurance in the next year.[11]

Clearly, there is an overwhelming need for greater financial education, investment guidance and insurance information. Serving these basic consumer needs represents a significant business opportunity for financial institutions – usually the first line in consumer financial education.

45% of consumers are likely to **buy insurance** in the next year.[11]

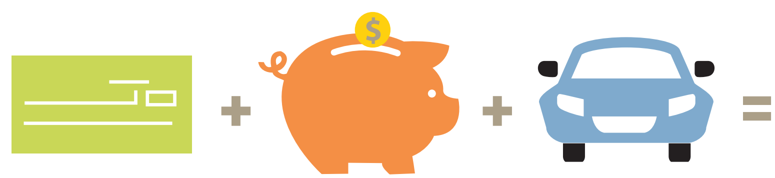
Account holders with investment services relationships tend to have the deepest relationships with financial institutions.

Assurance services like property and casualty insurance, extended warranty and loan protection coverage also add value. They show account holders that you understand their needs, strengthen the level of convenience delivered to them and differentiate a financial institution from its competitors.

Consumers who are trying to get better control of their finances might appreciate a reprieve from bill payment. Skip-a-payment programs foster goodwill and can also boost account holder satisfaction.

Opportunity: Investment and assurance services can generate substantial fees. For example, fees for investment services may range from 0.5 percent to two percent of account value. Financial institutions also generate income via commissions or hourly advisory fees. Skip-a-payment fees range from $25 to $75 per loan payment, and most assurance services carry either commissions or one-time fees.

Action: Cross-sell programs to promote investment, assurance and skip-a-payment initiatives are well worth your time. Not only do they support customer loyalty and satisfaction, they can also help build revenue. The more products and services an account holder has with your institution, the more value that account generates. For instance, adding a savings account to a checking account improves retention by 67 percent; also adding a loan improves retention to 90 percent or more.[12]



retention

[11] Life Insurance Research and Marketing Association, *Life Insurance Barometer Study*, 2013

[12] ABA, *Marketing Survey Report*, 2012

A missing element in income-generation programs is ***statistical modeling*** *to* ***predict purchase propensity.***

4 Purchase Propensity Key to Cost-Effective Acquisition and Cross-Sell

Even if a financial institution embraces the opportunities for increasing non-interest income, it may lack the in-house resources to strategically and cost-effectively drive income-generating initiatives. Typically, one of the missing elements in income-generation programs is sophisticated business intelligence — including statistical modeling — to predict purchase propensity.

Statistical modeling can help predict which account holders are likely to buy a specific product, as well as which product the household is next-most-likely to buy. This type of predictive modeling helps ensure that the institution gets the biggest bang — and best response — for its marketing buck by targeting the right audience and eliminating waste.

Is your institution making the most of opportunities to build non-interest income? If not, it's time to consider acquisition and cross-sell programs that go beyond your typical fee services.

Harland Clarke's advanced analytics can help your institution make the most of your marketing budget. Our Stratics® product suite provides predictive modeling intelligence that increases the effectiveness of your marketing and relationship strategies for individual account holder and market segments. Our Lifecycle Marketing Solutions use data-driven insights to develop customized strategies for acquisition and cross-selling.

To learn more, call **1.800.351.3843**,
email us at **contactHC@harlandclarke.com**
or visit **harlandclarke.com/Marketing**.