Harland Clarke Webcast 10/17/16
The Latest on New Household Acquisition TRANSCRIPT

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Jeb: Good day, and welcome to Harland Clarke's webinar. Today's topic is The Latest on Household Acquisition. This webinar is being recorded, and will be provided to you along with the presentation recording and deck within a few days. [Participants], at any time, please use the chat box located in the webinar control panel. Your questions are private, and are only seen by the presenters. I will now turn the call over the Stephen Nikitas, Senior Strategy Director at Harland Clarke. Steve, you have the call.

Stephen: Thank you very much, Jeb, and good afternoon everybody. Welcome to another Harland Clarke webinar. As you heard Jeb mention, we're going to talk about household acquisition today. Before we do, just a little bit about me. I'm going to be taking the reins of for today's presentation, I am a Senior Strategy Director for Harland Clarke. In that role, I work with financial institutions around the country, and help them to implement and continue to drive various marketing services initiatives in order to help the particular financial institution continue to grow and prosper relative to strengthening the asset side of their balance sheet, or bringing in deposits, or new customers, slash members, whatever the intent of the institution is.

A little bit of background, further, about me, I've been with Harland Clarke now for a little over six years. I come to Harland Clarke with 30 years of financial services experience having served in executive roles at financial institutions in New York, California, and Massachusetts.

Let's go to our agenda, and take a look at what we're going to talk about today. Today, we're going to handle, or discuss, a handful of items today. First we'll take a look at what's going on out there in the market. From there, we'll talk about the process that consumers make when they decide where to open up an account, what kind of an account to open up, and what pricing considerations there are. We'll talk about some relationship strategies that are out there that financial institutions employ in order to attract new households. Then we'll wrap it up with key takeaways at the end of this presentation.

If you have a question based on anything I may say, or something you may see on today's slides, feel free to type it into the question box in your GoToMeeting bar. At periodic times during today's presentation, over the course of the next hour, I will do my best to address whatever questions you may have.

With that, let's go to our first slide, take a look at the market snapshot, and let's go to our next slide and take a look here at historical net interest margins. I thought this would be a great place to start, today. Let me take a moment to explain what's going on here. I went back in time, if you go all the way over on the X axis, if you go all the way over to the left-hand side, I took a look at net interest margins in the banking slash credit union world, going back to the Reagan administration, all the way back to 1984. If my math is correct, I went back better than 30 years to look at historical net income margins quarter by quarter.

Again, if you go all the way over to the left-hand side, you can see way back when net interest margins in the banking, credit union world were about 3.75%. As we go left to right, you can see in the mid 90's we took a little bit of a bump up to almost 5%. Since then, net interest margins have been on a pretty steady decline. We had a little bit of a bump in the 2000's. We had a little bit of a bump about 10 years later. Today, net interest margins are hovering around 3%. In fact, if you go back and take a look at net interest margins in 2015, something happened that had never happened since the early 1980s, and that was net interest margins actually fell below 3%.

For the first time in better than 30 years, we saw net income margins that spread, that really dictates what our profitability is in a financial institution, really get razor thin and fall below that magic 3% mark. Now, as marketers, as retailers, everything we do we need to be focused, obviously, on driving revenue into our bank or into our credit union, and of course revenue helps, obviously, to drive profit.

You can see that little break-out box in the lower left-hand corner. Interest income coming from loans and deposits, or interest income, I should say, coming from loans, backing out interest expenses that we pay on our liabilities end up in net interest margin. I share this line because it's critically important that us marketers, us retailers, us operations folks out there really need to be focused when it comes to household acquisition on driving the right account in the door.

Let's go to our next slide. Historical net interest margins are low. Does it look like things are going to get any better any time soon? It seems like every month, when the Fed meets, we keep waiting with bated breath for rates to go up. We look at hiring, and hiring has been lackluster. We look at GDP, and GDP has been poor. The economy continues to slog along. As it continues to slog along, it is likely that the Fed will maybe keep their hands tied relative to raising rates on a consistent and regular basis.

What does impact net income margin account? Again, what does impact that profit margin that we, as marketers and retailers, may have a hand in? There are really four things that can impact net interest margin. First off, as we've been talking about, short-term interest rates. That's out of our control. That's Janet Yellin and the Fed. We have no control over that. Again, as we've watched month-to-month what the Fed is going to do, no one is certain when rates are going up. We've been expecting rates to go up for the last 10, 12 years, and nothing has happened. No one really has a handle on when that time may come.

The second thing that can impact net interest margin within a financial institution is geography. If our bank, or if our credit union is operating in a geography that is not very competitive, then we have the ability to maybe charge higher rates on our loan products, and provide lower rates on our deposit products. Looking at the list of folks who are on the phone today, it's likely that all of us are in highly competitive areas, and really don't have the luxury where we can go out there and have, or offer rates that are going to stick out like a sore thumb.

The last two bullet points are really where we can make an impact. First off, account holder growth. What we want to do, as we all know, we want to drive more share of wallet, we want to drive more product and service into the hands of our account holders. That's something that marketers and retailers certainly have under their control. We all know the deeper the product relationship, the deeper the share of wallet relationships, the more profitable that particular account holder is going to be for us.

Now, we're talking about household acquisition today. As we conduct household acquisition campaigns, we need to keep in mind that we can't just attract any and every household. We have to make sure that that household that we attract to our financial institution is one that we are certain is going to have a deep relationship with us relative to product penetrations and also to share a wallet. That is something that's certainly under our control. Then loan demand, as we attract new households, we also want to keep an eye on households that are going to be in that life stage where the demand for credit products is tantamount.

We want to focus on attracting younger consumers. Those consumers, maybe Gen Y, maybe Gen X, who are entering those life stages where they're likely to buy cars, likely to buy homes, likely to put additions on their homes, or maybe update their homes, go on vacation, eventually put kids through school, etcetera, etcetera. As we think about household acquisition, net interest margins really come into play in dictating or determining what kind of a household we want to attract for our financial institutions.

I wanted to get those two slides out to really kick off this meeting because again, interest rates are on everybody's mind these days. You pick up the business papers day in and day out, we see information in there about what the Fed is going to do, and certainly what the Fed is going to do impacts the stock market. It's likely that most, if not all of us on the phone today have a 401k program with our bank or with our credit union, and it's likely that we've got one eye on what's going on in the stock market and interest rates. Certainly, interest rate decisions made by the Fed can impact what that market does.

Let's go to our next slide. On our next slide, we want to attract that right kind of an account holder. Who is that account holder? On this slide, what I did is I broke up the age demographic into three cycles. Again, if you look at the X axis, we've got 18 to 34 year olds on the left; in the middle we've got that Gen Xer, maybe that low end of the Baby Boomer; and then all the way over to the right-hand side we've got our Baby Boom and senior generation.

Who is switching financial institutions? Happily, fortunately, it's that Gen Y, all the way over to the left-hand side, who is switching most vigorously compared to the other two age demographics. Almost one out of every five, almost two out of every 10 Gen Yers is looking for a new financial institution. Now, what do we know about those Gen Yers who are looking, or may be looking for a new financial institution.

First off, we know Gen Yers tend to be attracted to large, national banks, the Banks of America of the world, the Wells Fargos, etcetera. They are attracted to those financial institutions for a multitude of reasons. Among them is the fact that Gen Yers believe that they have easy access to their accounts via a wide ATM network that the national banks provide and support.

Another key reason why younger consumers tend to gravitate toward those national banks is the perception that only the national banks have all the products and services we will ever need from cradle to grave. As we on the phone all know, nothing can be further from the truth. Community banks, regional banks, credit unions, whatever the size, I have never run across a financial institution in my years at Harland Clarke, and I work with better than 200 banks and credit unions around the country who do not offer the depth and breadth of product lines that any typical consumer would need.

The good news on this slide is that 18%, roughly two out of every 10 Gen Yers out there is looking for a new primary financial institution. Now, it might be your Gen Yer who's out there looking for a new financial institution. It could be yours; however, if that Millennial is satisfied with the service that your financial institution is providing, then rest assured they're not going to be in that bucket of Millennials, younger consumers, who are looking to change their PFI. Keep that in mind. The good news, 18% are looking to switch.

The even better news, if you're providing good service to those younger consumers, they're not going to switch. We're going to talk about service in a little bit, so we're going to come back to this point. I'm going to take a little bit of a different twist on what service is. It goes above and beyond that consumer walking to a teller line, having a satisfactory experience when they're making a deposit, getting a balance, maybe making a loan payment, whatever. There's a lot more into service that I'll define for you in a little bit.

Let's go to our next slide. Some data, some information, particularly when it comes to checking. As we all know, with household acquisition, it can start with checking. That checking account is going to determine who my PFI or my primary financial institution is. Some key points I want to bear out on this particular slide for everybody. I think you'll all find this as interesting as I did.

Let's take this very quickly from the top. In a typical bank or credit union, the percent of profitable checking account holders is about two out of [three]. About 65% account holders, on average, are profitable. That means the other one-third, or 35% in this case, are not driving any profit for your financial institutions.

Again, I go back and say, when we acquire a new household, we've got to be focused on making sure that when we employ our analytics to determine who I'm going to target out there, we want to make sure that that account holder that we bring in the door is one that is going to have that deep share of wallet, and that deep product penetration relationship with us.

That checking account holder that you have at your financial institution, on average, they've got between $6,300 and $6,400 on balance in that checking account. If that particular checking account holder has other deposit accounts with you, those other deposit accounts total a little over $10,000. If that checking account holder has a loan with you, that average loan balance is a little bit over $9,500, almost $9,600. Now, we're driving revenue off of our investments from our deposit accounts. We're driving revenue off of the credit products that we get into our checking account holder's hands. At the same time, the benefits of having a checking account holder is the fact that we're driving fee income.

Here are some of the fees that that checking account holder, on average, is providing back to the bank or credit union. Service charges, almost $9. NSF fees, on average, about $81 a year. Annual miscellaneous fees, another $7 and some changes. Interchange fees, on an annual basis, total about $50 as long as that consumer, with a debit card, is swiping that debit card, on average, about 12 times a month.

In my role, at Harland Clarke, I find myself increasingly working with financial institutions who will approach me and ask, we think we have a lot of debit card holders who just aren't pulling that piece of plastic out of their wallet as vigorously as we would like them to do. Can you help us drive more debit card activity, and utilizations, among our account holders? With the institutions with whom I work, where we have embarked on those kinds of initiatives, the target is to get that consumer to swipe that card 12 to 15 times a month, knowing that at least at 12 times a month, that consumer is going to drive about another $50 in fee income in the door. Those fees total up to about another $150 in revenue, in non-interest income, that that typical checking account holder is providing to the institution.

Here's a couple of other line items here that I really want to focus on for a moment, single account households. A third of all of your checking account holders have one product, that checking account in their hand, and nothing more. Shame on us for allowing one out of every three checking account holders to have no other product in their wallet other than that checking account. Maybe we're not onboarding properly. Maybe we're not cross-selling to that checking account holder as regularly as we should, but on average, one out of every three of your checking account holders at your institution has that account and nothing more.

Obviously, as you go back up to the top here, the percent of single product households really correlates all the way to the very top the percentage of unprofitable households. We can make a connection that that checking account holder has a checking account, nothing else. They're not driving any profit to your door whatsoever.

The other key concern that I have is the average age of that checking account holder. On average, at banks and credit unions throughout the country, the average age of a checking account holder is 51. That's a little bit long in the tooth because that checking account holder is getting perilously close to leaving that life stage window where they're likelihood for more product and service is what's going to drive their relationship with us.

As we look at acquiring new account holders, it's got to be a younger account holder. If I were a bank or a credit union CEO, and if I were talking to my marketing VP or my CMO, the marching orders really would be, bring in a younger consumer because 51 is just too old. We run the risk of having too many account holders within our institution who just aren't generating any profitability for us at all.

Let's go to the next slide. On our next slide, when it comes to checking, what are those reasons that people open up a checking account? We know, again, [harkening] back a couple slides that eight out of every 10 consumers, or I'm sorry, two out of every 10 Gen Yers are out there looking to open up a new checking account. When that happens, what drives them to open that new checking account up? Twenty percent open it up because they simply move. Maybe they got out of college, maybe they relocated back home, maybe they went somewhere where a job took them. Another 20 percent received a better offer from another institution. Now, that's key, right? When I look at that 20%, I say if we're not out there promoting checking, looking to acquire new households, and conducting active, ongoing initiatives in order to drive people in the door, then we're losing the mark because two out of every ten checking accounts that are being opened are being opened by people who say somebody put something in front of me, and it was appealing enough that it drove me to open a new checking account at that institution. In reality, I think the next line item, the 18% who say they have access to more advanced features with their checking, or maybe the way they access their account, is another key indicator that those institutions that are promoting their engagement service capabilities at their particular financial institution are the ones who are resonating loudest with those consumers who might be unsatisfied with their current financial institution and are looking to change.

We're going to make sure that within a week, as you heard Jeb say early on, within a week of this presentation, you all will get a copy of today's presentation. I won't go through each and every one of those, but those handful of key determinants on why people open up checking are really what I wanted to focus on on this particular slide. When you get your copy of today's presentation, you'll have an opportunity to drill down a little bit into these and other slides, but I think interesting data on this particular slide. To me, again, as I look at it, it says loud and clear, as a marketer, I've really got to be out there focused on acquiring new households through checking promotions and checking account campaigns in order to most loudly resonate with that consumer out there. Let's go to the next slide.

I really like this slide. I have the opportunity to present before a lot of financial institutions and at a lot of conferences, and I love to show this slide because, to me, it speaks very loudly to service. I mentioned service a few slides back, and I said if Millennials are satisfied with the service they receive, they will not switch financial institutions. Service is no longer walking to the teller line, making a deposit, getting withdrawals, checking a balance, seeing what checks bounce, etc. There's been a paradigm shift, and today's service really is – we've all been around consultations. If I can provide that accountholder with consultative advice on how to get from Point A to Point B financially, I am being a top-notch service.

We know today we sell a commodity product; a savings account is a savings account is a savings account. There's nothing different from my savings account to your savings account, my car loan to your car loan, whatever the product happens to be. What consumers are looking for today is consultative advice from their financial institution. The ability to get consultative advice is what drives customer or member satisfaction these days, particularly among those younger consumers.

The Millennials, in particular, are looking for their financial institution to provide them with consultative advice. They need help; the consumer needs help managing their finances, managing their day-to-day expenses, building toward retirement, building toward generating a family so eventually they can buy a home, buy a car, go on vacation, whatever the financial need, whatever the dream happens to be.

Interestingly, earlier this week, and many of you on the phone probably saw this, there was a study out – I think it was conducted by the Pew Research Group – that found that I think it was 70% of American consumers have under $1,000 in their savings account. Now, think about that. Seventy percent of American consumers have under $1,000 in their savings account. Somewhere, somehow, the whole concept of financial management is just not getting across to the consumer.

Now, on this particular slide, let's look at the donut on the left. This was the result of a study done back in 2014, and consumers who were part of this particular study were asked what kind of relationship do you have with your bank or credit union. The blue slice of this donut says that seven out of ten consumers, or 71% of consumers who participated in this survey, said that my relationship with my financial institution is transactional only. Maybe I only go to the teller line. Maybe I'm only going mobile through my smartphone. I'm looking at my checking balances, I'm paying bills, whatever. Seven out of ten consumers in 2014 said that their relationship with their financial institution was transactional, even though they want it to be consultative.

Let's look at what happened in 2015. Now the consumer is looking for consultation. They need consultation; they're screaming for consultation. Yet what happens from one year to the next? Things, unfortunately, got worse. When consumers were asked in 2015 what does your relationship look like with your bank or credit union, eight out of every ten consumers said my relationship is transactional in nature. Only 21% said my relationship with my bank or credit union is consultative; they're giving me the kind of advice I need in order to prepare financially for a very positive future.

We are missing the mark on that, or we appear to be missing the mark on that, at least what the consumer says. The fear that we all should have is that the fintechs and the technology companies out there, should they ever decide to start offering financial products and services, in particular the Apples, even the Walmarts of the world – and we know some financial products are available through Walmart – we run the risk, if we don't change, and change quickly, of having those institutions cannibalize our accountholder base and put lots of pressure on us to prosper.

On that positive note, let's go to our next slide. On this particular slide, we know consumers are looking to open up checking accounts. Again, 18% of younger consumers are looking to open up their checking account, but who are they? In my role with Harland Clarke, when I help financial institutions to conduct checking acquisition campaigns, oftentimes the institutions will say we want to suppress from this particular campaign all of our accountholders who currently have a checking account with us, to which I say, "I'm not so sure." The donut on the left-hand side, I believe, bears that out.

Let's take a look at this chart on the left-hand side. What this is looking at is number of checking accounts held by a particular household. In this case, the right-hand slide of this particular donut says that almost 50%, 47%, of consumers out there have one, and only one, checking account. That's all well and good, but I think the story is in the other 53% of consumers who say they've got more than one account, that they've got multiple checking accounts in their wallet with maybe their financial institution or maybe one at your financial institution and another one at my financial institution.

Consumers have multiple checking accounts. Better than one out of every two consumers out there have multiple checking accounts in their wallet. The reason for having those checking accounts? Let's take a look at the bar chart on the right-hand side. Primarily, what they're doing is they're managing their accounts.

They've either got multiple checking accounts for household expenses; they've got multiple checking accounts for maybe a husband and a wife got to have a joint checking account. The husband then has a personal checking account for his personal expenses, gym membership, Friday nights going out to dinner with his work associates, whatever. Maybe the spouse has her own checking account, multiple checking accounts within a particular household to manage household expenses and then, at the same time, to manage personal expenses.

My advice to financial institution checking acquisition campaigns is you may want to take another look at that household that has a checking account with you and see if they've got more than one. If they've got more than one, then maybe we don't want to talk to them. If they've only got one checking account, there could be an opportunity there for you to reach out to your existing checking account holder and sign up a second or even a third checking account because it is likely the consumer is in the market to do that. Let's go to our next slide.

The likelihood of a consumer to open up yet another checking account within the next year – let's take a look at the left-hand side. On the left-hand side, let's look at that bar that sticks out like a sore thumb. There we are again; there's our Millennial and Gen Y consumer. In 18- to 34-year-olds, 40%, four out of every ten consumers within that age number bracket, say it is likely that I'm going to obtain yet another account within the next year. Interestingly, go one bar over to the right from there. Consumers in that Gen X age demo say that – in the age demographics, there is a lot of opportunity to get a second or a third checking account in the hands of younger consumers.

Now, when we do, what will that checking account be? Let's look again at the donut on the right-hand side. Overwhelmingly, two out of every three consumers in that big slice of the donut on the right-hand side say they simply are going to do it to get another checking account, but then one out of every four, or 28%, say I'm going to get it to replace the current checking account I have. I might not be so happy about where I've got that current checking account, so I need another checking account because I'm dissatisfied with my current financial institution for one reason or another. If you can aggressively market to me, you're going to gain my interest, and it's likely I'll come to you to open a checking account if you've got the features and if you've got the account profile that I'm looking for to satisfy my needs. Let's go to the next slide.

Let's take a look at the process that consumers go through when they decide where they're going to open up a checking account. Let's go to our next slide and start there. This is why I went to the financial institution I did to open up a checking account: convenience. Thirty-nine percent, almost four out of every ten consumers out there, say I went to that particular financial institution because their branches were close by.

For as long as I can remember, before I arrived at Harland Clarke six years ago, but at my experience with prior financial institutions in New York, and California, and Massachusetts, whenever we would conduct checking acquisition campaigns here now, go three miles out. Go three miles out from your branch location and look at households that are within a three-mile window of your branch office. That is about as far out as you want to go because that seems to be the boundary for where a consumer will consider you convenient or inconvenient.

However, look what else is happening as we go downstream on this particular bar chart: online banking through a website. If the perception by the consumer or by the prospect is that your website, that your online banking capabilities, are robust, that I can do everything I need to do at my laptop that I could do at a branch location, then you're also considered to be convenient. Once upon a time, overwhelmingly you had to be close to that consumer, physically close to that consumer. Again, no more than three miles out.

At the same time, we need to communicate to that consumer when we're conducting acquisition campaigns that we have a very strong digital and mobile banking presence because, if you drill down a little bit on this slide, you'll see that 16% of consumers say mobile banking is important in determining where I go. We'll see on the next slide in a moment how things are changing when it comes to the perception of convenience and electronic access.

As we continue to look at this slide, better than one out of every four consumers say I need to be close to my money; I need to be close to an ATM. We know younger consumers, in particular, like to be close to an ATM. Go figure, as I like to say, that younger consumer who is so attuned to doing everything online, who is so attuned to having things no further away from their smartphone, or an arm's length away, still likes to have access to cash. Go figure. On a Friday night, that's why they like to be close. Maybe they need cash when they go to a movie; I don't know. Consumers overwhelmingly still like to have cash in their pocket.

Reputation is important. I want to know that your financial institution is in good standing, that you're good in the community, that you do good things, so on and so forth. Then you can see things tend to diminish from there, but go almost all the way down on this particular list. Look at open evening and weekend hours. Not so important anymore. I remember once upon a time about 10 or 15 years ago, working for a financial institution in California, we surveyed our consumers and mistakenly asked when would you like us to be open. As all of you on the phone can imagine, the answers came back 24/7 or at least evenings.

We made the decision back then to test the validity of their responses, and we started keeping some branches open until 8:00 or 9:00 at night. What we found was that after 5:00, for the most part, traffic dried up considerably. As mobile services have gotten more capable, the focus on having long hours of operation has become less and less of a determinant on where I'm going to go do my banking. That consumer gets home for the night from work Monday through Friday, or at least Monday through Thursday, it's unlikely that they're going to go out again to conduct any banking interactions. Let's go to our next slide.

Convenience is key. As I mentioned on that prior slide, previously, convenience was perceived as being close to a branch, but increasingly it's being a financial institution that provides strong online banking. Let's take a look at this slide for a moment. Survey done in 2014, the blue bar; in 2015, the green bar. Consumers were asked what makes my bank, what makes my credit union, convenient.

Now, in 2014, if you scoot a couple of bars over, three out of every ten consumers back then said being close to a branch creates the perception that my financial institution is convenient, but look what happened when the question – let's focus on the branches column first. We went from 30% of consumers who said you've got to be close to only 18% of consumers said if you're close, you're convenient.

What took up the slack? Let's go all the way over to the left-hand side. In 2014, 20% of consumers said if you've got a strong, capable, robust, whatever you want to call it, online, or mobile, or digital banking platform you're considered convenient. Again, as more and more consumers get that smartphone in their hand, in particular, the concept of convenience increasingly becomes how capable or how robust is your mobile or digital banking network. You can see that we went from 20% responding to that question in 2014 to 26% in 2015.

When we consult financial institutions on conducting checking acquisition or household acquisition campaigns, we certainly want to identify consumers who are close to a branch – again, I would advocate no more than three miles away – but at the same time, when we go through the list of features that our financial institution offers, when we put in front of that consumer the list of features that come with our checking account, we always want to also focus on how strong our digital and mobile banking platforms are because in the mind of the consumer, particularly the younger consumer, that is a key determinant in what is going to drive them to go open up an account at your bank or credit union. Let's go to the next slide.

A little bit old on this slide, but I still think it's important. Really, this reinforces a lot of what I just talked about relative to mobile. In the green, the response is how important is the role of mobile banking. The green is extremely important, and the blue is important. Look what happened when this question was asked back in 2010, a scant six years ago. Only 7% of consumers said mobile banking was a determinant because, again, it really didn't exist then. Not very many financial institutions had a mobile banking platform.

Look what has happened since. Let's go to the end of 2013, three years ago. Again, 60% of consumers back in 2013 said mobile banking is either important or extremely important in deciding where I'm going to go do my financial transactions. This slide is dated, as I mentioned, but the reason I wanted to show this slide is look at the progression from year to year. As we know, when we're building financial charts, for the most part we want everything to go up and to the right, and this chart really verifies that. The importance of mobile banking is only going up and to the right, and that is a feature that we want to constantly put in front of our consumers, whether they're existing or prospects, to show them that our bank or our credit union is truly convenient. Next slide, please.

What was the consumer's mindset when they decided to switch financial institutions? I alluded to this a few slides back, and I want to reiterate that point right now. Let's take a look at this particular donut, and let's start in the upper right-hand. Thirty-two percent, or roughly one out of every three consumers out there, they knew exactly who they were going to go to. We have another equal percentage of consumers, again roughly one out of every three, said they only had one financial institution in mind. Then the other 36% or so of consumers out there said I had a few financial institutions in mind or I really wasn't sure where I was going to go.

I want to focus for a moment on the 64% that either knew exactly who they were going to go to or just had one on their mind. When I look at this slide, it's all about building awareness when it comes to attracting new accountholders. They're not going to come to us. As marketers and retailers, we need to be out there really beating the bushes, if you will, and doing whatever we can to create a level of awareness among the consumer that we've got a checking account for them, that we've got an account for them that has all of the features that they're looking for that will satisfy all of their financial needs.

Again, my takeaway from this particular slide, when we create top-of-mind awareness, or as I like to call it, TOMA, when we create top-of-mind awareness among the consumer, when the time comes where maybe they get dissatisfied with their current financial institution, or maybe the need has developed where they simply need another account, maybe they need another loan, whatever it happens to be, in this case, checking, when they need another account, when we create that awareness within or among the consumer, they will turn to us for that particular checking. Of course, as we all know, that will drive PFI status. Let's go to our next slide.

Take a look at the left-hand side here. What kind of checking account does the consumer have? Again, let's look at this donut. Two out of every three, the blue portion of this donut on the right-hand side, two out of every three, 60% of consumers, believe or think they have free checking. Free checking drives that relationship; there is no doubt about it. If I think I've got free checking, perception is reality. Maybe the checking account is free, or maybe I simply think it's free, but I'm doing the service in order to avoid fees. That seems to be the checking account that I want.

In fact, as we go clockwise on this particular donut, you can see roughly another three out of every ten consumers, or 29%, believe that maybe their checking account isn't free, but they're doing things that are helping them to avoid service fees, like maybe they've got a relationship established with the bank or credit union, or maybe they've got a minimum balance relationship where they're meeting that daily minimum balance requirement.

Nonetheless, overwhelmingly consumers think, 63% think, they've got a free checking account. Another 29% think that, while maybe that checking account isn't quite free, they are avoiding service charges by either maintaining a minimum balance requirement, maybe having direct deposit, whatever the hoop or the hurdle happens to be that they're jumping through or jumping over.

When I will consult with financial institutions on acquiring new households, and checking is the product they want to lead first and foremost with, I always tell financial institutions don't promote that checking account that might pay interest but might really only appeal to a very small segment of the audience. First and foremost, promote your basic checking. If your basic checking is free, promote it. If your basic checking might not be free, but by direct deposit or by a minimum balance relationship, go out and promote that one. Consumers are looking for either a free or a low-cost relationship when it comes to opening up checking accounts.

Now, what are some of those requirements when it comes to avoiding fees? You can see on the right-hand side here. Here are some of those requirements that financial institutions have out there. Fifty-seven percent of the time, the requirement is you've got to maintain a minimum daily balance. Forty-three percent of the time, those checking accounts that might require a fee will require you to have direct deposit. After that, the requirements really drop off the table like a rock, and you can see that those two items right there, first and foremost, are by far the most prevalent type of requirements that come with the checking account in order to avoid a fee or a service charge.

How acceptable are fees? Twenty-three percent – that's the brown or the yellow portion of these bar charts – say very acceptable; the other represents somewhat acceptable, the blue portion of the bar. Making a deposit in any amount really is direct deposit, so 53% of consumers out there say having a direct deposit relationship is okay. Another 40% of consumers say if I've got to make a direct deposit of only $500 on a monthly basis, I can maybe have the rest, that's okay, too.

Overwhelmingly, the fee that seems to be most acceptable is that direct deposit fee. That's the fee that, if you're going to charge me a fee, I'm okay if you say to me I've got to have direct deposit or I've got to make at least a $500 deposit in order to avoid the fee, in order to avoid the service charge. I'm okay with that. After that, again, the fees in acceptance really drop off the table quite a bit.

As a matter of fact, if you go toward the bottom of this particular chart, those last couple of items, having an annual fee for that debit card, with that type of fee, less than two out of ten consumers say charge me a debit card fee annually and I'm not so cool with that. Fee for any debit I make, again, not so cool with that either. Only 16% say charging me a fee for every debit, I'm not good with that. Let's go to our next slide.

Let's talk about relationship strategies on our next slide. When it comes to checking, how should we package checking? At the same time, I want that consumer to have a certain account in order to lower service charges or whatever. Again, let me focus on the right-hand side of this particular donut.

On the left part of this, when it comes to financial packages, 14% of consumers say they're pretty interested in those kinds of bundling packages. Again, when we put together – here's our checking account and here are the things it comes with. Another 31% say that they are somewhat interested in that type of an account. A little under half of consumers are okay with financial packaging of some sort.

Unfortunately, the rest of consumers, the other 55% of consumers, say packaging isn't so much of an interest to them. It looks like they are mostly interested in a la carte; I don't necessarily want to have other at that particular time because those accounts may not meet my particular needs either today or down the road.

Then on the right-hand side, again, just really reiterating what we talked about a couple slides ago. If I do have to put pricing on a checking package, what is acceptable? Better than half of consumers say no fee if I can avoid the fee by either having a deposit relationship. Fifty-three percent of consumers say if I've got direct deposit into a checking account or into my investment account, I'm okay with that if I can avoid service fees that way. Let's go to the next slide.

I know we've only got a handful of minutes, so I'll try to make sure we get through all of the presentation. Many financial institutions with whom I work offer reward programs. Sometimes it's for card points, for activity, whatever the reward program happens to be. Oftentimes, in my experience, I see a lot of those reward programs dying on the vine.

The financial institution made a big splash, lots of hoopla when they rolled out their reward program with whatever that product happens to be – maybe it's a debit card for all the swipes you make, or for everything you buy with your debit card, you get so many points, that type of a reward program – then what I oftentimes see is the institution no longer promotes it; information on the reward program is not available anywhere. We make the consumer peel back the onion as far as they can go in order to find how many points they have in order to see what they can buy with all of their points, whatever.

What this particular slide says is the relationship of that type of program for those rewards are valued by the consumer. Interestingly, on the left-hand side of this slide, again, there is our younger consumer. Twenty-five percent of younger consumers are participating in a reward program with a financial institution. Interesting, right? As the age demo gets older, the lower the participation level. The target consumer appears to be the consumer who likes to participate in a reward program and thinks it might be time to have better card activity.

How do consumers value those reward programs? Again, you put a lot of time and effort into rolling them out. We put a lot of time and effort into our due diligence in finding the right reward program for our financial institution. As I mentioned, oftentimes after that rollout, we let it die on the vine. Regardless of the age and demographic, as you can see on the X axis on this particular slide, consumers value those reward programs.

In fact, 87% of younger consumers consider the programs to be either valuable or somewhat valuable. If we're looking to attract a younger consumer into our financial institution, among all the other things we've talked about today, convenience, consultative advice, strong or robust mobile digital banking platform, a reward program can also be one of the things that we want to get in front of a consumer in order to convince them that we're the right financial institution for them. Let's go to our next slide.

Let's wrap it up. We've got a couple minutes left for today's presentation. As I promised at the very outset, we would go through key takeaways, a handful of takeaways that, at the very least, I'd like everybody to walk away from this presentation with. First off, there are certainly opportunities to acquire multiple checking accounts. Not only does our consumer currently have a checking account with us – one checking account – there is an opportunity to get a second or even third checking account in the hands of that particular consumer. If it is a prospect, maybe at point of sale when we're opening up that checking account for that new account holder, maybe that's a great time to ask that consumer about their money management practices and maybe a second or even third checking account.

Overall, among American consumers, there is a pretty high satisfaction rate with their checking accounts and features. However, what we know is that that younger consumer is not satisfied. That Millennial consumer, they are likely to change financial institutions. We want to make sure we're there for them..

That brings us to our third bullet point. The key takeaway: If that consumer that we're marketing to, that consumer, a prospect, or it could be an existing consumer, whoever, or some existing account holder who has no checking account with us, we want to consider a full-court press approach to marketing to that particular consumer. We want to use multiple channels. In everything I do, in everything we do at Harland Clarke, we always espouse multichannel reach-out with every marketing campaign with which we're involved.

What is multichannel? It's direct postal mail. It can be outbound telephone calls. It can be text messaging. There is no silver bullet, if you will, when it comes to marketing. It's not an ad in the Sunday paper. It's not a hot air balloon over the branch. It's a lot of things working together in order to capture the attention of the consumer. When it comes to household acquisition, when it comes to checking acquisition, we want to be multichannel in our approach.

At the same time, we want to consider onboarding programs as a way to deepen that relationship from the very outset with the consumer. We want to make sure that the product is packaged appropriately as we talk. Packaging doesn't necessarily resonate with the majority of consumers out there, so we want to give that a long, hard thought when we craft the checking product or when we promote a checking product to consumers.

We also want to look at cross-selling activities. In a typical bank, checking penetration is about 70% of the households. Checking at a credit union, it's about 62% of the households. In a bank, looking at it positively, seven out of every ten of our households have a checking account with us. Negatively, three out of ten don't have a checking account with us. In a credit union, roughly six out of every ten have one with me. Negatively, four out of every ten don't. That's a lot opportunity to market checking to our existing organic accountholders. Whether we do it through onboarding, communicating with that consumer during the early stages of their relationship with us, or whether we do it in programs, is up to the institution, of course.

The last key takeaway: relationship reward programs, which we put so much work, time, and energy into rolling out, can really have a positive effect on how the consumer perceives us, particularly, as we saw a couple slides ago, the younger consumers.

Folks, that takes us to the top of the hour. You are all probably sick of hearing me talk. I don't see any questions out there right now, so maybe I did a good job and addressed everybody's thoughts during this presentation. As a reminder, a video of today's presentation will be provided to everybody on the phone today, and the slides. Hang in there. You'll get a copy within the next several days.

With that, I'd like to thank everybody for attending today's presentation on household acquisition. My name is Stephen Nikitas. I'm a senior strategy director, and I'd love to work with you in the future. Just let me know. Thank you.

Jeb: Thank you, Steve, and thank you for everyone attending today. If you mind taking a minute to answer the questions at the end of the presentation, the feedback really helps us. I look forward to seeing you on our next Harland Clarke webcast.