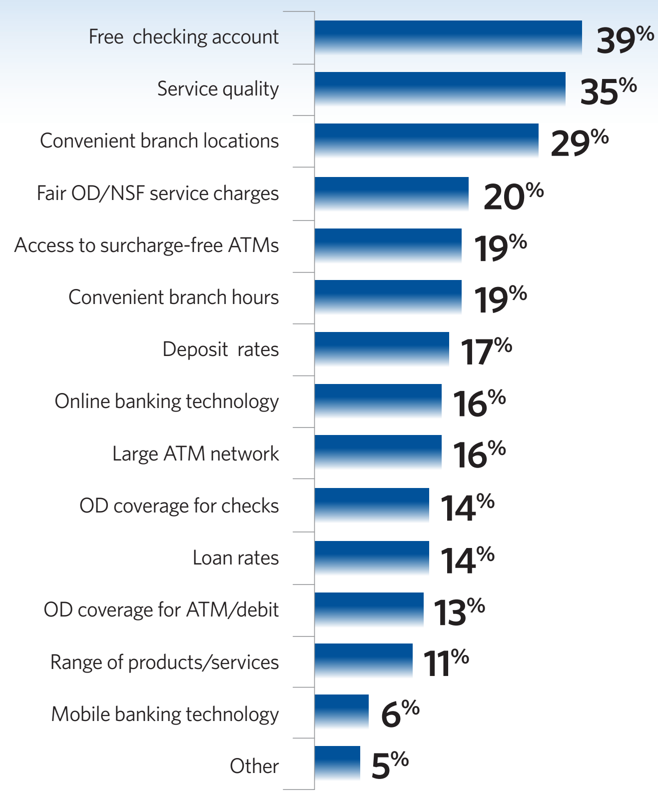
Preserving Revenue While Changing the Checking Product Line-up

Background

In the wake of Regulation E, the Dodd-Frank Act and the Durbin Amendment, many financial institutions are retooling their checking account line-ups to modify or eliminate free checking. This retooling primarily focuses on the need for account engagement activities such as direct deposit, debit card utilization and larger average balances to ensure account-level profitability.

As seen in a recent Raddon Financial Group study, free checking is a significant driver of consumer switch behavior (see chart). Therefore, the elimination of free checking from an institution's product line-up can prompt consumers to shop for a new provider.

What Changes Will Prompt Consumers to Switch Financial Institutions?



Source: Raddon Financial Group, *National Consumer Research*, Fall 2010

Opportunity

With a number of financial institutions changing terms on their checking account product lines, many account holders have the potential to be left dissatisfied. This dissatisfaction provides financial institutions with an opportunity that can be managed in two ways: 1) sending carefully segmented and communicated product change notifications to retain profitable account holders, and 2) engaging in opportunistic acquisition campaigns to attract profitable account holder relationships.

Recommendations

Solutions to Retain Profitable Checking Account Holders

The keys to maximizing account holder retention during a product line change are:

- **Segment the portfolio early.** Segmentation of the portfolio should view different variables, including household profitability (not just at the account level), current account behavior (number of transactions, channel usage, balances, etc.) and degree of account holder change required to avoid fees. This process allows for providing unique relevant messaging to distinct groups of account holders.
- **Develop a detailed communication matrix.** Review the required communication touch points by product line and segment to ensure that the account holders whose current account behavior meets new product thresholds receive communications clearly indicating that there will be no changes, or minimal changes, to their relationship. The focus here is migrating toward account holder centricity as compared with the more typical disclosure communication approach to product realignment.

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- **Provide options.** Typically, disclosure communications fail to offer account holders logical product alternatives. Unlike acquisition communications where the goal is to garner a focused response, the aim of product realignment is to retain account holders but improve the profitability of each account. Breaking the mold means taking the time to review current account behaviors and develop logical options to communicate to account holders.

The economic environment of the past three years has promoted tentativeness in account holders that has translated into significantly reduced attrition rates. Now, with the wholesale financial services industry implementing checking product changes, those rates are expected to skyrocket. Therefore, it is critical to look at change disclosure communications with an eye toward retention rather than business as usual.

Solutions to Gain Profitable Checking Account Holders

The keys to maximizing quality account holder acquisition in a volatile market are:

- **Identify your most profitable current account holders.** Given that 50 percent of typical account holders are unprofitable, it is vital to identify the 20 percent of account holders who deliver 90 percent of the revenue. By identifying this population, marketplace look-a-likes can be targeted for acquisition efforts. Additionally, the profiles of these most profitable account holders should be analyzed to identify the products that are most attractive to them.

- **Quantify your markets.** Evaluate where consumers reside in relationship to the existing branch footprint in order to create branch market areas. These will be used to guide the prospect list process. Our experience in working with clients on acquisition programs has shown that as much as 35 percent of mail is wasted by using a radius rather than a branch market area approach. The latter hones in on smaller carrier route segmentations and takes into account the impact of physical barriers, such as highways and rivers, that consumers do not find convenient to cross in the process of conducting personal business.

- **Create marketing pieces that resonate with prospects.** Both the offers and the creative marketing materials sent to prospective account holders are important elements of a campaign's success. Unlike the free checking solicitations of the past, consumers are more interested in finding financial institutions they can trust. Therefore, offers should be realistic, with the number of hurdles required to qualify for an account kept to a minimum. In our work with financial institutions, we have found that programs with clear and easy-to-understand disclosures and offers which represent real value outperform cash or giveaway offers that are too-good-to-be-true.

Current market conditions and industry activities represent a significant opportunity to gain market share with quality account holders. Successful financial institutions will carefully plan account redisclosure efforts and seek to maximize opportunistic acquisition programs.

For more information about how segmented account disclosures and acquisition strategies can help you retain and attract the right account holders for your institution, contact your Harland Clarke account executive or visit **www.harlandclarke.com/contactus.**

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