HC

State of the Industry
2012 Financial Services
Benchmarking Analysis

REPORT

HARLAND CLARKE® | MARKETING SERVICES

Executive Summary

When evaluating the latest benchmark data from the Harland Clarke National Banking Industry Database of financial behaviors among new and existing bank customers, it is important to consider the information in the context of financial institutions' top three marketing priorities: loan growth, cross-sell to deepen relationships and account holder acquisition.

The data indicates banks are making meaningful progress toward each of these initiatives. For example:
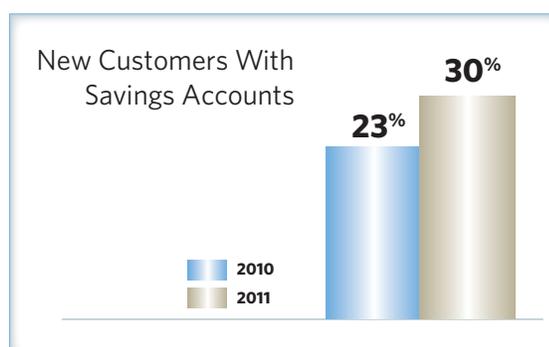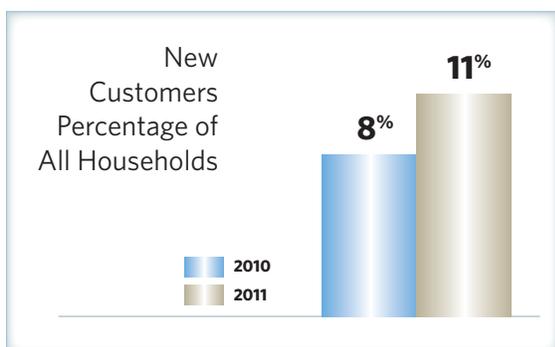
- **Loan growth.** In nearly every category, banks saw an increase in the percentage of new customers who had loan products: direct auto loans grew significantly, from 0.7 to 4.8 percent, indirect auto loans increased from 11.3 to 13 percent, and the percentage of customers holding credit cards increased from 3.8 to 5.6 percent.

- **Cross-sell.** From 2010 to 2011, accounts per household among new customers reflected a 14 percent year-over-year increase to 2.5 accounts. Among existing customers, the average number of accounts per household increased by 3 percent to 3.6 accounts.

- **Acquisition.** The number of new bank customers increased to 11 percent of all households in 2011, up from 8 percent in 2010, and new customer households with savings accounts grew by nearly one-third, from 23 to 30 percent.

Despite gains in achieving these priorities, banks also experienced an increase in first-year customer attrition rates, from 19 to 22 percent — a trend exhibited by nearly all tenured customer segments as well (10+ years decreased slightly). Much of the attrition can likely be attributed to two factors. First, banks increased their acquisition efforts during the past couple of years. As these institutions promoted their products and services through various forms of marketing, attrition among customers also increased. Second, banks made changes to their fee structures as a means of growing revenue in response to regulations such as the Dodd-Frank Act, the Durbin Amendment and Regulation E, resulting in increased consumer dissatisfaction.

Customer Profiles

New Customers

The number of new bank customers increased to 11 percent of all households in 2011, up from 8 percent in 2010, and new customer households with savings accounts grew by nearly one-third, from 23 to 30 percent.

New Customers Percentage of All Households — 2010: 8%, 2011: 11%

New Customers With Savings Accounts — 2010: 23%, 2011: 30%

Loan and Credit Card Products

In nearly every category, banks saw an increase in the percentage of new customers who had loan products. Direct auto loans grew significantly, from 0.7 to 4.8 percent, and indirect auto loans increased from 11.3 to 13 percent. Additionally, the percentage of customers holding credit cards increased from 3.8 percent to 5.6 percent as consumers continued to struggle to make ends meet.

New Customers With Direct Auto Loans

- 4.8%
- 0.7%
- 2010
- 2011

New Customers With Credit Cards

- 5.6%
- 3.8%
- 2010
- 2011
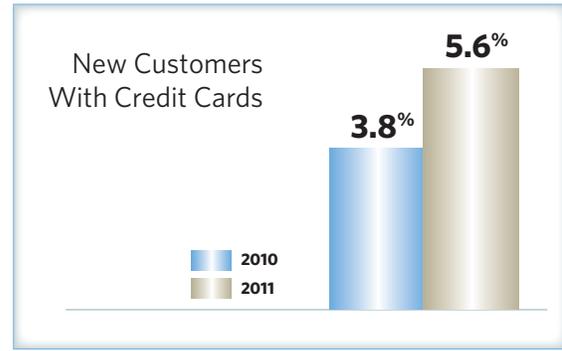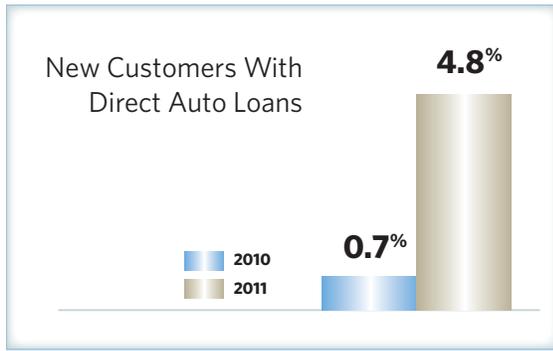
Although auto loans brought in new customers, overall loan amounts were lower among first-year customers.

Average Loan Relationship (New Customers HHs)

- $26,800
- $24,100
- 2010
- 2011
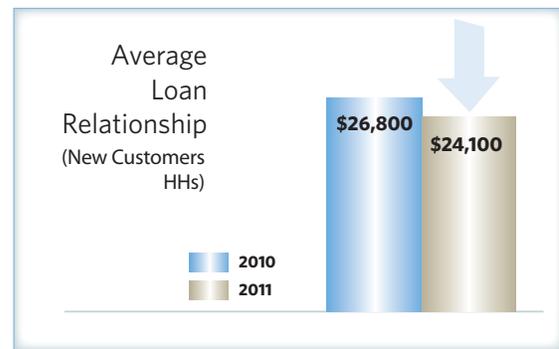
For tenured customers, overall loan balances did not change; they remained steady at $26,100. However, changes were seen in other areas. There was a slight decrease in credit cards, which was offset by an increase in other consumer loans.

Tenured Customers

Credit Cards (% of HHs)

13%

Down from 15% in 2010

Consumer Loans (% of HHs)

7.2%

Up from 5.7% in 2010
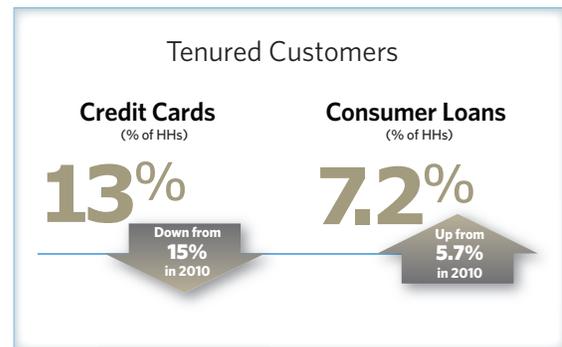
And there was little change in auto and home equity line of credit (HELOC) balances among existing customers, but home equity loan balances declined.

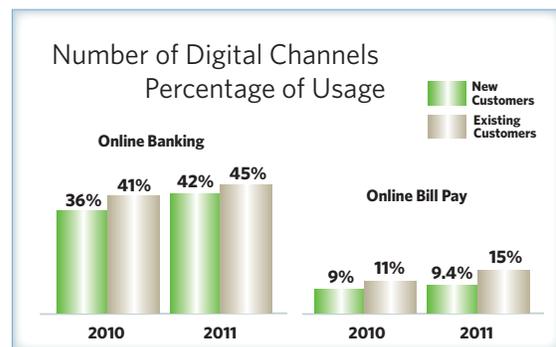| Household Balances Tenured Customers		
	2011	**Change vs 2010**
Auto Loan (direct)	$8,700	1% ⬇
Home Equity Loan	$49,500	7.3% ⬇
Home Equity LOC	$56,400	⬆ 1%

Accounts per Household

Among new customers, the number of accounts per household increased to 2.5, a 14 percent increase. The average number of accounts per household for existing customers increased to 3.6 accounts. Year over year, the growth in number of accounts per household was driven by increases in checking accounts (60 to 71 percent) and savings accounts (37 to 40 percent). ("Accounts" are defined as any balance-bearing accounts, which may include debit cards and online banking and online bill pay relationships.)

Number of Accounts per Household

New Customers: 2010 2.2, 2011 2.5
Existing Customers: 2010 3.5, 2011 3.6

- 2010
- 2011
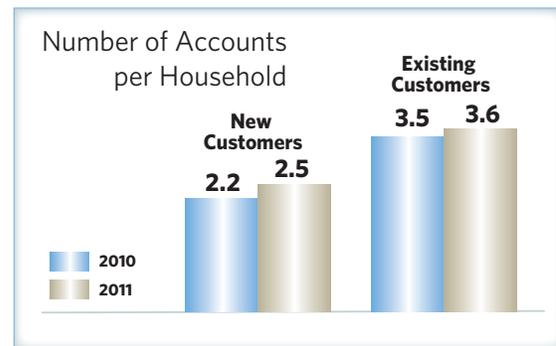
Digital Channels

There was also an uptick in the reliance on digital channels among new customers; online banking usage increased from 36 to 42 percent and online bill pay increased from 9 to 9.4 percent. Among existing customers, online banking increased from 41 to 45 percent and online bill pay increased from 11 to 15 percent. This continued adoption of convenience services suggests that banks are doing a better job of cross-selling at point of sale.

Number of Digital Channels Percentage of Usage

New Customers
Existing Customers

Online Banking
2010: 36% / 41%
2011: 42% / 45%

Online Bill Pay
2010: 9% / 11%
2011: 9.4% / 15%

Deposits

Additionally, two trends among new customers were indicative of shifting needs in the marketplace. First, from 2010 to 2011, customer acceptance of liquid deposits increased, with checking accounts growing from 59 to 63 percent and savings accounts increasing from 23 to 30 percent. Concurrently, the percentage of certificates of deposit (CDs) among new customers decreased by more than 100 percent, from 3.9 to 1.8 percent. Whether they were concerned about the economy, employment status or other factors, bank customers kept their money liquid in case they needed immediate access to it. The drop in the number of CDs was also likely due to banks focusing on lowering their cost of funds — and allowing certificate accounts to roll off — amid revenue pressures that forced institutions to seek ways to maintain profitability.

Product Penetration Among New Customers

Checking, Savings, CD's (60%, 50%, 40%, 30%, 20%, 10%, 0%)
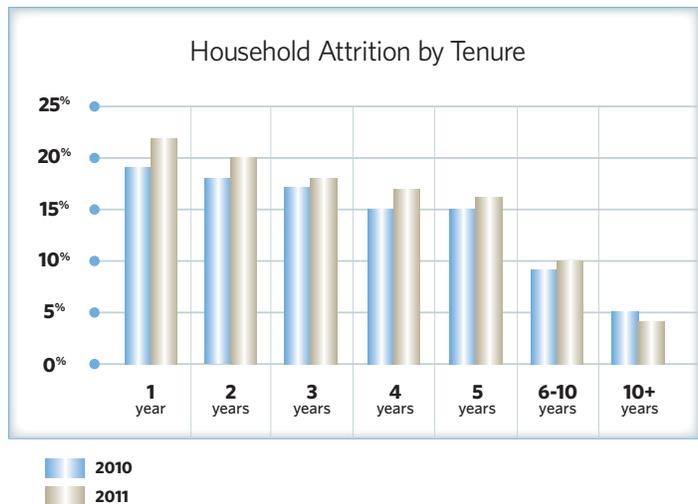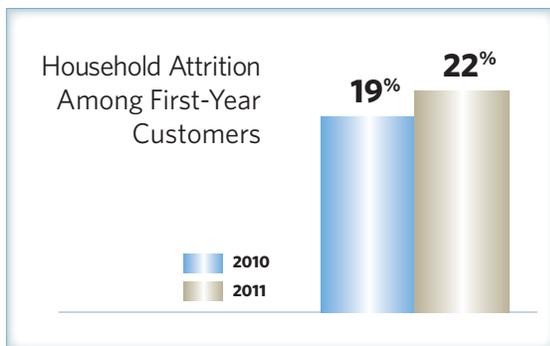
- 2010
- 2011

Banking Relationship Value

Second, the average new customer banking relationship — the combined balance in deposits and/or loans — declined by more than 20 percent from 2010 to 2011. Although the amount of the average deposit relationship declined significantly, consumers did increasingly turn to banks for their credit-related needs. With higher balances in loans than deposits, consumers who may have put off various financial needs due to the lagging economy seemed to have regained the propensity to borrow money. They also may have relied more heavily on credit to make ends meet.

Average Banking Relationship (New Customers)

20%
$18,200
$14,500
2010
2011
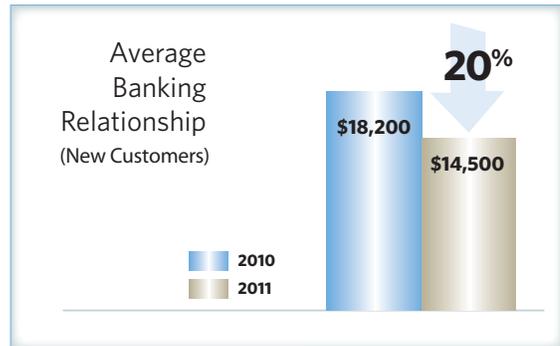
Attrition

Despite the year-over-year increase in the number of products held by new customers, attrition during the first year of the relationship increased to 22 percent from 19 percent. This trend in attrition increase also was exhibited by nearly all tenured customer segments (10+ years decreased slightly).

Household Attrition Among First-Year Customers
19%
22%
2010
2011

Household Attrition by Tenure

	1 year	2 years	3 years	4 years	5 years	6-10 years	10+ years
2010	19%	18%	17%	15%	15%	9%	5%
2011	22%	20%	18%	17%	16%	10%	4%

2010
2011

These attrition rates may have been due, in large part, to two factors. First, financial institutions increased their acquisition efforts during the past two years. As these institutions promoted their products and services through various forms of marketing, attrition among customers also increased. Second, recent government regulations, such as the Dodd-Frank Act, the Durbin Amendment and Regulation E, have impacted attrition. As financial institutions changed their pricing structures to recoup lost revenue in the wake of regulatory changes and low rates, many consumers became dissatisfied and left their banks "in protest" or to find more affordable relationships with other institutions.

Research indicates the attrition trend is likely to continue. Javelin Strategy & Research recently reported that approximately 11 percent of consumers surveyed in March 2012 indicated they were at risk of switching primary financial institutions in the coming year, putting $675 billion in deposits at risk.[1]

Summary

In a marketplace characterized by rising levels of government regulation, low interest rates and a challenging economic climate, financial institutions are increasingly challenged to operate successfully. Financial institutions can identify and stem the rising tide of attrition with the effective use of analytics and business intelligence to give them a view of their account holder base throughout the lifecycle. With this data-driven insight, institutions can proactively communicate with account holders and deliver relevant and meaningful offers through account holder-preferred channels. This also enables institutions to utilize marketing dollars effectively in their efforts to increase loan growth, cross-sell as efficiently as possible, and enhance new customer or member acquisition.

About This Report

The Harland Clarke National Banking Industry Database is unique within the financial services industry. Containing non-identifiable data related to more than 55 million households and 132 accounts at U.S. banks and credit unions of all sizes, the database identifies and tracks trends industrywide. Harland Clarke uses these benchmarks to help its clients identify growth opportunities and devise data-driven marketing plans that help achieve their strategic objectives.

Source: Harland Clarke National Banking Industry Database 2010-2011

HARLAND CLARKE® | MARKETING SERVICES

harlandclarke.com/marketing

contactHC@harlandclarke.com