Nine Reasons

to Step Up Acquisition and Retention Marketing

It's important to understand how your account holders' checking behaviors could affect the long-term revenue potential of your bank or credit union. For a snapshot of what's happening in today's checking environment, Harland Clarke sponsored a recent survey to examine the consumer-provider relationship. Completed by SYNERGISTICS Research in January 2015, the "Checking Account Acquisition and Retention" study captures data from more than 1,000 internet interviews of U.S. households across age and income brackets.

The industry survey offers timely statistics and ideas on how financial institutions might strengthen their ability to acquire new, more active customers while expanding existing financial relationships. The survey underscores nine key reasons to improve acquisition and retention efforts.

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1

LONG-TERM RELATIONSHIPS.

With an average of 12.2 years, the checking account is the longest-lasting financial relationship for many U.S. households. Almost nine in 10 households surveyed own a checking account. Consumer checking accounts are the most active in terms of quantity of transactions and money transfers. Overall, households report high levels of satisfaction with their main checking provider, typically recognized as their primary financial institution (PFI).

Six reasons households cited for maintaining relationships with their current PFI:

Satisfaction with account services	**55%**
Convenient branches	**38%**
Satisfaction with account pricing and fees	**36%**
Convenient ATMs	**26%**
Innovative technology	**17%**
Difficulty in switching automatic payments and direct deposits to other institutions	**17%**

Strategies to consider: Although non-checking households make up a small portion of the market (roughly 10-12 percent), providers may be able to gain a foothold within this generally lower-income consumer segment with alternative products like prepaid cards, money orders and check-cashing services. Within the past couple of years, non-traditional providers — from online services to big box retailers — have gained entry with services similar to checking.

2

CONSUMER FRAGMENTATION.

About half of all U.S. households report opening two or more checking accounts at different institutions simultaneously. Multiple account ownership tends to be more prevalent among younger, higher-income households. While customers gave no single definitive reason for opening multiple checking accounts, "allocating expenses" (33 percent) was most often cited. In addition, one in eight households did not close a previous checking account after opening another.

Number of checking accounts per household:

One	**47%**
Two	**33%**
Three or more	**17%**
Don't know	**2%**

Strategies to consider: Clearly, financial institutions will want to make becoming primary status the highest priority. With 50 percent of households having more than one checking account, needs-based marketing to these account holders is critical. Life event marketing, featuring niche products, can be effective in meeting changing lifestyle needs. Second marriages, starting a home-based business or some other life event could trigger the need for additional financial services and open up opportunities for cross-sell.

3

REDUCING RUNOFF.

Twenty percent of respondents said they were "somewhat or very likely" to obtain an additional checking account over the coming year. Age was a significant factor.

Checking account holders who said they intended to add a second account within the next year *(Percent by age)***:**

18 - 34	35 - 49	50 - 64	64 +
40%	**22%**	**9%**	**4%**

Strategies to consider: Financial marketers should regularly provide account holders — particularly younger ones — timely information about alternative checking options available at their institutions, including pricing benefits and value add-ons for multiple account services. This keeps account holders engaged and can encourage advocacy among young account holders, 80 percent of whom are likely to take action on behalf of brands they believe in.[1]

[1] Edelman, *Millennials and Brands: What Have You Done for Me Lately?*, February 26, 2013

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OPENING LINES.

Among consumers who had opened an account over the previous five years, the **top criteria for choosing their providers** included:

• Convenient branch locations	**39%**
• Online banking services	**36%**
• Convenient ATM locations	**28%**
• Financial reputation	**24%**

Methods of obtaining information:

• In person at branch/office	**49%**
• Friends or relatives	**28%**
• Online at bank/PFI website	**23%**
• Mail	**15%**

Channels for opening a checking account:

• In person at branch/office	**76%**
• Online using a PC	**14%**
• Telephone	**3%**

Strategies to consider: While more and more financial institutions are expanding their digital capabilities, research shows that the traditional branch location remains a dominant outlet for the distribution of sales information and for client acquisition. Use a multi channel approach that includes branches to market checking accounts.

5

CLOSING ARGUMENTS.

Maintenance fees, transaction charges and minimum balance requirements play a major role in consumer behavior. As a cautionary tale, more than 60 percent of checking account holders threatened to leave their PFI if new costs were imposed on currently free features. Slightly fewer said they would move accounts if their PFI hiked the level of existing fees, charges or balances.

Reasons cited for closing checking accounts:

• Imposition of new fees/charges for previously free services	**63%**
• Increase in existing fees or balance requirements	**58%**
• Consistently poor customer service	**54%**
• Moving to a new location	**52%**
• Unresolved customer service problem	**36%**

Strategies to consider: Financial institutions considering raising existing fees or adding new ones should embrace a light-handed approach. (See "Perceptions about "Free" Checking.")

6

PERCEPTIONS ABOUT "FREE" CHECKING.

While most large and small institutions claim to offer "free" checking, the trend has been declining in recent years. The drop-off in free checking may be intended to help financial institutions recoup lost non-interest income resulting from lower interchange fees and diminished overdraft fees. Today, 30 percent of account holders say their financial institution assesses a monthly service fee or transaction charge that may be waived by meeting certain minimum levels. Of those, 60 percent maintain a minimum balance while more than 40 percent use direct payroll deposit to meet requirements.

The Rise and Fall of Free Checking

Percentage of Financial Services Institutions Offering Free Checking

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
64.4%	**78.6%**	**73.5%**	**79.8%**	**78.8%**	**81.5%**	**72.5%**	**71.0%**	**71.2%**	**67.1%**	**59.1%**

Source: Moebs Services, 2014

Strategies to consider: Rather than eliminating free checking to offset operational costs, financial institutions can ease the risk of creating ill will among customers with alternative price configurations. More than half of checking account holders said they would be receptive to making a deposit in any amount at least once monthly as a means of avoiding new fees. Roughly four in 10 said they would be willing to make direct deposits up to $500 per month. A similar number were willing to pay a $1 inactivity fee if certain minimum requirements were not met. Depending on geography, providers may want to test multiple pricing options to develop a proper plan.

7

EVENTUAL RISE IN INTEREST RATES.

As the economy improves, interest rates are expected to rise as soon as this year. A rising-rate environment could spark comparison shopping among rate-conscious bank consumers, especially those with multiple deposit accounts. Overall, 60 percent of account holders said that if the Federal Reserve raised its federal funds rate – currently at 0.25 percent – over the next year, they would be "somewhat or very likely" to shop around for better rates.

If the Fed hiked interest rates, what is the likelihood you'll shop for more competitive bank-service rates? (Percent by age)**:**

18 – 34	35 – 49	50 – 64	64 +
69%	**62%**	**50%**	**67%**

What is the lowest interest rate increase at which you would consider moving your checking account business?

0.25%	**38%**	2.00%	**6%**
0.50%	**15%**	Don't know	**25%**
1.00%	**17%**		

Strategies to consider: A significant number of consumers maintain multiple non-checking accounts with their PFI. A rising-rate environment could raise competition for deposit accounts. As a first line of defense, financial institutions should be prepared to offer competitive rates on non-checking products like CDs and savings accounts. Other relationship strengthening tactics include alternative pricing, rewards programs and value-added products.

8

CHECKS PREFERRED FOR CERTAIN PAYMENTS.

Survey respondents cited checks as the most-used instrument for payments to government and non-profit agencies (39 percent). They were also used more than credit or debit cards for housing-related payments (26 percent) and for financial/ professional service payments (17 percent). While the number of checks written and their total value has declined, the average value of checks written has increased – perhaps due to the types of payments for which they are used.[2]

Strategies to consider: Survey responses suggest that checks are important tools for paying and documenting larger routine payments. Activating accounts and getting consumers to order checks up front should be a principal goal of the onboarding process.

[2] Federal Reserve, *Payments Study*, 2013

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STRENGTHENING ONBOARDING PROGRAMS.

Sixty-one percent of active checking account holders report having opened multiple accounts or services with their PFI. Checking accounts often serve as a gateway to more lucrative banking services, including mortgages, credit cards, vehicle loans and home equity lines of credit.

Strategies to consider: An effective onboarding program is essential to early account holder engagement. For greater effectiveness, your institution's engagement program should work to activate checking accounts within the first few days of opening. Consistent communication with new account holders – particularly during the first 90 days – is also key. Automated account switching technology offers the potential to speed up the cumbersome transfer process for recurring deposit and payment transactions.

Checking accounts continue to serve as the anchoring relationship for most banks and credit unions. To learn how Harland Clarke can help your financial institution acquire more profitable checking account customers and retain existing ones,

call **1.800.351.3843**,
email us at **contactHC@harlandclarke.com**,
or visit **harlandclarke.com/Acquisition**.

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