Generate new income and deepen existing relationships

Executive Summary

While other industries have a myriad of options for creating new revenue streams, banks and credit unions have few options. They can generate new income by adding new account holders or by deepening existing relationships.

Many financial institutions place such emphasis on account acquisition that they fail to optimize the onboarding process or to take advantage of the cross-selling opportunities that can emerge from effectively onboarding an account. To explore the challenges financial institutions face when cross-selling additional products to their account holders Deluxe commissioned Digital Scientists to conduct in-depth, online interviews with 1,013 consumers, ranging in age from 18 to 54. Conducted in December 2014, the survey focused on consumers who held checking accounts with a bank or credit union, and who participated in household finances.

In this report, we will share key findings from the survey, including:

- An optimized onboarding process leads to higher engagement and more successful cross-selling efforts.
- While many financial institutions do a credible job acquiring new account holders, many fail to optimally time their cross-selling efforts.
- A large percentage of consumers have loans with banks or credit unions other than their primary financial institution (PFI), yet they are generally dissatisfied with those products. That dissatisfaction presents an opportunity for the PFI to market its products to these consumers.
- Directing cross-selling efforts to target consumer groups most likely to be interested in those products can enhance opportunities for profitability. One example is a focus on Millennials, or those who have shown indications of being in the market, with mortgages for the purchase of their first home.

In addition to exploring the challenges that financial institutions face to effectively cross-sell, this report also offers recommendations for how banks and credit unions can maximize the effectiveness of their cross-selling efforts.

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Framing the Issues: Cross-selling Obstacles and Opportunities

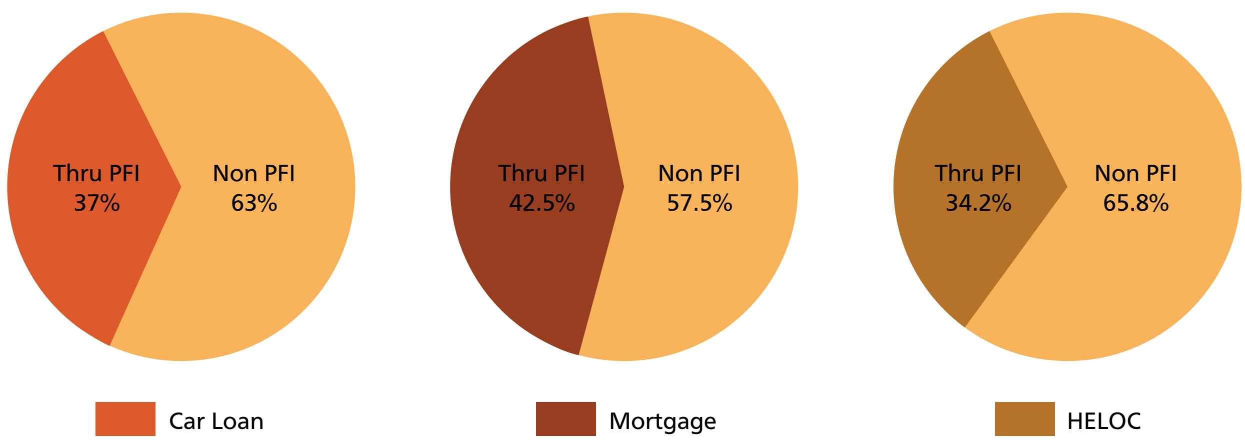
In 2014, more than three-quarters of all financial institution mailings were related to acquisitions. Keep in mind the corollary to this statistic: All other important brand mailings, including cross-selling pieces, constituted just a quarter of total mailings. While financial institutions expend a disproportionately smaller amount of money and effort on cross-selling, there is a great opportunity for marketing to existing account holders.

Approximately one-third of all consumers acquired a mortgage, auto loan, or HELOC in the past six months, with less than half of these consumers purchasing these loans through their PFI (see Figure 1). In fact, less than one-fifth of the surveyed consumers had any type of loan through their PFI.

Figure 1

Percent of Car Loans, Mortgages, and HELOCs Obtained Through PFI

More than half of consumers are obtaining loans from financial institutions outside their PFI.



Source: Digital Scientists, June 2015

Yet in general, consumers are not that satisfied with their loan products. In fact, surveyed consumers indicated they were significantly more satisfied with other, non-loan financial institution products. Clearly, opportunity exists among the fully engaged account holders who are purchasing loans, yet a dearth of targeted, relevant cross-selling efforts means this potential remains untapped for many financial institutions. Improved cross-selling could help financial institutions dramatically boost performance in this area, capturing more loan business from recent account-switchers, and elevating their performance out of the one-fifth realm.

[1] Mintel Comperemedia

New Account Holders Open Significantly More New Accounts

After investing so much time, money, and effort into acquiring new account holders, many financial institutions are understandably eager to begin cross-selling in the hopes of maximizing the profitability of new accounts. Yet research indicates this is a mistake.

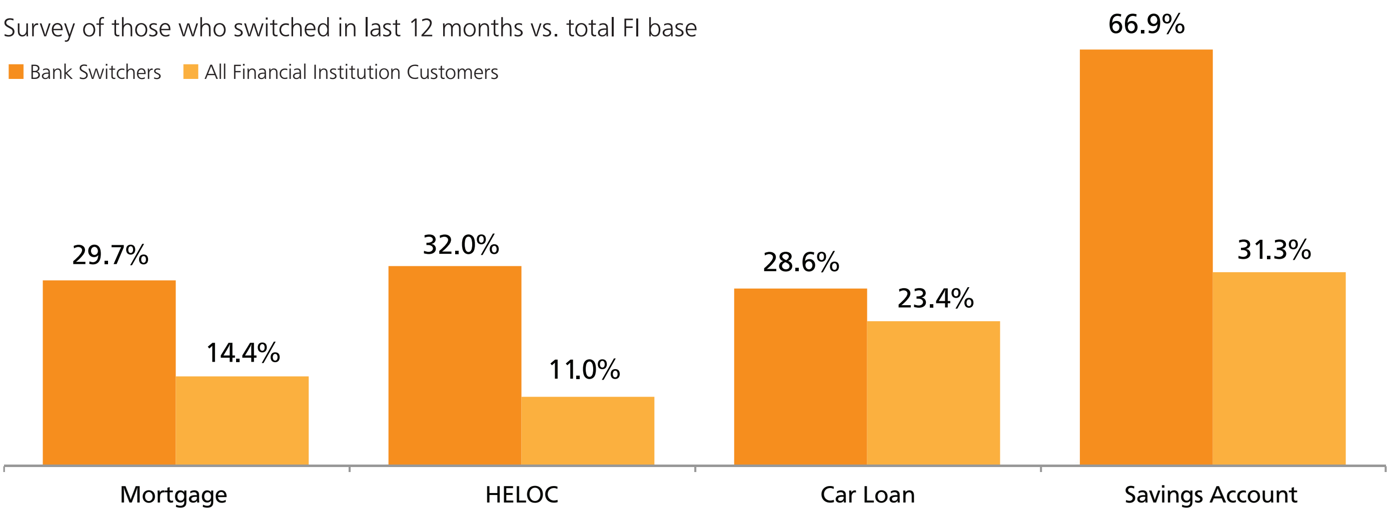
Accounts that are not properly onboarded are more likely to become inactive. By onboarding new accounts before trying to cross-sell additional products, financial institutions create greater opportunities for engagement and increase the likelihood of successfully growing wallet share.

Our survey shows individuals who recently switched accounts are most likely to open additional accounts. Switchers have an interest in high-value products like mortgage loans and HELOCs. They open three times as many HELOCs as the standard account holders and twice the number of mortgage loans. A new switcher is well over twice as likely to open a new savings account than any other account holder at the same institution (see Figure 2).

Figure 2

Bank-Switchers open considerably more accounts first 6 months after switch

Survey of those who switched in last 12 months vs. total FI base



Source: Digital Scientists, June 2015

The early months of a new relationship with consumers become critical for expanding the relationship to include new loan products. To best set the stage for cross-sell opportunities in the future, financial institutions should:

- Onboard all new account holders and provide incentives that make it worthwhile for them to engage in the activities that lead to deeper engagement, such as enrolling in online banking.
- Assist account holders with difficult activities that typically stagnate an account, such as enrolling in online and mobile banking, and migrating direct deposits and bill payees.
- During the account-opening process, ask new customers to designate their preferred channels of communication – email, text message, postal mail, etc. – and employ those preferred channels to share information about relevant products and promotions.

Loan Adoption Profile

The survey also revealed some interesting profiles of those who are opening each type of loan product. Demographic information like this is valuable when it helps a marketing team discover the best prospect for a particular product or service. It allows marketing funds to be directed toward the most viable prospects and avoids wasted time and effort.

By blending the loan product profiles discovered through this study with other information collected about timing the communications and the best media to deliver the message, banks and credit unions can find the most productive combination for each loan product.

- **Typically female**
- **Age: 25-34 or 45-54**
- **Kids under 5 years old**
- **Technical, trade or high school education**
- **5+ years with financial institution**

- **Auto Loans:** Females are more likely to be auto loan customers according to our survey, while the prime age group looks to be 45-54, the 25-34 age group saw a slight uptick over the average. Lining up with that, families with children under age five were more likely to be in the market for a new car. The change in family dynamic often causes the need for a more economical mode of transportation.

  Meanwhile consumers with a technical, trade, or high school degrees seemed to be more commonly in the market for a new automobile. PFI tenure matters when it comes to taking out an auto loan. While those new to the bank or credit union were far less likely to consider their primary financial institution, those that have been there for five or more years showed higher rates of auto loans.

- **Typically male**
- **Age: 35-44**
- **75k - 100k+ annual income**

- **HELOC Loans:** Unlike auto loans, HELOCs tend to see more males apply and they tend to be slightly older with the 35-44 age bracket being the strongest for this product. When it comes to income, both the $75,000-$99,999 bracket as well as $100,000+ were most likely to be in the market for a HELOC loan.

  Consumers seem to think of their PFI early in the relationship when they are looking for a HELOC loan. This is a prime product to cross sell early in the relationship within the targeted demographic.

- **Typically male**
- **Age: 35-44**
- **Under 5 years with Financial institution**

- **Mortgage Loans:** Much like HELOCs, mortgages tend to see more male applicants. There is a stronger likelihood of applicants in the 35-44 age bracket as well. As you might expect, loan activity grows with income where the lower bracket ($25,000-$49,999) is much less likely than the average consumer to apply for a mortgage.

  Consumer are also far more likely to apply at their PFI early in the relationship, with a severe drop off when people have been with the financial institution for five or more years.

Best Cross-selling Channels for New Products and Services

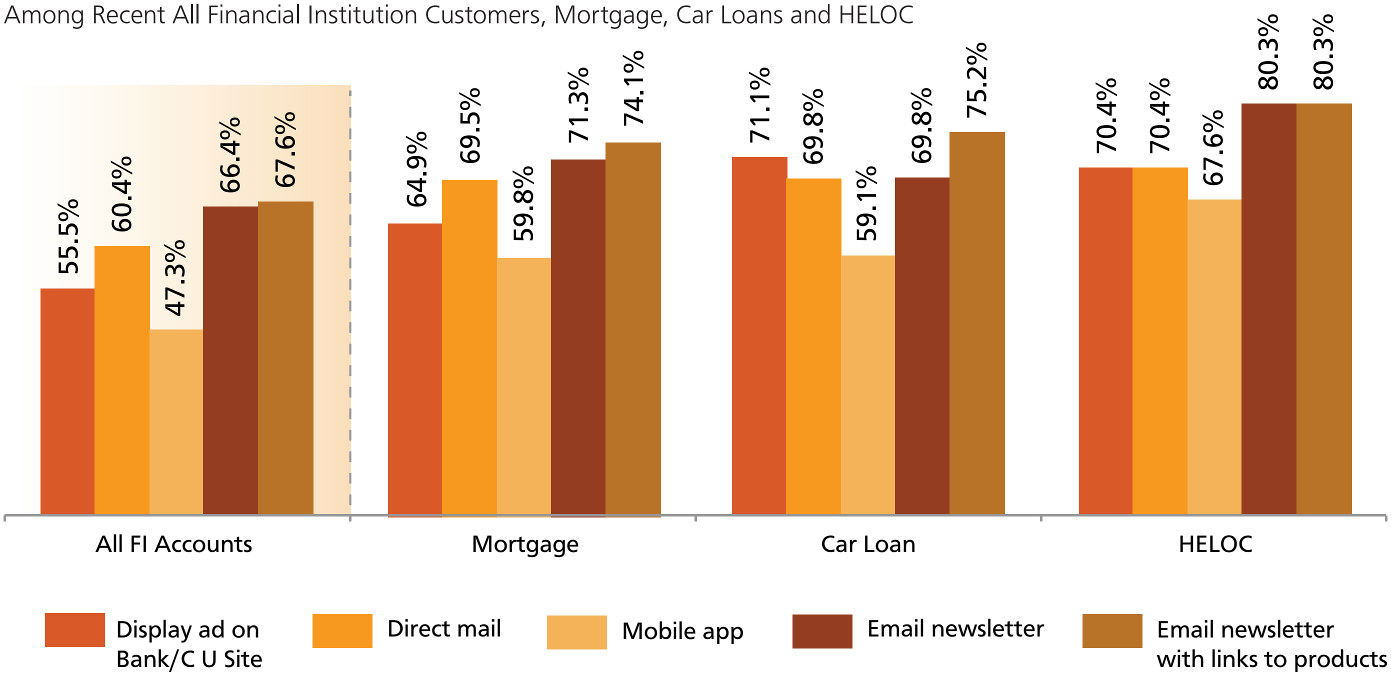
Even the most engaged account holder may become frustrated or annoyed if a financial institution fails to communicate with them in the manner they prefer, or if the products and services promoted to them aren't relevant to their needs.

Our survey revealed insights into the best channels for increasing awareness of new products and services. The majority of consumers, when comparing, purchasing or using products, indicate the most important channels are email, email newsletters, direct mail, and display ads, and they are more likely to work with a financial institution that uses those channels (see Figure 3).

Figure 3

Types of Communication Importance Scores (4 and 5 Ratings)

Among Recent All Financial Institution Customers, Mortgage, Car Loans and HELOC



Source: Digital Scientists, June 2015

Our research shows that consumers who have loan products with their financial institution have a heightened awareness of that financial institution's communications. While the top four remained mostly the same, there was a much more dramatic shift for some of the otherwise less effective communication methods. Mortgages were the one product that saw very little change other than a heightened awareness across the board (see Figure 3).

Meanwhile, consumers who also had a personal loan were much more aware of social media posts and advertisements from that financial institution. Google search and display ads on personal finance sites saw the biggest spikes for auto loan account holders. And surprisingly, webinars saw a huge spike for consumers who had HELOCs with their PFI, opening up a door for a channel that was at the bottom of the charts for most other products (see Figure 3).

The implications of these variations should be clear. To maximize cross-selling efforts, financial institutions should customize the communication channels they use based on the preferences of the account holders they're targeting and the products they wish to sell. Yet many financial institutions take a shotgun approach by saturating all consumers with messaging for all products over all channels – even if only some of the consumers will find the products relevant and the mode of communication relatable.

Our research clearly showed that targeted forms of communication are highly appealing to consumers who have loans with their PFI. In addition, the more products consumers had with a bank or credit union the more impactful their communications were across all channels. Those who did not have loans with their PFI showed much less interest than average consumers.

Importance of Cross-selling Loan Products

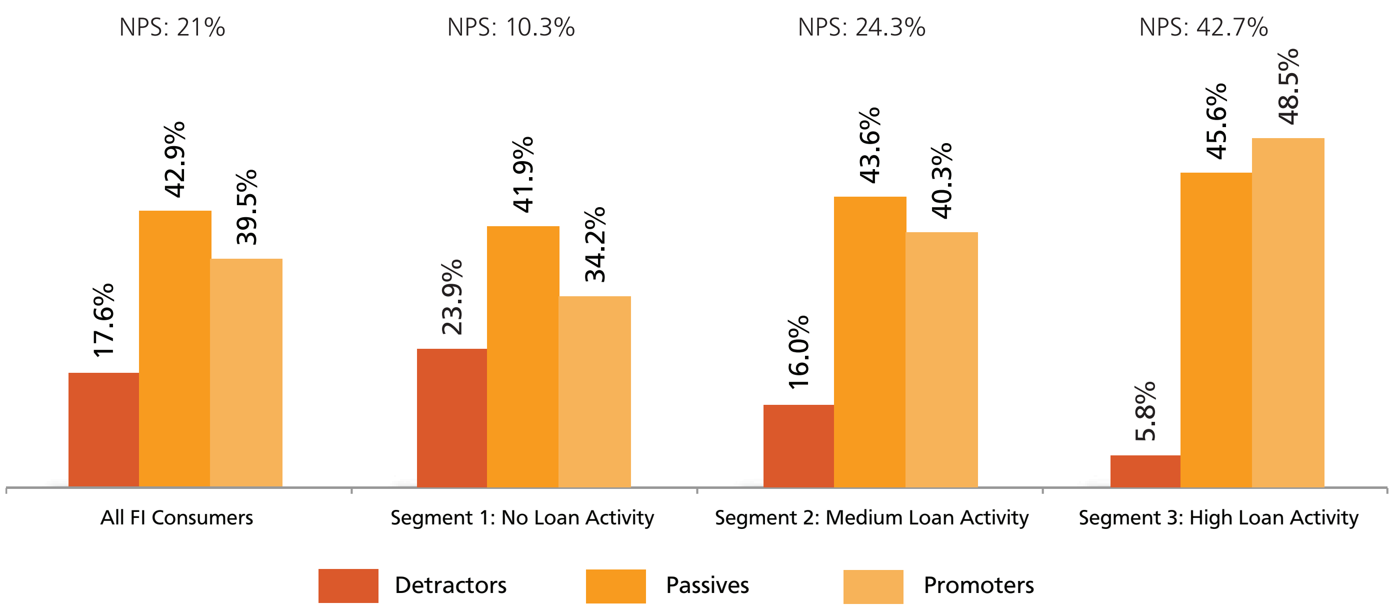
Loans not only make money for financial institutions, they also have a strong positive impact on brand promotion and engagement.

Net promoter scores (NPS) is an index that measures the willingness of your account holders to recommend a company's products or services to others. For the purposes of this report, promoters are those that give a nine or ten, passives gave a score of seven or eight, and detractors logged a score of zero through six.

Figure 4

Net Promoter Scores Among Loan Activity Segments

Loan activity causes net promoter score to rise.



Source: Digital Scientists, June 2015

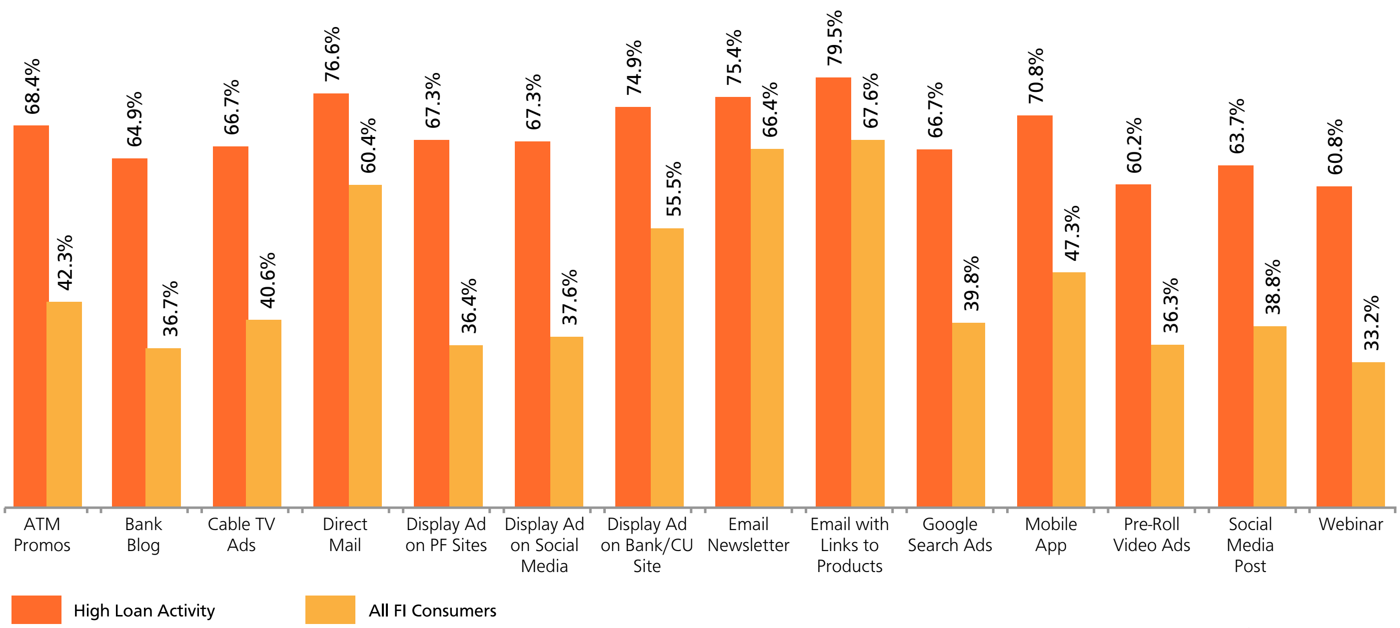
Consumers with high loan activity logged an NPS nearly double that of the average bank or credit union consumer in this survey. In fact, segments with higher loan activity are far more likely to be brand promoters than are segments with no loan activity – 42.7% versus 10.3% (see Figure 4).

Loan holders are also more likely to adopt other bank products, with adoption rates that are 10% to 25% higher depending on the product in question. Engagement is higher for most bank products and services among accounts that have recently taken out a car loan, mortgage or HELOC. As an example, people with high loan activity are about 24.7% more likely to use mobile bill payment, 24.5% more likely to buy a credit monitoring service, and 17% more likely to open a credit card than the average consumer.

Figure 5

Types of Communications (4 and 5 ratings)

Account holders with high loan activity are far more engaged with all forms of communication.



Source: Digital Scientists, June 2015

Account holders already engaged with their PFI through loans are more receptive and responsive to communications. Consumers holding auto loans, mortgages and HELOCs with their PFI gave greater importance to the top communication channels. Many of the communication channels saw a 20%-40% boost to their effectiveness and importance of the communication. The most effective communication channels are still email (79.5%), direct mail (76.6%), and display ads on their website (74.9%), but more niche communication methods saw the greatest spike in effectiveness. Those showing the biggest change included display on personal finance app (up 43.6 over those with no loan activity), display ad on social media (+41.1%), bank blog (+40.2 %), webinar (+39.3) (see figure 5).

Banks and credit unions have a great opportunity at hand. Only one-third of new loans were opened at an account holder's PFI but the impact of cross-selling can clearly be seen in product adoption as well as bank or credit union communications. Financial institutions that are not successfully cross-selling their accounts are not only missing out on opportunities to make additional revenues, but also have a far less engaged account base.

Conclusion and Recommendations

From this research, a clear course of action emerges for financial institutions looking to maximize their cross-selling success:

1. **The importance of onboarding can't be understated.** Effective onboarding leads to greater engagement, which, in turn, creates an environment for more successful cross-selling of relevant products and services through preferred communication channels.

2. **Targeting must occur.** Consumers have too many choices in the marketplace to tolerate selling efforts that are too generic, uninformative, difficult to access, or simply irrelevant. Create behavioral targeting models that identify consumer preferences and create targeted marketing messages to reach them. Financial institutions should personalize messages, match products and services to consumer interests, and engage them through multiple preferred communication channels. Two-thirds of consumers prefer email communications with links to products, and direct mail was the second-most-popular communication method.

3. **Empower consumers with pre-approvals before they shop for loan products.** Many financial institutions struggle with this. Partnering with an agency that knows the market will give financial institutions access to the right data to know who is in the market and create relevant market alerts. Use this data to send actual offers to consumers based on their personal credit score so they can easily get financing with your financial institution.

4. **Focus on consumers with the greatest needs.** Millennials account for two-thirds of all recent loan activity, and households with children younger than 18 are more likely to have mortgage and HELOC needs.

5. **Communicate the greater value of loan consumers to internal decision-makers.** Consumers with existing loans through their PFI exhibit higher levels of satisfaction, higher levels of product engagement, and greater levels of interest in communication channels. They are more likely to purchase additional products. Account holders with loans benefit a PFI's bottom line as well as its brand visibility, as they are more likely to recommend their PFI to family and friends.

Engagement remains the single most important element for effective cross-selling. By ensuring onboarding is effective and builds engagement, targeting engaged consumers based on their needs, and communicating with them using preferred channels, financial institutions can leverage engagement to create successful cross-selling programs.
