

WINNING THE PRIMARIES

Finding, keeping and deepening relationships with your credit union's members.



EXECUTIVE SUMMARY

Becoming your members' primary financial institution (PFI) may be more important now than ever. The economic turmoil of the past few years has made profitability a challenge for credit unions. More than ever, people are questioning the value of their banking relationships and seeking alternative options. The "money in motion" created by this introspection provides credit unions with options for gaining households. In turn, it's also become critical to ensure that members are not members in name only, but also profitable, engaged and likely to continue their relationships with your credit union.

As the cost of courting new members has risen – especially in this era of wholly-justified marketing budgets – developing a PFI strategy has become even more essential. Organic growth is efficient. By some estimates, attracting new business is up to ten times more expensive than getting increased revenues from an existing client. The ideal scenario includes highly targeted new member acquisition with an effective and thoughtful organic growth and retention engagement plan. Creating a consistent and relevant engagement plan also pays dividends over time. With the right strategy and tools, credit unions can increase the

likelihood that new members will become active and profitable long into the future.

CO-OP Financial Services believes in happy, long-term relationships. Our Payment Processing and e-Commerce solutions help you build a deeper level of engagement that members expect from their primary financial institution. In this white paper, we take a look at who your primary members are, how to determine what they need and want, and how to create mutually profitable relationships that last. We've collaborated with Bruce Clapp, president of MarketMatch, an integrated marketing firm specializing in small-to mid-sized financial institutions. Bruce is the author of "Marketing Financial Services" and co-author with Nick Vaglio of "Shift Happens: The New Age of Bank Marketing."

Identifying and engaging your primary members isn't simple. It requires a combination of savvy branding, sophisticated data gathering and targeted products and messages. However, few priorities are more on point than this one: Sharpening your PFI strategy makes your organization stronger and better positioned for both good and bad times ahead.

WHAT MAKES YOU PRIMARY?

If gaining PFI status is your goal, defining PFI is an important first step. There are many ways to define PFI – by the assets held, number of accounts, types of accounts, frequency of transactions, or some combination of these. In some cases, PFI might be defined by how a member identifies his or her status: When asked what their PFI is, people will usually provide an intuitive answer.

For most, that answer is probably the institution that holds their primary checking account. Though this definition is simple, it's also compelling. Primary checking is where the action and revenue occur. Here, the most transactions and types of transactions (checks, debits, online bill payments) are being processed, and it's not uncommon for members to make multiple transactions every day. Primary checking accounts offer a number of opportunities for the credit unions that hold them:

- **Low cost of funds.** Most checking accounts are interest-free. As lending bears the weight of increased regulation, low-cost funds are an attractive alternative.
- **Revenue.** Though we still refer to the primary direct deposit account as “checking,” a steady movement toward electronic transactions means less costly check processing and more revenue-generating debit and ATM transactions. Offer convenience overdraft and you'll increase revenue opportunities.
- **Member intimacy.** Track deposit and payment preferences via point of sale, check writing, direct debits, ACH transactions and ATM withdrawals. Using portfolio optimization tools like CO-OP Revelation will help you understand member behavior so that you can offer personalized products and incentives.
- **Relationships.** Again, through frequent use members get to know your credit union via their checking accounts. Whether by visiting the branch, ringing up the call center, logging in to online banking or pulling out their branded debit cards, members interact with your organization daily. Leverage primary checking accounts by increasing usage and adding products.

- **Depth.** Most people base their selection of partners for other financial needs on their checking accounts. This “base” account is a predictor for additional products and services you can provide the household.

In short, primary checking accounts are the nerve center. Though productive relationships certainly exist between members and credit unions that hold other types of accounts, winning the primary checking account is key to forging a primary relationship with members.

That said, there's no reason this relationship should stop at the primary checking account. Instead, it's helpful to view this relationship as an opportunity – to prove your value as a financial institution, generate loyalty with your members, create advocates among your most-active clientele and optimize profitability across a variety of accounts.

BUILDING ACCOUNTS, BUILDING RELATIONSHIPS

If primary checking is the key to a primary relationship with members, how do we encourage growth in this area? Ironically, past growth is one of the things that works against credit unions looking to secure primary checking accounts.

The proliferation of free checking accounts in years past inspired many consumers to open accounts, often multiple accounts. It also encouraged a certain amount of attrition: Since accounts were free and available anywhere, transferring accounts was always an option.

To grow primary accounts, credit unions must build checking products that are both appealing and sticky. Providing a value proposition of convenience, access and additional relevant benefits also provides an avenue for growth. This is a complex task, but far from impossible. Consider the issue of “free” checking. Consumers are in no mood to pay fees on their checking accounts – especially fees they're unaccustomed to paying. On the other hand, financial institutions that structure fees in a way that they can be avoided by meeting certain criteria – 10 debit transactions and three online bills paid per month, for example – offer “free” checking with an incentive for greater usage.

What makes an account appealing and sticky?

- **Debit cards.** According to Pleasanton, Calif.-based Javelin Strategy and Research, debit card usage eclipsed credit cards in 2009 and is expected to remain more popular for the foreseeable future. Debit cards are, quite simply, the preferred method of payment, whether in person or online. In a parallel development, debit card fraud detection has also come into focus. Consumers want easy, fast, convenient and safe access to their money.
- **Online banking and bill pay.** The convenience and speed of online banking is undeniable. Encourage members to use online bill pay and you reduce the chances that they'll switch financial institutions in the future. Compelling: Debit card users who make recurring payments also spend 36 percent more than those who don't. They are also less likely to stop using their cards in the future.
- **Mobile banking.** Just as online banking changed the way consumers interact with their financial institutions, mobile banking is fast becoming the norm, especially for Gen Y. Accessing accounts, paying bills, receiving text account updates and making remote deposits by mobile phone is no longer strange, futuristic service: It's the leading edge.
- **Direct deposit.** No, it's not a new idea. But direct deposit is essential, and virtually every household receives at least one direct deposit payment a month. It increases the chance that your credit union's account is primary and decreases the chance that your members will switch accounts.
- **Rewards.** These might come in the form of prize incentives, but they might also consist of lower fees, more favorable rates or premium services. By transitioning members from the "free checking" model to one that rewards them for being profitable, credit unions have the opportunity to boost their bottom lines while deepening customer relationships. A "soft dollar" rewards program that offsets fees and allows rate "buy-up or -down" is an effective member program and cost efficient credit union program.
- **Relevant value.** Also known as "life stage," this provides a tangible relationship and service value to each account based on the financial

life stage of a member. More loan-heavy, more deposit-heavy or more financial assistance needed, each plays a value-based role in different life stages.

Enticing members to establish primary checking accounts and/or increase usage on the casual accounts they have is a worthy marketing goal. Not only are these accounts valuable in and of themselves, but they provide inroads to even more profitable relationships down the road.

BETTER CHECKING AND BEYOND

Understanding these goals is only the first step. How can credit unions inspire members to step up their relationships, either through increased usage, more accounts or greater advocacy?

One answer is to get to know them. In the credit union world, personalized service is a familiar theme. For generations, providing friendly, humane, in-person service has been a cornerstone of the credit union experience. Moreover, it worked. If a teller found out in conversation that a member was in the market for a home loan, it was easy and natural to introduce them to a loan officer. Not only was a cross-sell completed, but the member felt known and appreciated.

In recent years, however, relying heavily on in-person relationships doesn't work. Many members never visit a branch, or visit infrequently. Yet, cultivating a personalized knowledge of your members is as vital as ever. An IBM Global Business Services report, "Fit, focused and ready to fight," surveyed clients of various financial institutions and segmented them by attitudes and values. When viewed as a single group, clients were not inclined to pay a premium for any of various services. But when they were segmented by interest, people were indeed open to paying for services they especially value. For instance, convenience-seekers were willing to pay a premium for services that made their lives easier.

What can credit unions learn from this? The survey suggests, "Investing in customer analytics to help [financial institutions] segment clients effectively – and in turn determine pricing, new products and services, the right customer approaches, which channels customers are most likely to use and how likely customers are to change providers or have more than one provider."

The goal is still personalized service, but the methodology has changed: moving from our lobbies and into the dynamic lives of our members and meeting their needs where and when they arise. Understanding your members is the only way to provide a specialized experience on an organization-wide scale. Increasingly, the only way to achieve this understanding is through technology.

Analyze your members' behaviors and preferences and you'll likely define their values, life stages and interests. Do they need a pre-approved auto loan? Can you sign them up for mobile check deposit? Would a retirement planning seminar interest them? Would they like to move their investment accounts over to your credit union in exchange for a great rewards checking package?

The benefit of using analytics to drive specialized promotions goes beyond sales. Done well, targeted cross-sales efforts actually recognize members. Just as being called by name when they visit a branch makes members feel like they belong, being approached with relevant products and services makes members feel acknowledged. It is a value proposition that hits the heart of the credit union relationship with the member and cannot be replicated through a "rate special" or gift of the day from a competitor.

THE TECH CONNECTION

As relationships become increasingly virtual, adding a targeted, ongoing technology component to customer service and marketing efforts becomes less of a luxury and more of a necessity. Sales aren't just a means to increase revenue and profits; they're also a valid way of enhancing member relationships. The need for people to connect with their credit unions in a meaningful and personal manner now extends beyond the branch and beyond normal service hours.

According to Bancography, a consulting firm in Birmingham, Ala., a customer who has one product with a bank will stay with that bank for about 18 months. Adding one more product extends the average to four years. Customers with three products average nearly 7 years.

What kinds of additional products might primary account holders like?

- **Business checking.** According to Greenwich Research, only 45 percent of business owners with revenues between \$1 million and \$10 million keep their personal and business accounts at the same financial institution. Nearly half had never been approached about moving their accounts. Business checking is a service-intensive (read: relationship building) product. Try relationship pricing as an incentive to keep both accounts with your credit union. Hint: This approach works in reverse as well. Ask business checking account holders if they'd like to set up a personal account. The key is identifying the opportunity and acting upon this key knowledge.
- **Investment services.** According to IXL, a unit of Equifax Inc. in Atlanta, Americans have roughly \$20 trillion in investable assets, and more than half of these assets are held by households with \$1 million or more to invest. With all the upheaval in the investment world these past few years, trusted advisors are at a premium.
- **Online personal finance.** FinanceWorks, an online personal finance program, reports that its users buy 75 percent more products than regular online [financial services] users. They have higher average account balances and average one more product with their banks than the other households. Granted, this may be a chicken-and-egg argument: Maybe users of online personal finance programs are also likely to be financially savvy and have funds to manage. On the other hand, here's a service they'd clearly like.
- **Credit cards.** While there's nothing cutting-edge about credit cards, the turmoil consumers (and card issuers) have experienced in recent years make this an excellent time to offer cards. You'll increase revenue and generate loyalty. Like auto loans, credit cards are the hallmark of the credit union industry and offer a return to key accounts that helped you grow.

Again, adding products such as these does more than simply increase revenue or assets. It deepens the relationship with members.

ADVOCATING FOR YOU

In turn, strong relationships with your members can also increase sales. Nick Vaglio, former executive vice president of MarketMatch, believes it's not enough to have members who use your services. They should be advocates for your organization.

"Advocates, on average, hold 14 percent more products than antagonistic customers, and the profitability of products held by advocates is 21 percent higher," Vaglio says. "Customers who are advocates of their bank are five times as likely to be responsive to offers and communications, and over 17 times as likely to trust their bank. Further, only 26 percent of advocates believe that their bank's fees are too high, as compared to 80 percent of antagonists."

If holding the primary checking account has an emotional counterpart, it's holding your members' esteem. Credit unions traditionally do a great job in this area, but with changing times come changing tactics. As you look to revamp your PFI strategy, don't overlook opportunities to connect:

- **Maintain a high community profile.** Nick Vaglio reports that during periods of economic hardship, consumers are more likely to support companies that are involved with their local communities.
- **Communicate.** When you do something good, make sure your members know about it. Also, consider advertising, even if you're skittish about spending the money. In a study of 600 companies from 1980 to 1985, McGraw-Hill Research found that sales at firms that had advertised aggressively through that recession increased 256 percent over those that hadn't advertised. In tough economic times, products and services with future benefits sell well. In difficult times, institutions that continue and even enhance their communications build goodwill with members and solidify a position of trust.
- **Reach out.** Call high-balance account holders to find out how they're doing. Are they pleased with their service? Can you provide additional information on accounts? Use analytics to find out beforehand what might interest them.
- **Train.** If you want frontline employees to engage members with cross-selling opportunities, provide them with plenty of fresh ideas for initiating these conversations.

- **Be a hero.** Contact members who repeatedly experience overdraft fees. Would they like an overdraft line of credit? Also, don't leave dispute resolution to chance. Develop a structured, member-centric strategy for dealing with complaints. You'll reduce attrition and boost employee morale.

CONCLUSION

Improving your PFI profile won't happen without effort. Consumers have many choices and short attention spans. Getting them to choose and then champion your organization is going to take a smart mix of excellent products and service that's personalized in every way.

But the rewards are great. Credit unions have succeeded for over 100 years by giving members what they want and need, nothing less. In a rapidly-evolving environment, CO-OP Financial Services is committed to providing its member credit unions with the innovations and core products they need to serve their members at every level. With the right tools and strategy, you can win the primaries – and the day.

Though it's helpful to think about individual steps to winning PFI status with your members, actually doing that job 24/7 involves a network of ongoing activities. Here's one basic roadmap for becoming a full-service, full-time resource for your primary membership:

Convenience. Offering a full suite of e-commerce products empowers your members to bank wherever they go, and even on the run.

- By phone, using CO-OP Mobile and My Deposit Mobile
- Online with Online Banking, Bill Pay and My Deposit

Access. Getting to the credit union doesn't have to mean visiting a dedicated branch. With the largest credit union ATM access and shared branches, members can have more options than they would at the largest bank:

- Over 28,000 surcharge-free ATMs via CO-OP Network
- Thousands of full-service shared branch locations worldwide

Connection. Delivering the payment options members want every day could not be more central to the task. Build loyalty with branded debit and credit products, backed by round-the-clock telephone access for answers to questions whenever they arise.

- CO-OP Debit
- CO-OP Pass-Through Credit Processing
- CO-OP Member Center



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Bruce Clapp, CFMP, is a leading executive marketer and president of MarketMatch, the nation's only integrated marketing company focused exclusively on the credit union and small-to mid-sized bank segment. With over 20 years of marketing expertise, he has led financial institutions with local, regional and national scope to new product development, brand building and strategic planning success.

CONTACT US TO LEARN MORE ABOUT HOW CO-OP SOLUTIONS PROVIDE ACCESS, CONVENIENCE AND CONNECTION THAT CAN HELP YOU BECOME YOUR MEMBERS' PRIMARY FINANCIAL INSTITUTION.

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