

Onboarding New Customers Capitalizing On the Opportunity

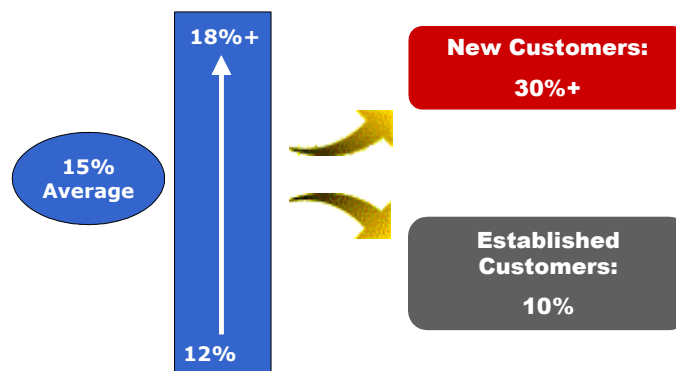
2004 promises to be a year in which retail banks will be working hard to rebalance their profit flows away from heavy dependency on mortgage refinancing—and core deposit growth will be at the center of that activity. The onboarding process is rich with unexploited opportunity to grow core deposits, and an investment in onboarding can be made operational and profit-positive immediately. A focused start in early 2004 can result in substantial positive profit flows by the third quarter, or earlier.

The process of establishing deposit accounts for new retail banking customers—‘onboarding’—is a seemingly perfect opportunity for expanding customer relationships and growing core deposits:

- Customers are in an account switch context, so they are highly susceptible to the movement of multiple elements of their financial relationship.
- Customers expect to spend time with the bank establishing their new account.
- The relationship is new, affording the new bank the opportunity to establish an image and relationship afresh.
- In most cases, the dialogue with the customer is conducted in person, offering the highest potential platform for relationship dialogue.

But if the experience of most banks is any indication, their onboarding process squanders this opportunity. The majority of U.S. banks report first year attrition rates for new customers in the 25-30% range—triple the average attrition rate of established customers—and first year attrition rates above 40% are not unheard of. These alarmingly high loss rates do not include balance diminishment that occurs for other customers in the first year—rendering them active in name only.

Breakdown of Overall Attrition



New customers are leaving their newly formed banking relationships in droves—an indicator that the onboarding experience is negative not just for those who leave, *but also for many of those who stay*. This is hardly the picture of banks capitalizing on the onboarding opportunity.

What's Going Wrong?

We know from research that one of the main drivers of customer attrition is dissatisfaction (the bank makes an error, or delivers poor service)—and most banks readily acknowledge that their onboarding process is full of dissatisfiers. Checks are never sent; the customer misunderstands the terms and conditions of the account he/she was enrolled in; unexpected charges are encountered when the customer's expectation was that there would not be any fees, and so forth.

We also know that the majority of individuals who switch banks are local—they are changing from one bank to another nearby. As a result, when dissatisfied, they can easily 'snap back' to the old relationship and abandon their intention to switch.

The combination of too-frequent dissatisfaction and easy abandonment of the intention to switch results in high attrition—the first component of lost opportunity.

But more is going wrong than significant loss of new customers. Recent BAI research reveals that almost 75% of all cross-sales from new retail checking accounts take place within three months of account initiation.¹ The onboarding process in most banks does not contain sufficient relationship handling to maximize the cross-sell opportunity that exists in these first critical months of the relationship—so banks are almost certainly under-realizing the profit potential of those customers who stay.

In addition, potential new customers are unwilling to leave their existing bank because of the perceived difficulty of switching the account. Banks are missing the opportunity to create a switching process that is *genuinely* easy for customers—and so are not bringing in many of the new customers their marketing programs work so hard to attract.

Onboarding: Why Focus There?

There's a clear reason to focus on, and invest in, the onboarding process: *opportunity concentrates there.*

- **The Customer Relationship Is Fully Available:** The new customer onboarding process is unique among customer-centric processes in presenting a customer who is, by definition, in a potential condition to change most elements of their total financial relationship. The primary deposit relationship is still the core consumer financial relationship, and customers moving through the onboarding experience are mentally and emotionally in 'switch mode'. There is almost no other time in a bank's relationship with its retail customers that the customer is so available to a change in multiple aspects of the financial relationship.
- **The Customer Is Physically Present:** The majority of new account transactions are opened in a branch, with the customer in physical contact

¹ McAdam, Paul, Ajay Nagarkatte and Steve Klinkerman, "Window of Opportunity", *Banking Strategies*, November/December 2003.

with the branch platform representative. Subsequently, there is an opportunity for additional dialogue via telephone as elements of the new account are put into place. This set of activities is a platform for effective relationship building and communication that may never again be replicated in the life of the customer relationship.

There is a second reason to focus on and invest in onboarding: *opportunity is wasted there.*

- **Customers Don't Come:** Banks spend significantly on programs to attract new retail customers: advertising, direct mail, bank-at-work, and other outreach programs. Yet a significant number of customers who are reached by these messaging programs don't act—they perceive the prospect of switching banks as 'too much of a hassle'. Banks are wasting account acquisition marketing resources by not presenting their prospects with an onboarding program that promises to solve the 'too hard to switch' problem.
- **Those Who Come, Leave:** When 30% or more of new customers leave in the first year, tremendous opportunity is lost. Since improvement in the process is a long term imperative, there is an immediate need for a way to make these lost customers more 'sticky', so that the onboarding-related dissatisfaction that inevitably occurs does not cause customer loss.

High Impact Actions

There are three areas in which banks can take immediate actions that will yield immediate results:

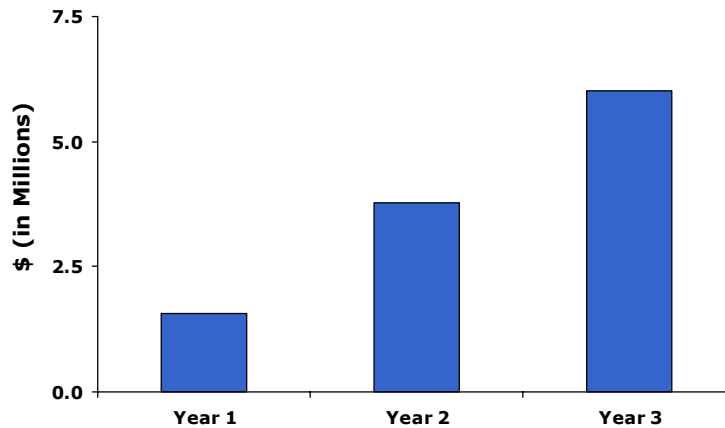
Retention: Implementation of a program to take control of the key element in the switching process—the rapid capture of the new customer's direct deposit.

Attraction: Offering a suite of services to make the switching process easy for new customers—thereby encouraging additional consumers to switch who otherwise would stay put to 'avoid the hassle'.

Cross-Sell: Integrating cross-sell activity early in the relationship process, where new research suggests it may be most effective.

What kind of results can be created? Our experience with the retention component *alone* is that banks can expect to increase annual profitability per 100,000 new accounts by over \$2 million per year. Adding attraction and cross-sell features results in even greater benefits.

Annual Incremental Profit per 100,000 New Accounts



Retention Actions

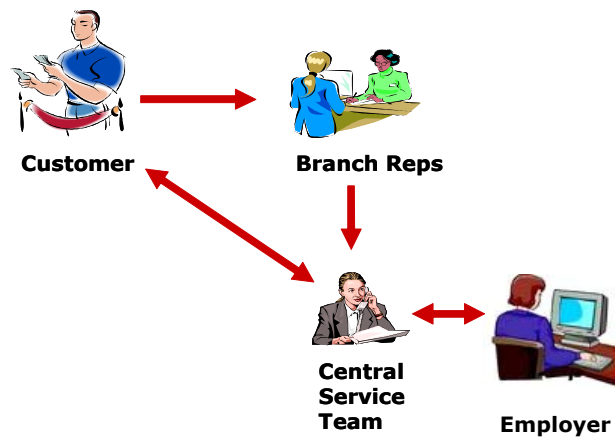
The first priority for banks in capturing the onboarding opportunity is to stop the hemorrhaging of new customers within the first year.

The seemingly obvious answer is to clean up the onboarding process—rid it of errors, service problems and miscommunication to cut the attrition rate. But that, unfortunately, is a 'long march' involving serious training and a multifaceted systems overhaul—resulting in a multi-year period to achieve full benefits. Banks with high branch employee turnover may be unable to make meaningful headway.

There is, however, an alternative. Banks can achieve immediate results in cutting attrition by implementing a focused program to assure the rapid capture of the new customer's payroll direct deposit. If the direct deposit can be captured very early in the process (within the first statement cycle), the customer is made sticky before the events that cause dissatisfaction can occur.

Our experience shows that the most effective way to accomplish this is for the bank to take control of the direct deposit switch process—to manage it on the customer's behalf. Customers tend to hold off on the switch until the old account has cleared—or they simply delay getting it done. This allows too much time to pass, during which errors, poor service or miscommunication can occur. The processes for bank-managed direct deposit transfer can be initially implemented without incremental I/T support, and will yield substantial positive net benefits from day one.

Bank Managed Direct Deposit



Attraction Actions

Banks can significantly lever their attraction-oriented programs by making the experience of switching banks easier in the eyes of potential customers.

Where do potential customers perceive 'hassle'? While they ascribe some difficulty to the movement of direct deposit, they are much more focused on the difficulty of moving direct debits.

Again, the bank can offer to move direct debits on behalf of the customer (using techniques similar to those used for bank-managed direct deposit). In this case, it is also necessary to market the direct debit switch service broadly, since its objective is to motivate customers the bank would never have seen to go ahead and initiate a switch of banks.

While adding the capture of direct debits somewhat enhances the stickiness factor in reducing attrition, the incremental retention value does not clearly justify the additional processing cost. We believe that bank-managed direct debit capture is only justified as an attraction-oriented feature.

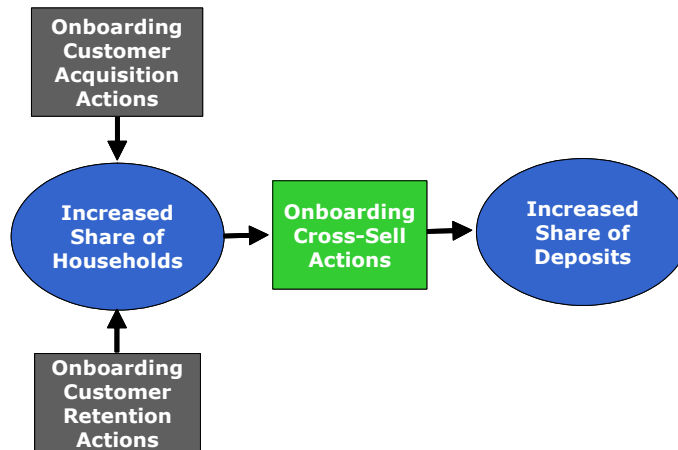
For new customers who have been paying their bills through their former bank's online bill pay service, a bank-managed switch will be extremely attractive—but time consuming and expensive for the bank to provide. If provided, it should therefore only be offered to the most elite customer segments, based on projected profitability.

Cross-Sell Actions

The third component of a program for building deposits through onboarding is cross-sell. As revealed in the BAI research referenced above, an improved focus on cross-sell in the first 2-3 months of a new relationship can be highly productive. Given the customer contact requirements of onboarding-based retention and attraction programs, however, and existing bank practices on

customer relationship handling, some restructuring of customer communication will likely be required.

Onboarding Action Map for Growing Core Deposits



- Responsibility for cross-selling varies by bank. Some banks vest it in the branches, while others use specialized call center groups to handle certain customer segments.
- The retention-oriented switch of direct deposit and attraction-oriented switch of direct debits both require telephone follow-up with customers subsequent to the branch account opening visit. These calls are handled by a specialized group set up to service the direct deposit and direct debit switch processes.

Accordingly, there is a need to coordinate and integrate these different customer contact groups to facilitate cross-selling. In addition, the quality of the existing cross-sell effort itself may need to be improved, in terms of both sales effectiveness and consistency of follow-up.

There are two approaches to coordinating the different cross-sell follow up efforts:

- *Organizational Integration:* Centralizing customer contact for both service and sales follow up creates the highest level of organizational coordination, but may be impractical if the bank is committed to branch-based customer follow up and is staffed accordingly.
- *CRM Integration:* Coordination can also be achieved through the use of a Customer Relationship Management (CRM) capability that allows different individuals to create a running log of customer interaction. This approach creates virtual coordination without necessitating organizational integration. If sales activity is branch-based but centrally managed, a CRM capability can also inject a level of discipline into the creation of call lists and the monitoring of follow up that is typically hard to achieve in decentralized branch-based sales.

Capitalize in 2004

Most of the enhanced onboarding capabilities described above can be piloted and rolled out rapidly without dependency on I/T or other infrastructure lead times. For banks that begin now, a complete system-wide rollout by midyear is a realistic expectation, so that incremental profitability benefits can be realized during the second half of 2004, and full-year benefits achieved in 2005.

The coming year promises to be the 'year of the core deposit' in retail banking. The onboarding process is a rich playing field on which banks can make a significant impact to their core deposit growth.

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Dove has developed a comprehensive onboarding program with predefined and tested processes that dramatically reduce the time and cost of implementing improved onboarding capabilities. For additional information please contact Joleen Preuninger, jpreuninger@doveconsulting.com, or call (773) 296-6915.

Dove Consulting is a Boston-based consulting firm specializing in strategy and organizational effectiveness. Dove's value proposition—deep expertise for immediate value, sincere collaboration with clients, and the delivery of clear results—has enabled the firm to become a highly valued and trusted advisor to leading companies and their executive teams all over the world. Founded in 1981, Dove offers deep expertise in four industry areas: financial services, consumer broadband, consumer packaged goods, and government.

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