DON'T LET YOUR CUSTOMERS END UP LIKE FLORIDA

by Steve Brown

In all the hubbub of election coverage and emergency Fed moves, we forgot to chastise Florida for moving their primary up in order to gain a higher profile. Why must this state continue its proud tradition of screwing up voting? Florida wasted precious political capital by moving their primary and lost delegates in the process. Ironically, had Florida moved their primary elections after Feb 5, they would have become the pivotal state. When Florida moved up their primary, New Hampshire and Iowa followed suit, pushing their voting into January. If this keeps up, mark our words, primaries will end up in 1980 and next thing you know Ronald Reagan will be back in office. With stunts like that, it is no wonder that voters feel disenfranchised.

Speaking of disenfranchisement, customers can feel that way when it comes to their bank, pushing them to leave. In fact, about 74% of accounts are closed without any warning at all. If we are talking one or two accounts, we wouldn't be wasting your time. However, considering that the average community bank branch opens about 70 accounts per month, but loses close to 50, this is worth noting. Certainly, some of these closings are for rate-grubbing customers that a bank doesn't mind losing and some are a response to consolidating household accounts or for operational reasons. However, we estimate that about 50% of the 70 are worth keeping. Does your bank have a customer retention plan in place?

For banks that do, success stories from around the nation are abundant. Forming a client action team and assigning one person to run point on each of the top 10% of customers should be the first step. Since these customers compose the majority of any given bank's revenue, they must have an advocate that gets the attention of top management. Of course, if you are going to embark on any customer retention program, one of the very first steps to do is to track the monthly open and close ratio. In addition, it should be noted in some standardized way, why accounts are being closed and where the money was wired. By getting accurate numbers, programs can be improved and refined. Are certain branches trending worse? Do some products aid in retention? Are accounts being lost to specific competitors? The time it takes to record answers to such questions is small compared to the value derived.

Next, a branch incentive program should be designed to reward relationship managers or action teams to retain and increase balances in all accounts. Other ideas are to step up cross-marketing programs, so each customer increases the number of products used. Studies show that the more products a customer uses, the lower the likelihood they are to leave. For example, if a customer only has a checking account at the bank, there is a 50% chance of losing that customer in any given year. However, if that customer has a checking and savings account, the probability drops to 10%. Those banks that can add a loan to the mix can push the probability down to 2%. Of course, if you are really looking for a retention tool, have an account utilize online bill pay or remote data capture. By tying a customer into an electronic channel, the odds of retention are stratospheric. A customer with checking, savings, loan and RDC has less than a 0.8% probability of going to another bank (bill pay is even better).

Finally, increasing the number of customer marketing "touches" also helps. Studies consistently show that customers that get calls, e-mails, direct mail or visits 18 times per year or more, have a much higher likelihood of staying with the bank, being more satisfied and referring it to others when asked.

By keeping profitable account holders from getting disenfranchised, net income can be increased. Let's face it - if we have to live through the 80's again, we need to start stocking up on profitable customers.

BANK NEWS

Massive Vacancies

A new study finds the number of vacant homes in the country is now 2.8%, the highest since the government began tracking the data in the 1960's. Even worse, the data seems to indicate the number of vacant homes is at its highest level since the Great Depression. At current levels, vacant homes account for roughly 50% of all homes on the market. One of the worst cities is Cleveland, where 10% of all homes are now vacant.

How Bad Are Things?

Crisis Comparison: in case you were wondering, the nonperforming loans to assets ratio was 2% back in 1989 when S&L's were in crisis and the RTC was being formed.

Basel II

On April 1, 2008, U.S. institutions with consolidated assets of $250B or more are required to adopt Basel II. This group will start a 2Y parallel run under Basel II at that time as regulators continue to refine and monitor risks.

Losing Customers

The SBA has lost 368 banks from its lending programs in the past 2Ys, a 7% decline. The agency said banks had left due to the complexity of rules, slow turnaround times, paperwork burden and a lack of support from the SBA when problems arise.