



## Data Mining for Profits

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Gold has long been seen by man as a precious thing. Consider just some of the interesting facts you may not have known about gold. For instance, the word gold comes from an Old English word "geolu" meaning yellow, it can be found beneath the earth on all 7 continents, there is an estimated 10B tons of gold in the world's oceans and here in the US, South Dakota and Nevada produce more gold than any other states.

When it comes to banking, data mining customer relationships can result in the unearthing of a variety of gold nuggets. Consider analysis from our own Relationship Profitability Service we offer to community banks to help you identify the profitability of every customer, product and relationship officer at the bank for instance.

Using such a tool can deliver additional profit opportunities, such as the following for instance:

**Waivers on deposit service charges.** Ask whether your bank is waiving fees for its best or worst customers. While you may be tempted to waive fees to encourage loyalty, doing it haphazardly could be costing you profit. In our experience working with many banks, we have found that more than 50% of the customers who have had their fees waived are not profitable. Before you automatically waive fees, we recommend taking a closer look at the customer's overall relationship so you can make a high-level judgment about the advisability of waiving these fees.

**Deposit fee structure.** Thanks to regulatory changes and the current low rate environment, free checking account products may be costing you more than you think. We routinely analyze the cost-benefit of applying service charges on such accounts. A case study we recently did on a \$500mm commercial bank (that was routinely waiving fees on checking) found that by implementing service charges for all but the bank's best customers the bank was able to increase fee income by an estimated \$1.5mm annually. Notably, the risk of attrition was minimal, as customers being charged held less than \$10mm in deposits with the bank.

**Cross-sell opportunities.** Cross sell ratios generally range between 2.1 and 2.7. However, this number alone doesn't readily show the underlying opportunities. Consider that in our bank example above, more than 50% of the customers had only 1 account with the bank and 20% to 25% of the customers did not have a checking account. Effective cross-selling is essential in retaining customers. Several studies show that the more products a customer uses, the lower the likelihood they are to leave. Remember, too, that the cost of acquiring new customers is 5 to 10x that of retaining an existing one. Indeed, data mining for cross-sell opportunities should be a top priority at every bank.

**Loan renewals.** Look at how many loans are coming up for renewal in the next 6 months. Given the tight credit market and deteriorating credit quality, you might want to consider bumping up loan rates. Even if you decide to maintain the status quo, it's a worthy exercise for your asset-liability committee to quantify and understand the impact of increasing spreads by 25 to 100bp on upcoming maturities.

Ideally, each of these areas should be considered amid the backdrop of customer profitability. However, these analyses can still be done without profit calculations. Doing so may yield significant profit opportunities for your bank, so it oftentimes makes a great deal of sense to spend some time digging below the surface to help uncover those shiny nuggets that can deliver bottom line results.

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