UNDERSTANDING ATTRITION AND HOW TO LOWER ITS IMPACT ON GROWTH

KEY INSIGHTS

- Dissatisfaction or disengagement is a crucial driver of attrition.
- Nearly one in three households (32%) who left a financial institution over the last year were Generation Y.
- Roughly 30% of churned households have been with the financial institution for less than two years.
- The typical organization is just breaking even by compensating for churn with new households.
- Marquis estimates approximately 34% of term product balances are at risk of churning.

FREQUENCY IS A PREDICTOR OF ATTRITION.

Churn is the rate at which households close out all their accounts and discontinue their relationship with the organization. Some churn is inevitable – people pass away, get divorced or move – but another reason for churn is dissatisfaction. Satisfaction and brand engagement go together. The more satisfied someone is with a product and/or service, the more engagement with the brand (now and in the future). The inverse, where one is dissatisfied with the brand, leads to disengagement and defection. Disengagement happens over time and can be measured as the frequency of consumer interaction with their financial institution whether processing transactions or opening new accounts. Studies show that one of the most powerful indicators of churn at financial institutions is a decrease in activity and/or engagement[1]. Churn is the ultimate result of dissatisfaction; however, disengagement (inactivity) happens sooner, and there could be an opportunity to intervene and save the relationship.

Analyzed from reviewing the data from over 2 million households representing more than 6 million accounts with balances totaling over $44 billion, a "typical"[2] financial institution was modeled to better understand churn and its impact on growth. Marquis' Churn Analysis (available to Marquis OnTrax clients) visualizes the number of households and balances lost from a "typical" financial services organization over the last 12 months. Engagement, expressed as customers' interactions with the organization, is explored to better understand when disengagement might occur and when to intervene to help mitigate churn.

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IT'S LESS COSTLY TO KEEP A MEMBER VERSUS ACQUIRING ONE.

Consumers (mainly Generation Y) are reevaluating their banking relationships post-pandemic and seeking out new institutions for better service, promoting growth for credit unions, community banks and FinTechs.

In 2021, the Credit Union industry showed overall membership growth of 4.6% (Callahan). This growth was a very positive outcome of the pandemic as it surpassed the 5-year low in 2020 at 3.86%. According to Callahan & Associates, this growth is expected to continue into 2022.

The Marquis OnTrax Partner Community has experienced household growth in 2022 (see Figure 1). Additionally, churn is on the rise. Although new household growth is trending just slightly higher than churn, the difference is hardly enough to cover future acquisition costs. In fact, in April, new household growth and churn are equal. According to Gartner's [State of Marketing Budgets 2021] report, Credit Unions and Community Banks were able to benefit from new household growth in the past year with a reduction in marketing spend. Generation Y will continue to seek out financial partners offering better service and rates with sophisticated digital experiences. Keeping and nurturing new households at the onset of the relationship will remain extremely important and less costly than trying to salvage disengaged households.

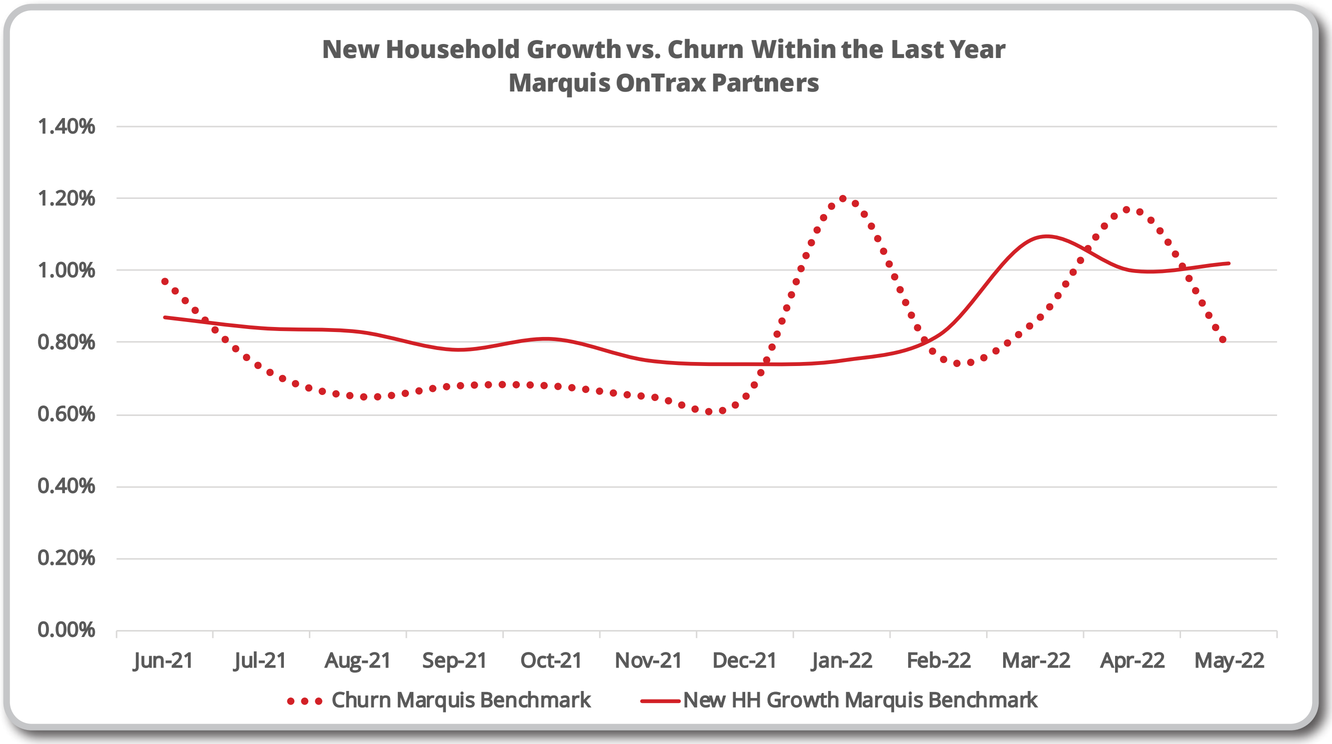

Figure 1

WHO OR WHAT IS CHURNING?

Generation Y (Millennials) make up the bulk of the households that are churning within an organization. Their loyalty in general with financial institutions is very different than preceding generations as they are more willing to switch for a better rate/term and demand both digital as well as branch convenience. Nearly one in three households (32%) who left a traditional financial institution over the last year were Generation Y. Most of the balance impact of these households are mortgage loans ($1.5M for a typical financial institution) and auto ($584K). Generation Y is now in their prime in terms of financial services needs – including loans and deposit/ investment services – plus they make up the largest adult population in the U.S.

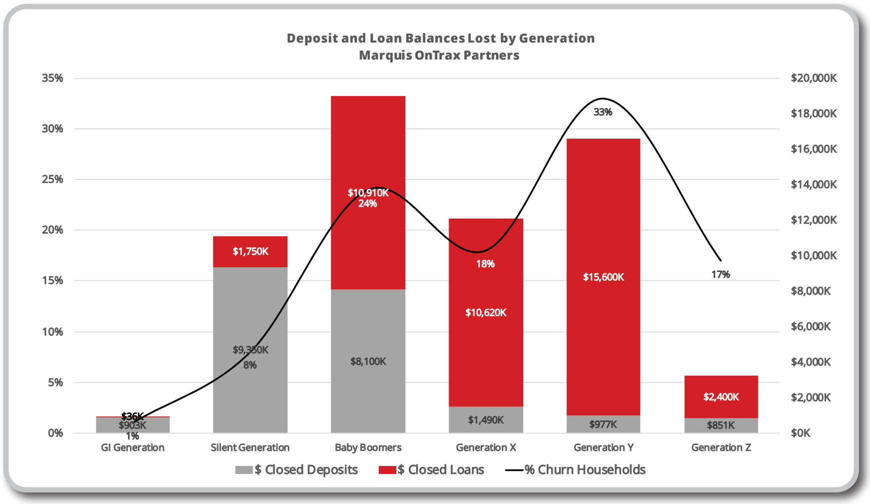

Figure 2

In terms of deposit loss, the Silent and Baby Boomer generations lead the way in terms of dollars lost ($17.5M on average; see Figure 2). Most of these dollars were held in Certificate of Deposit accounts. Given the recent increase in interest rates (and more increases are expected[3]), the trend in deposit dollars lost will continue as promotions and competition start to heat up again in the deposit arena. As the Silent and Boomer generations expire, wealth transfer is likely to be a big issue for organizations looking to retain deposits. Additionally, Baby Boomers and Generation X walked away from their financial institution with a significant amount of loan (mortgage) dollars. In fact, most loan dollars lost across all generations were due to mortgage runoff ($31M on average). See Figure 3.

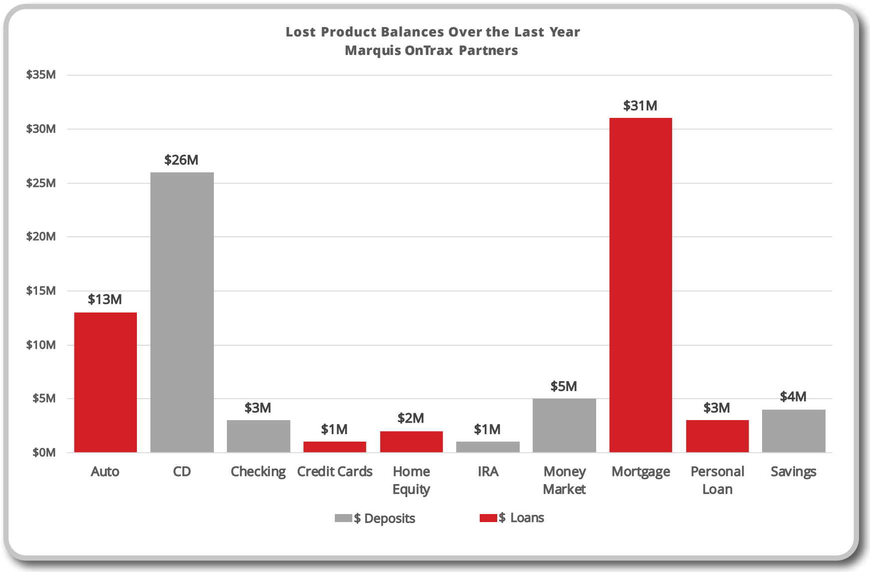

Figure 3

The most alarming is the amount of churn from newer households. Nearly 30% of churned households within the last year started their relationship with the financial institution in the the last two years (15% churning within their first year). Nearly 70% of these households are considered single service with term products such as Certificates of Deposit, Auto Loans and Mortgages. This suggests that as new households start their journey, financial institutions are neglecting to focus on engagement, onboarding, or cross-sales.

IDENTIFYING CHURN RISK

Disengagement, in the form of the number of days since the last transaction/interaction with the financial institution, is significantly higher for churned accounts versus active ones. For example, the median number of days since the last transaction for an active checking account is four days versus a churned checking account at 31 days. Similarly, a typical active credit card account conducts transactions every 9 days versus a churned card at 14. In all, 41% of the accounts analyzed are considered at risk for inactivity (Checking, Credit Card, Money Market or Savings), representing approximately 24% of total balances. Figure 4 illustrates the inactivity norms for closed versus active accounts.

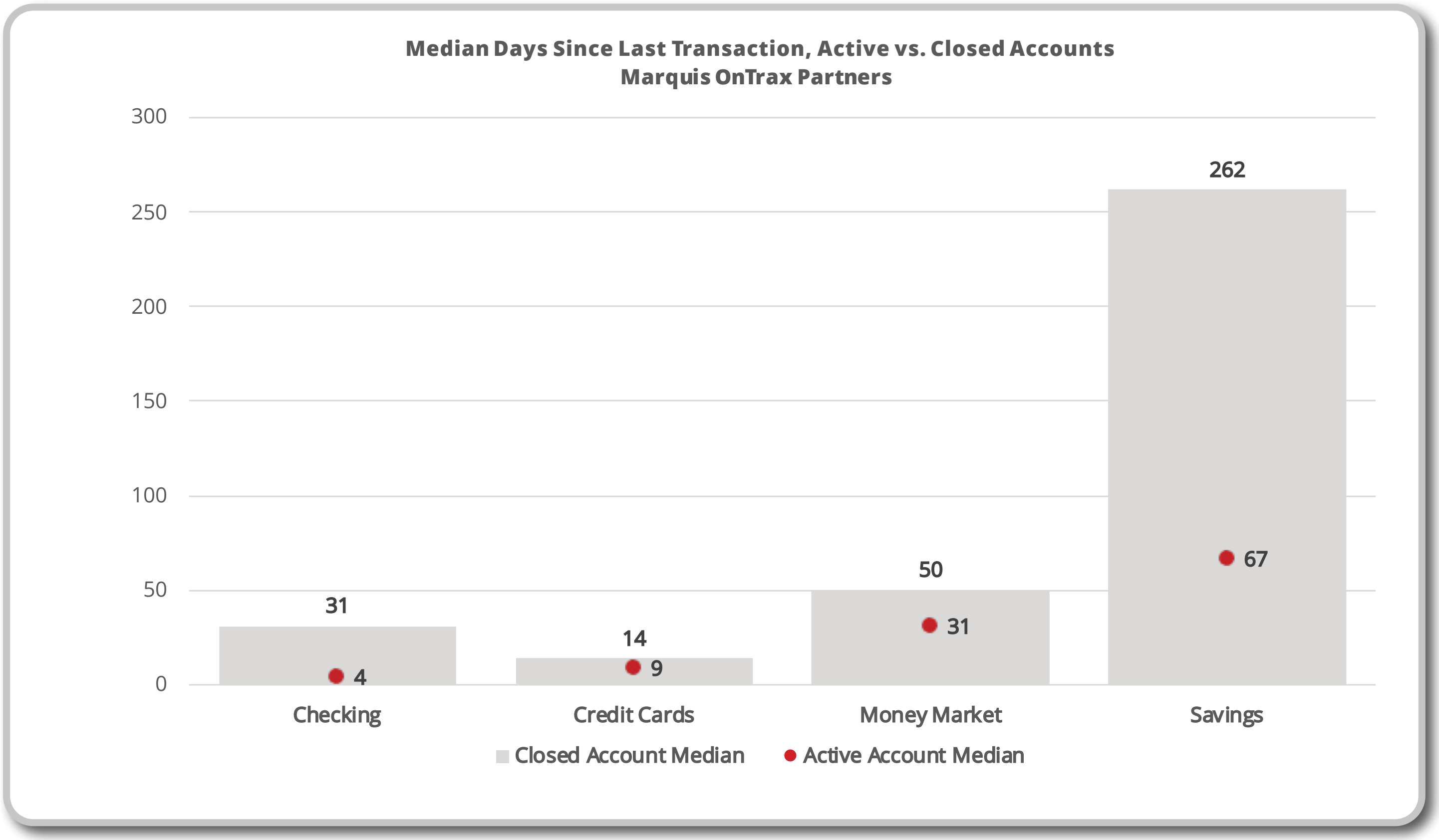

Figure 4

Term products also present a significant contribution to churn. Marquis estimates about one-third of term product balances are at risk at a typical financial institution. The study reveals that churn households with term products close those accounts well before maturity. For example, a churned household with an auto loan closed their account about halfway (49%) to maturity. Given that the typical auto loan is almost 29% to maturity, the timeliness of intervening with some type of refi or new loan offer could help mitigate churn as these loans near a projected defection point. For Mortgages, demand is slowing down[4]. During the purchase and refi flurry of 2021, churned mortgage households were closing their relationship at nearly 20% to maturity of their loan (for example, on a 30-year mortgage, this would be about 6 years into the term of the loan; see Figure 5.) Given that a mortgage holder at a typical financial institution is approximately 15% to maturity of the loan, this only gives the institution about 18 months to attempt to nurture and grow the relationship before the mortgage holder defects for a better rate. However, as the market continues to slow down due to rate increases, this should help reduce mortgage defection for the remainder of the year.

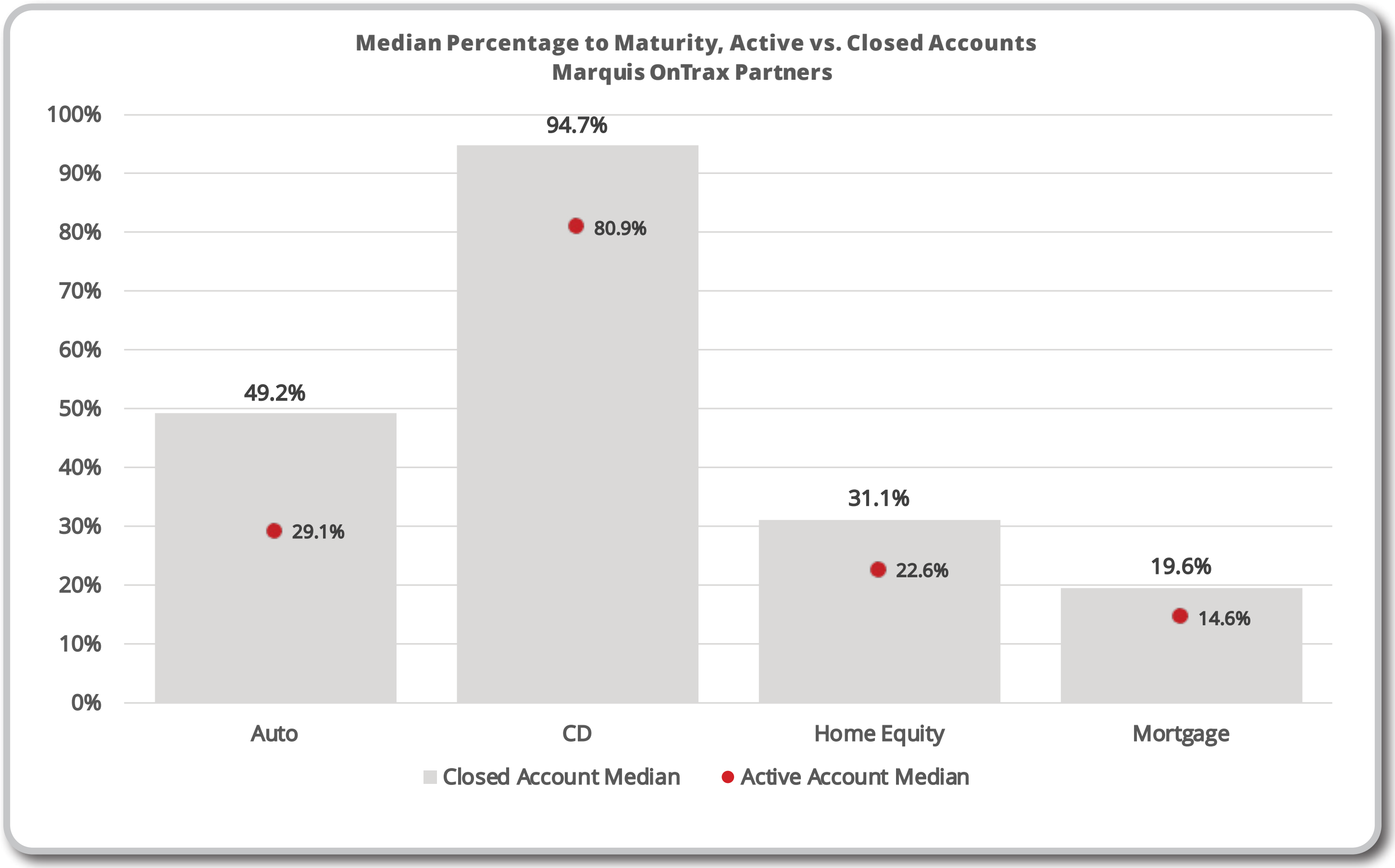

Figure 5

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SUMMARY

The pandemic spurred new growth for most financial services organizations in the past year. Other analysts predict that growth will continue to increase well into 2022. However, for most of Marquis' organizations, churn is also on the rise. Engagement (or lack of it) indicates churn, so it's vital to understand who is churning and why. To help mitigate churn you want to address specific needs and know when to intervene for households that may churn due to inactivity. Mitigating churn is as important as monitoring churn.

Understanding the dynamics of attrition is key to growth. At Marquis, we specialize in combining data from disparate databases and householding critical data to create an in-depth view of your customer base. New to Marquis are our interactive analytical tools that allow a user to understand complex questions (like the causes of attrition) simply. Contact us to lean how we make the complex clear.

[1] The 4 D's of Customer Attrition, Financial Brand

[2] The average organization represented in Marquis' study is comprised of approximately 50,000 households, 105,000 accounts and $1B in total account balances. During the period of June 1, 2021 through May 31, 2022, this typical organization acquired 4,705 new households (9.4%) and lost 4,480 (8.9%).

[3] Ana Swanson, 'Fed officials expected to make at least three big rate increases over the next few months', *The New York Times Online*, May 25, 2022

[4] Diana Olick, 'Mortgage demand falls to the lowest level in 22 years amid rising rates and slowing home sales', *CNBC*, June 8, 2022