

Making Retention a Priority for 2010

Now is the time to examine why members have come to your credit union, and what you can do to retain them as other opportunities in the market arise and the economy begins to recover.

By Elliott Kashner, Callahan & Associates

As your credit union begins planning for 2010, and ideally several years beyond that, consider your credit union's retention strategy. Much of the recession has played into the advantages inherent in the credit union model and culture, but this dynamic will change as the economy enters the stage of recovery. It is inefficient and unrealistic to attempt to combat a high member turnover rate by simply attracting more and more members. Instead, now is the time to examine why members have come to your credit union, and what your credit union can do to retain them as other opportunities in the market arise.

Credit Union Boom Amidst Economic Bust

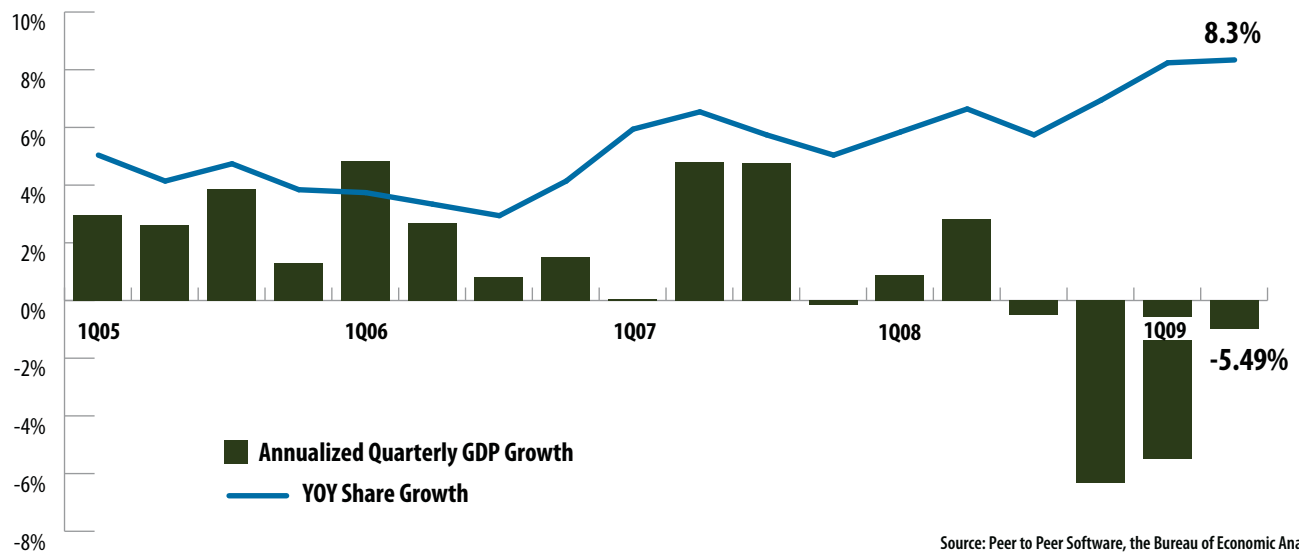
The credit union industry's performance during this recession has been described as countercyclical; despite a limping economy, credit unions have grown at a significant pace. Credit unions are nearing, or even surpassing, many of the growth records set in 2002 on the tail end of a mild recession, again reinforcing claims of industry countercyclical behavior. The following data appears consistent with this claim:

The first thing to note about this graph is that GDP growth is an annualized quarterly growth figure, as is the most common method of reporting GDP growth, while share growth is shown year over year; this is done to account for the strong seasonal trends. After many quarters of sustained GDP growth, share growth slowly decelerated. By contrast, as the economy approached recession, share growth began to rise.

There are several reasons why share balances have been increasing more quickly. First, the stock market is down. From the peak in October 2007 to valley in February 2009, the Dow Jones, New York Stock Exchange, NASDAQ, and S&P 500 each lost approximately half of their value, some even more. Members are temporarily pulling their money out of stocks, and these funds are finding their way to share or money market accounts. However, the stock markets have seen slow but steady recovery since the February valley.

Second, the personal savings rate is up. Unemployment and underemployment remain looming threats, and Americans are working to build a cushion of savings at a rate of 6.9% (of disposable income as of May, 2009) in prepa-

Credit Unions Show Countercyclical Potential



Source: Peer to Peer Software, the Bureau of Economic Analysis

ration for the worst. Further, the possibility of short term deflation has many holding onto their money until deflationary concerns are resolved. Once stimulus spending and increased credit availability at the Federal Reserve have permeated the market, concerns of inflation may encourage increases in spending and temper the growth in the personal savings rate.

Third, member growth is up. Amidst bank failures, mergers, and panic, member growth at credit unions was up to 1.8% YOY growth in the first

quarter of 2009, the highest growth rate since, you guessed it, 2002. Conservative lending standards, matched with healthy capital reserves, allowed credit unions to serve as a financial sanctuary during the flight to safety. It also did not hurt that credit unions were posting record high loan origination numbers while credit in the United States was tightening. However, the stability of the financial system is no longer in grave danger. Paired with the doubled limit for deposit insurance, the flight to safety might be nearing an end.

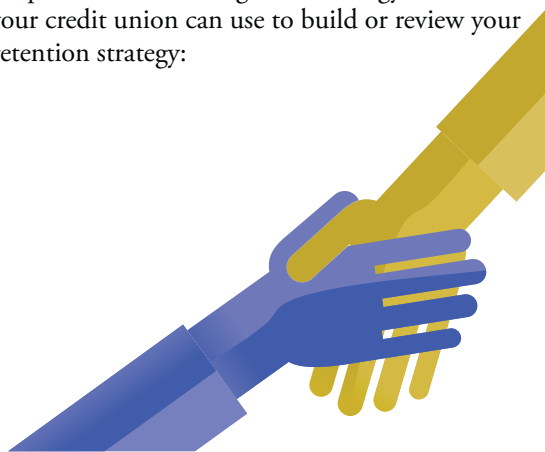
Six Key Components of a Successful Retention Strategy

Current economic conditions are leading many credit unions to review their member retention strategy. Having a step-by-step plan will help your credit union update and improve current efforts. | *By Elliott Kashner, Callahan & Associates*

Many credit unions have enjoyed above average member growth during the recession, and shares are growing faster than they have in years. As of June 2009, membership at credit unions rose 1.7 million, or 1.9%, to 91.0 million; this is the faster growth rate since 2003.

What is driving this growth? Bank failures and mergers are part of the story; displaced and dissatisfied customers were compelled to start new financial relationships. General concerns about the stability of the financial system prompted a flight to safety, and in the recession credit unions acquired a reputation for being a financial sanctuary during crisis. Credit unions were also still making credit available during a time when many were pulling back on lending, or significantly tightening their lending standards.

Credit union cannot rely on these trends to provide them with a constant stream of new members by which the credit union can achieve growth, especially if members are leaving once market conditions normalize. The stock market is recovering, members are rebuilding their wealth, and massive financial institutions with massive marketing budgets are targeting your members more aggressively. This is why now is the time for you credit union to focus on member retention as part of its member growth strategy. Here are six steps your credit union can use to build or review your member retention strategy:



1. Determine who is responsible for member retention

It can be tempting to focus only on attracting new members. After all, “new members” is often a key metric used to measure the success of marketing campaigns or promotional events. Further, barring some kind of disaster, rarely is “members lost” the key metric for specific credit union related events. As such, your credit union will need to identify metrics relating to developing long term relationships, which will inevitably include tracking why those relationships end. This responsibility could feasibly fall into a number of existing departments, such as operations or marketing, or your credit union may want to consider creating a new department, such as a “member experience” department.

2. On-board new members

The first few months of membership are the most volatile for the relationship between credit unions and members. During this time, members are more receptive to cross-selling. However, they are also more likely to leave. These two combine to create a very powerful incentive for your credit union to have an on-boarding program for each new member. Use the first few months as an opportunity to educate the new member about relevant products and services that you offer. Also, consider trying to convert the member’s other lending relationships to the credit union; for example, many credit unions offer loans to recent college grads that let them consolidate student loans and credit card debt held at other institutions.



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3. Focus on selling sticky products first

"Stickiness" refers to the ability of a product or service to retain the member using it. For example, online bill pay is an extremely sticky product. For members that have their bill payments scheduled automatically through their online banking at the credit union, switching their account to another financial institution becomes a laborious process, a strong incentive for remaining with the credit union. While mortgage penetration remains low compared to other financial products, members with mortgages at the credit union typically have a greater number of relationships with the credit union. Also, the average mortgage lasts around eight years, which helps develop those long term relationships.

4. Leverage non-sticky products to deeper relationships

If the member has a relationship with the credit union that can be easily terminated, such as a credit card, explore ways to turn that product into a more stable and permanent relationship as an added incentive. If your credit card has a rewards program, consider offering reward points for starting new relationships. If your member applied for the credit card online, follow-up with other online features available at your credit union—another opportunity to promote online banking if you offer it.

5. Identify retention triggers

There are many events that signal a member may be considering leaving the credit union; think of these as "retention triggers." Your credit union should identify the most common reasons that members leave the credit union, and then put together a profile of behavior to monitor. Here are some examples; if your members do one or several of these, intervention may be needed to salvage the relationship.

- Register one, or several, complaints about the credit union
- Hold an account that remains inactive for over 60 days
- Turn 18, meaning they will likely be moving to college and looking for another financial institution closer to campus
- Withdrawal all or most of their funds from a checking or primary savings account
- Put their current house on the market to be sold or move outside the geographic area where the credit union has branches

6. Have a pipeline for members leaving

A member calls your call center, or walks into one of your branches, and says that they would like to close out their accounts. What is your response? While you certainly do not want to stand in the member's way if they are committed to leaving, many relationships can still be salvaged at this point. Develop a step-by-step process for front-line staff to walk through with members. Track why they are leaving and determine if the issues can still be resolved without abandoning the relationships. If the member had a bad experience with a customer service representative, have incentives in place and seek immediate resolution. If the member is moving outside the branch network, highlight other options, such as participation in a shared branch or ATM network, or online banking 