

# Overcoming Obstacles to Onboarding

“Switching costs, because of the increasing popularity of direct deposit and automatic withdrawal arrangements involving other entities, have been rising over time.”

*From Consumer Switching Costs and Firm Pricing: Evidence From Bank Pricing of Deposit Accounts by Timothy H. Hannan, 2008*

## Executive Summary

For financial institutions, strong account acquisition and retention rates mean success. SwitchAgent from Deluxe is designed to help increase both acquisition and retention. It reduces obstacles to attracting new demand deposit accounts and establishing productive new relationships.

## Introduction

The three greatest challenges for every financial institution, bank and credit union alike, are acquiring, growing and retaining account holders. These three goals are expensive to pursue and have no guarantees of success. According to a study by J.D. Power and Associates, 66 percent of account holders would consider switching primary institutions; and initial loyalty is weak while attrition remains high, especially in the first 90 days.

To establish account loyalty—the key to consistent revenues and long-term success—financial institutions need to reduce obstacles to acquisition and anchor new accounts quickly. One of those obstacles is the work required to move pre-authorized transactions.

A simpler and easier system for switching pre-authorized transactions provides greater convenience for new account holders and reduces effort for employees. By simplifying this process, it clears the way for successful onboarding.

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# Overcoming Obstacles to Onboarding

## Purpose

This document is intended to accomplish two things. One is to show the current state of account loyalty in U.S. banks and credit unions; the other is to describe recent attempts to improve account acquisition, retention and loyalty.

## Background

Establishing a checking account is easy enough; thousands of consumers open new accounts every day. Customer service representatives, branch managers and tellers have application forms on hand in every branch from Key West to Point Barrow. With one-fourth of all U.S. account holders in the market for a new bank or credit union, financial institutions appear well positioned to benefit from all the activity. But the downside of acquisition is attrition and lack of relationship penetration; new accounts often falter within 90 days, well before they become revenue-positive for the institution.

Long-term success depends on relationship depth, balance growth and fee revenue, which follows loyalty. Account holders are more likely to exhibit these behaviors with their “primary” financial institution—the one they call their own. Financial institutions work to earn this distinction however they can. In general, the shortest path to primary institution status is through a demand deposit account, which is the foundation of a consumer banking relationship.

The onboarding process, in which banks and credit unions engage new account holders, is designed to maintain the momentum created when the account was first opened. These efforts vary in shape and scope from one institution to the next, from promotional items to discounted rates. They are all intended to increase account activity but, unfortunately, are not always able to prevent attrition or support relationship growth. A more comprehensive approach is clearly needed.

## Discussion

New demand deposit accounts are easy for financial institutions to create but difficult to maintain, much less expand into primary account status among consumers. One significant obstacle, perhaps the most important, is the inertia of pre-authorized transactions. Moving direct payroll deposits, automatic utility bill payments and other recurring transfers can be a daunting task. Each transfer agreement involves multiple contacts and all of them must work together to make a successful switch.

In order to move pre-authorized transactions from one financial institution to another, a consumer must keep both accounts active until all transfers are connected to the new account. Other factors can make the move even slower: some transactions, such as insurance premiums or property tax escrow payments, occur less often than every month; and any error by a creditor, a payer or either financial institution can add more time to the process. Even for consumers who can maintain sufficient balances in both accounts, this creates a logistical problem.

Faced with the prospect of managing such a slow and disorganized migration, few consumers move their primary accounts. As a result, new relationships are more often treated as secondary or “household” accounts. This, in turn, means they are less likely to become strong, stable accounts that generate fee revenue for the institution.

For financial institutions, the benefits of switching are clear. Once pre-authorized transactions are moved, account holders increase account usage and become anchored customers with the new institution.

Working backward: To reach the objective of positive, productive and profitable accounts, financial institutions must earn the loyalty of account holders and earn primary status.

## **Recommendation**

Deluxe has introduced an automated system for moving pre-authorized transactions from one financial institution to another. It reduces the paperwork necessary to initiate a changeover and simplifies the process. After collecting new account information, the branch employee submits a form to the service provider—who then makes all the connections.

SwitchAgent from Deluxe is the first service of its kind offered in the United States. Results show increased consumer satisfaction, more effective acquisition efforts, reduced new account attrition and higher rates of establishing new primary account relationships.

The process only requires one step for the branch employee and two for the new account holder. The branch employee provides an authorization form, which requests the information necessary for Deluxe to make changes with creditors and payers. Deluxe manages the rest and notifies the account holder and financial institution when the changeover is complete.

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Perhaps the most interesting feature of this service is its simplicity. Financial institutions and account holders can already move accounts, including pre-authorized transactions. But, the perceived efforts required to move still keep many consumers anchored to institutions they would rather leave. SwitchAgent can help banks and credit unions onboard new accounts more quickly and easily, with greater satisfaction for everyone involved.

### Conclusion

This service delivers valuable benefits to all interested parties: account holders receive greater convenience and peace of mind; creditors and payers are assured of uninterrupted transactions; and financial institutions reduce losses from attrition while earning greater fee income through increased account activity.

SwitchAgent offers two kinds of value: it increases revenue through improved onboarding and reduces losses from attrition. The first institutions to offer it will realize the earliest benefits and establish an immediate competitive advantage. It will likely be used by financial institutions trying to attract accounts away from others.

Use of this service will help to overcome one of the greatest obstacles to new account growth. While it does not guarantee primary status for all new accounts, nor the benefits that follow, choosing not to use it—once others in the market have done so—will almost certainly reduce the chances of fee income growth.

A simpler and easier system for switching pre-authorized transactions provides greater convenience for new account holders, reduces effort for employees and ultimately clears the way for successful onboarding.