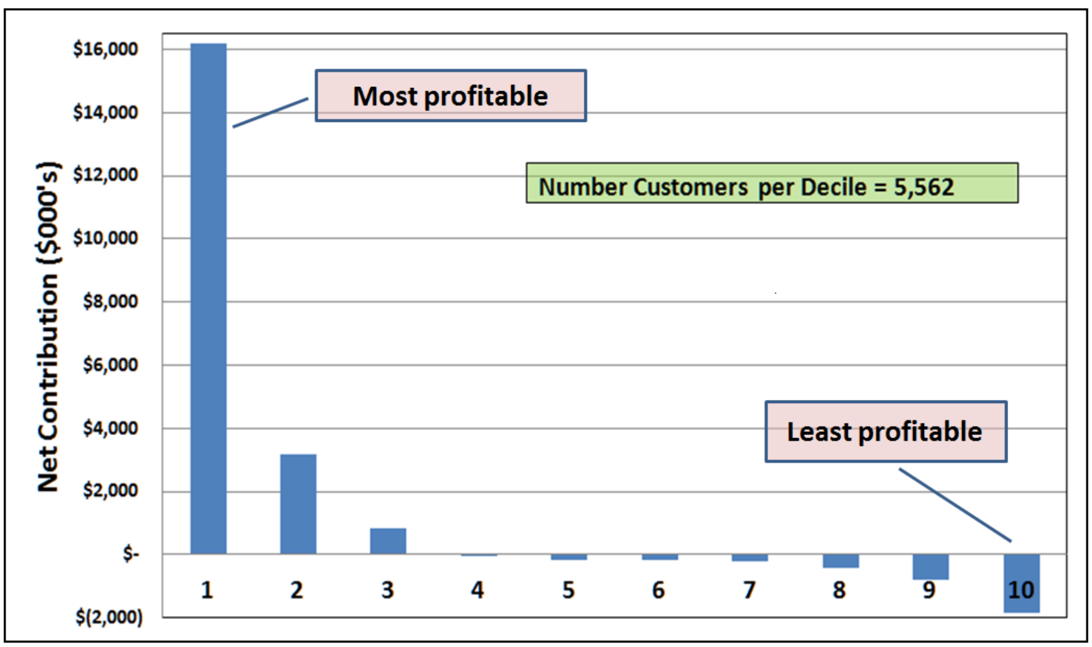
Banking Industry Myths, Part 1 (altavia.com, 2016)

Over the years practitioners in the Banking industry have developed Rules of Thumb to guide their everyday decisions. These Rules of Thumb were based on general observations, anecdotal evidence, and high-level averaged financial metrics. And they had the feel of being logical and true. Unfortunately, many of these Rules of Thumb turn out to be myths.

One such Rule of Thumb: The more accounts a customer has with the bank, the more profitable the customer. The implication is to emphasize cross-selling the bank's products to existing customers. Which certainly has the ring of truth since it is always cheaper to sell another financial product to an existing customer than to sell a new account to an external prospect.

We examined this Rule of Thumb at one mid-sized Credit Union through the lens of their sophisticated customer profitability management system, which used advanced ABC costing techniques and monthly transactions by customer. Full disclosure – I was the lead consultant in the implementation of this institution's customer profitability management system. Examining the above Rule of Thumb was only one of the many benefits this institution gained from their investment in this customer-focused information system.

Banks and credit unions like to think that all, or almost all, of their customers are profitable. Unfortunately, it's just not so. Breaking the Credit Union's customer base into 10 deciles based on each customer's causal-based profitability yielded the following:



The chart indicates only 17k of the credit union's customers added to the bottom line, whereas 39k of their customers were either break-even or downright unprofitable. Not what one would hope to see in their customer base.

In our next blog I will delve deeper into the banker's Rule of Thumb that more accounts make for a more profitable customer.