Banking Industry Myths, Part 2 (altavia.com, 2016)

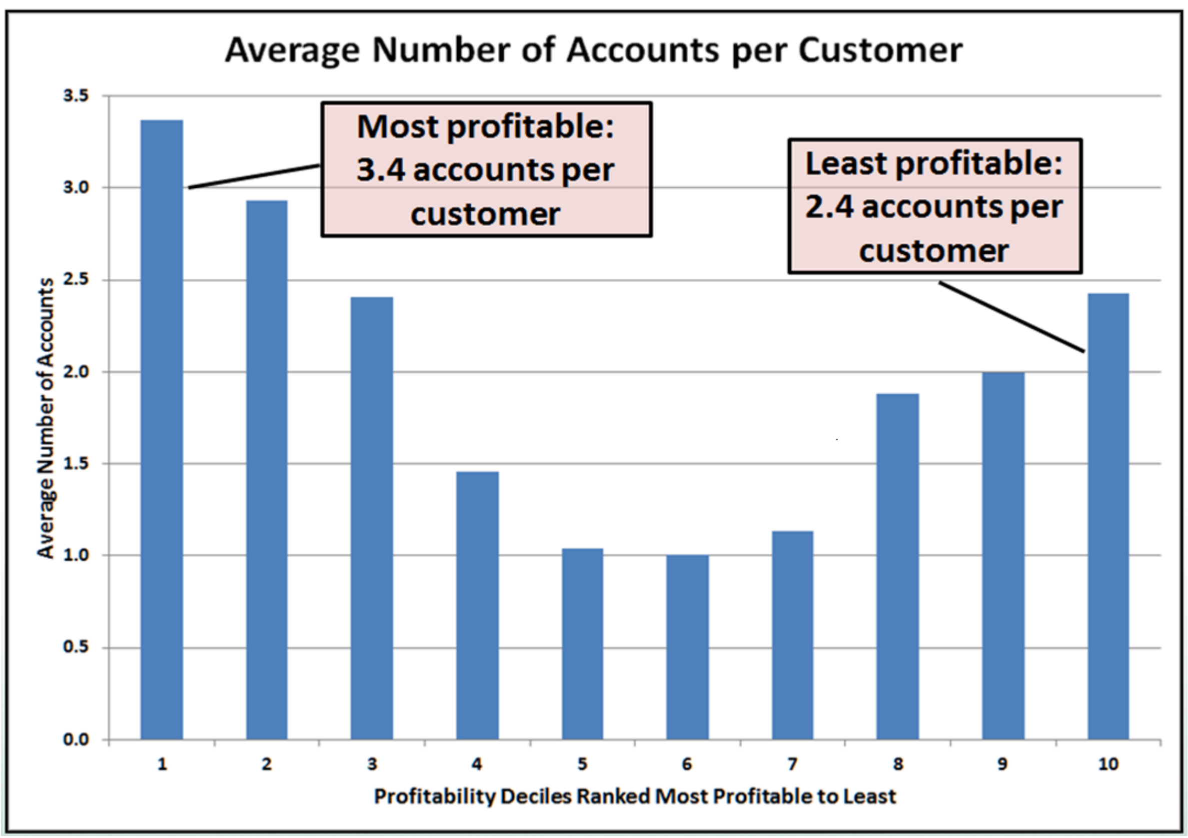
The customer profitability management system at one mid-sized credit union provided a look at the Banking Industry's Rule of Thumb that the more financial products (accounts) owned by a customer the more profitable is that customer. See Alta Via's blog Banking Industry Myths, Part 1.

In the prior blog we showed that only one-third of the credit union's customers were profitable and two-thirds were either break-even or unprofitable. Unfortunately, this is not unusual. Most Banks and Credit Unions display the same unfortunate phenomenon.

The above analysis and conclusion is based on the overall profitability of each customer, regardless of the number of accounts, or products, the customer owns. For example, one customer may have a checking account, savings account, car loan, and mortgage, for a total of 4 accounts. Another customer may have a checking account and certificate of deposit (CD), for a total of 2 accounts.

Could the above observation that only one-third of the institution's customers are profitable be driven by the banker's Rule of Thumb? That is, does the one-third of customers that are profitable have multiple accounts per customer, whereas the two-thirds of customers that are break-even or unprofitable have only one or two accounts per customer?

To answer that question, let's chart the average number of accounts held by each customer across the 10 customer profitability deciles used in the prior blog, Part 1, where each decile contains 5,562 customers:



Although dealing with averages, the above chart tells us that the customers in the most profitable decile tend to have 3.4 accounts each, whereas the customers in the most unprofitable decile tend to have 2.4 accounts each, not a huge difference. Interestingly, customers that tend to have only one account are in the least unprofitable deciles, but from there selling more accounts to an existing customer may decrease, rather than increase, that customer's profitability.

The old banker's Rule of Thumb that cross-selling more financial products (accounts) to an existing customer will increase profitability is a myth. The number of financial products (accounts) a customer owns is not a reliable indicator of a customer's potential profitability.