

Increasing Income While Managing Risk

Building strong customer relationships improves customer retention ... and benefits the bottom line

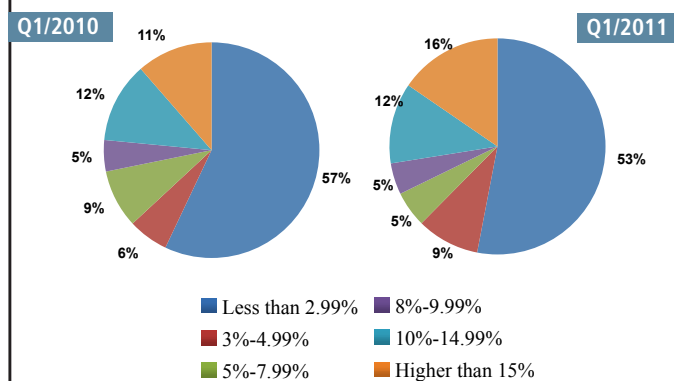
SCENARIO Community banks and credit unions walk a fine line when it comes to declaring “increased income” as a business objective for their overdraft privilege programs, especially in today’s environment of increasing consumer protectionism. Yet improving profitability is an ongoing goal for both small and large financial institutions, and increasing income can often seem like a fast-track measure of success. Clients ask Pinnacle Financial Strategies how to increase their non-interest income while managing the financial risks and, equally important, the reputation risks, such as those associated with higher charge-offs.

THE PINNACLE PERSPECTIVE While Pinnacle certainly has a number of products that can help clients increase income, we begin with a fundamental approach to business that takes a more considered view of our clients’ financial success, and that is trust.

Our experience with more than 1,000 banks and credit unions nationwide has proven that customer retention strategies have a direct impact on income. And we’ve witnessed time and again how income can increase when a financial institution earns the trust of its customers and members.

(continued)

Charge-Offs Hold Steady Year After Year — More than 50% of Clients at Less than 3%!



Source: Pinnacle proprietary data. Based on quarterly average of net charge-offs as a percentage of ODP income for all Pinnacle clients in Q1 2010 and Q1 2011.

KEY TAKEAWAY POINTS

Offer a product that generates non-interest income as a customer service enhancement

Pinnacle’s ODP is “consumer-friendly” — a fully-disclosed program that creates loyal customer relationships

Critical success factors and best practice strategies ensure custom programs that satisfy you, your customer and the bank examiner

Pinnacle Overdraft Privilege (ODP) is one example of a product that generates non-interest income for our clients, but is most successful when it is offered as part of a customer service enhancement initiative. Unlike traditional non-disclosed, matrix-modeled programs which can be confusing and unpredictable to consumers, Pinnacle's overdraft privilege program is designed to be "consumer-friendly." As a completely disclosed, fee-based privilege, your customers can rest assured you've always got them covered, and they know exactly what it's going to cost.

During the first phase of the implementation of an overdraft privilege program, the Pinnacle team conducts a management overview to determine the bank's objectives and expectations. We ask, "Is it to offer a service to compete in the market? Match the competition? Beat the competition? Meet a consumer need? Address compliance and regulatory issues?" While it is highly important to understand the bank's goals, Pinnacle's approach is to customize an overdraft privilege program that satisfies the needs of: 1) The Financial Institution; 2) The Customer; and 3) The Bank Examiner.

All overdraft programs do, of course, carry a risk of charge-offs, and the Pinnacle approach to long-term customer retention has a benefit here as well. We work closely with our clients from the beginning to establish limits that optimize risk versus reward. We know that for every customer you write-off, you have to go get another one, so we've developed "critical success factors" and best-practice strategies, along with communications and collection tools that help you recoup and retain those customers before they become write-offs. And finally, the Pinnacle team helps solidify a trusting relationship with yet another audience — examiners — meeting and exceeding their compliance needs on behalf of the consumer.

RESULTS When customers trust your commitment to their best interests, they become increasingly comfortable accepting the benefits of products and services such as overdraft privilege. Because every charge-off is a lost customer, we work just as hard to protect the intangibles of a good customer relationship, including your reputation. In fact, even in these challenging economic times, our clients have maintained impressively low charge-off rates from year to year. (See the accompanying chart.) From enrollment to collections, Pinnacle provides communication and collection tools which, when used properly, help consumers learn money-management skills that pay off in ways that create deeper and richer banking relationships across other products and services — with corresponding impact on increasing revenue and improving the bottom line.

“I am very impressed with Pinnacle’s ongoing support. They monitor our program performance on a regular basis and let us know how we are doing based on our peers. We have implemented their best practice recommendations to maximize our program’s success.”

— Gail Groleau, VP Retail Operations,
Anchor Bank FSB, Madison, WI

“After implementing our own somewhat crude “in-house” program, Pinnacle’s program boosted our fee income above what we had already achieved. The support and training they provided throughout the installation and implementation was incredible.”

— Tom Bayless, COO,
RCB Bank, Claremore, OK

REFERENCES:

- State Bank & Trust, Greenwood, MS
- Lapeer County Bank & Trust, Lapeer, MI
- Chicopee Savings Bank, Chicopee, MA
- Inner Lakes FCU, Westfield, NY
- Delaware State Police FCU, Georgetown, DE
- SF Police FCU, San Francisco, CA