



CASE STUDY: THE BOTTOM-LINE IMPACT OF OFFERING ONLINE FINANCIAL MANAGEMENT

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TABLE OF CONTENTS

Overview	3
Executive Summary	4
Study Methodology	5
Interpreting the Data	5
Online Adoption Rates	6
Key Findings of the Study	8
The Bottom-Line Impact of Online Financial Management	17
Implications	20
About the Author and Swimming Upstream	24

OVERVIEW

Banks and credit unions continually look for new online services to offer to consumers. Historically, many of the touted “killer-applications” for the online channel have not lived up to the hype. Why? Because of low adoption, not-ready-for-prime-time technology, and/or an elusive business model.

One of the newer online services is online financial management – a service that has the potential to buck this trend. Online financial management allows users to: 1) aggregate their financial accounts in one place; 2) have their transactions automatically categorized; 3) establish and monitor a budget; and 4) set financial goals and track their progress.

Up until now it's been unclear whether online financial management's capabilities would resonate enough with users to make them more avid users of their primary financial provider's online banking site. Additionally, no firm has publicly shown the bottom line impact of offering this type of online service.

This white paper describes the findings of a comprehensive analytic study conducted for a top-100 credit union offering FinanceWorks, an online financial management solution by Intuit that is delivered through banks and credit unions. The credit union has over 188,000 members and \$1.2 billion in assets.

The study encompasses users of online banking, bill pay, eBills and online financial management to explore the impact that these services have on channel use, customer retention and relationship depth. Swimming Upstream, an online financial services consulting firm, conducted the study in partnership with Digital Insight, a division of Intuit.

In many ways this white paper is a sequel to the publicized online channel studies that have been conducted by Bank of America and SunTrust.¹ In these two studies, the firms set out to discover if online bill payers and eBill viewers added incremental bottom line benefits. Along that vein, this white paper will focus on the bottom line benefits derived from online financial management users.

WHAT IS ONLINE FINANCIAL MANAGEMENT?

Online financial management gives consumers the ability to utilize the online channel to efficiently manage their money and achieve financial goals, all in one place. Users of the service can:

- **Aggregate** account information for a complete financial picture; and
- **Actualize** the information through automated budgeting, expense categorization and planning tools to make informed decisions about spending and saving.



EXECUTIVE SUMMARY

Key findings detailed in this report highlight the following insights:

Over time, online members grow their relationship with the credit union more than offline members do. The 24-month time-series analysis shows the causality between the use of the online channel and growth in the credit union's member relationship. These findings replicate what has been reported from big banks such as Bank of America and SunTrust Banks.

Online financial management users are more active online.

FinanceWorks users log in to online banking twice as often as online members not using the service. Online bankers using FinanceWorks log in 18 times per month while online bankers not using the service log in 9 times.

The use of FinanceWorks demonstrates a positive correlation with higher retention rates.

Combining its online and offline members, the credit union has an annual retention rate of 79%. Credit union members using FinanceWorks have a 98% retention rate compared to 94% for online members not using the service.

FinanceWorks users have a deeper relationship with the credit union, compared to non-users of the service. FinanceWorks users own a weighted average of 3.7 accounts with the credit union.² In comparison, offline members own 3.1 accounts and online members not using FinanceWorks own 3.4 accounts.

**STUDY
METHODOLOGY**

The purpose of the study was to analyze the credit union’s member data to answer three key questions:

1. Will a credit union find the same type of bottom-line benefits from online users that the big banks have reported?
2. Will members using online financial management be more avid users of the site?
3. Are there positive correlations between the use of online financial management and higher retention rates and deeper member relationships?

To analyze the data, 10 user segments were created and compared (Figure 1):

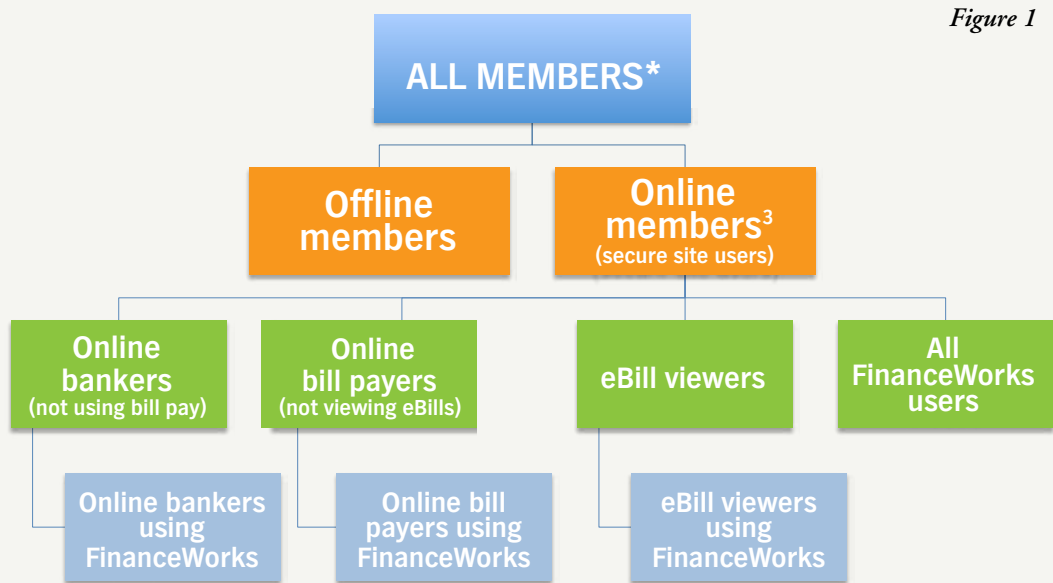


Figure 1

* All members: Those with an open checking account.

**INTERPRETING
THE DATA**

The credit union data in this case study include both a point-in-time view of its members and a time-series analysis conducted over a 24-month period.

Point-in-time data provide correlations:

- **Correlation:** the degree to which two or more measurements on the same group of elements show a tendency to vary together.
- Example: Higher retention rates are positively correlated to use of online financial management.

A time-series analysis can help prove causality:

- **Causality:** the relationship between cause and effect.
- Example: Over time, members who use online banking grow their number of deposit accounts higher than offline members.

**ONLINE
ADOPTION
RATES**

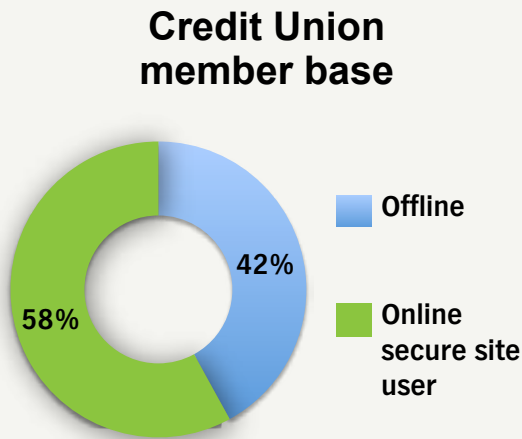
The credit union detailed in this study has strong online banking adoption, with 58% of its members actively using the service (Figure 2-1).

Thirty-eight percent of its active online bankers also use bill pay. The firm launched FinanceWorks on June 1, 2009. When this study was conducted 4 months later, the credit union already had 11% of its online members using the service. This adoption rate was achieved without a big marketing effort, showing that there was pent-up demand for the service.

The highest adoption of FinanceWorks users was found among eBill users: 33% use the service. In comparison, 7% of online bankers use FinanceWorks and 17% of bill payers use the service.

Figure 2-1

ONLINE ADOPTION RATES



Base = All members with an open checking account.

Adoption Rates	
Online bankers who use bill pay	38%
Online bill payers who view eBills	12%
Online bankers who use FinanceWorks	7%
Online bill payers who use FinanceWorks	17%
eBill viewers who use FinanceWorks	33%
Total FinanceWorks users	11%

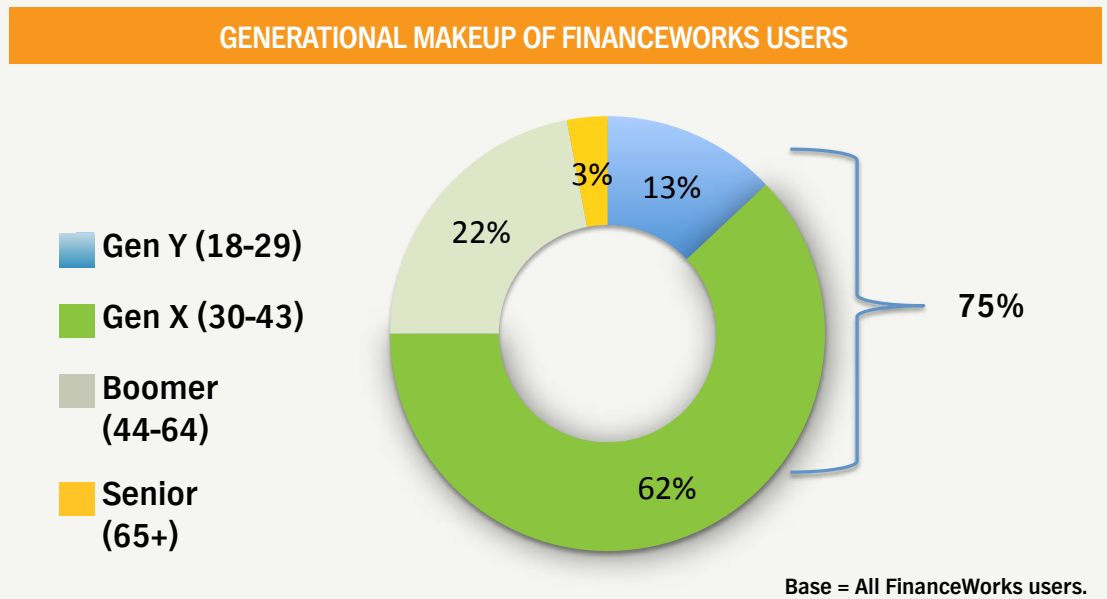
Four months after launching FinanceWorks, 11% of the credit union's online members were using the service. The highest use of the service comes from eBill viewers: 33% use FinanceWorks.

**ONLINE
ADOPTION
RATES**

Gen Y and Gen X members make up 75% of FinanceWorks users.

The credit union's members between the ages of 18 and 43 fueled the adoption of FinanceWorks. These Gen Y and Gen X members make up 75% of FinanceWorks users (Figure 2-2). The high percentage of Gen X FinanceWorks users is attributed to the fact that the credit union's member base is over-represented in that age group, while under-represented in Gen Y members.

Figure 2-2



Six in 10 FinanceWorks users are Gen Xers. Seniors are the generation least likely to use the service.



KEY FINDINGS OF THE STUDY

The data provided by the credit union were analyzed to uncover potential bottom line benefits that are attributable to the online channel and, in particular, to the use of its online financial management solution, FinanceWorks.

The information contained in this section highlights key findings from a 24-month time-series analysis comparing offline and online members to discern the causality factors that contribute to a positive bottom-line benefit derived from online channel users. Data analysis was also performed on point-in-time data from the credit union to identify the positive correlations attributable to FinanceWorks users that would provide incremental bottom-line benefits. The areas of focus in the analysis include: frequency of use of the online channel, retention rates, account ownership and account balances.

KEY FINDING #1: Similar to previous studies from Bank of America and SunTrust Banks, the credit union’s time-series analysis demonstrated the causality between use of the online channel and growth in the number of accounts members owned, and the balances of their credit accounts.

The age-old question for online financial services has always been:

- Do customers become more profitable *after* they’ve start using the online channel?
- Or, are online customers *already* more profitable before they start using the online channel?

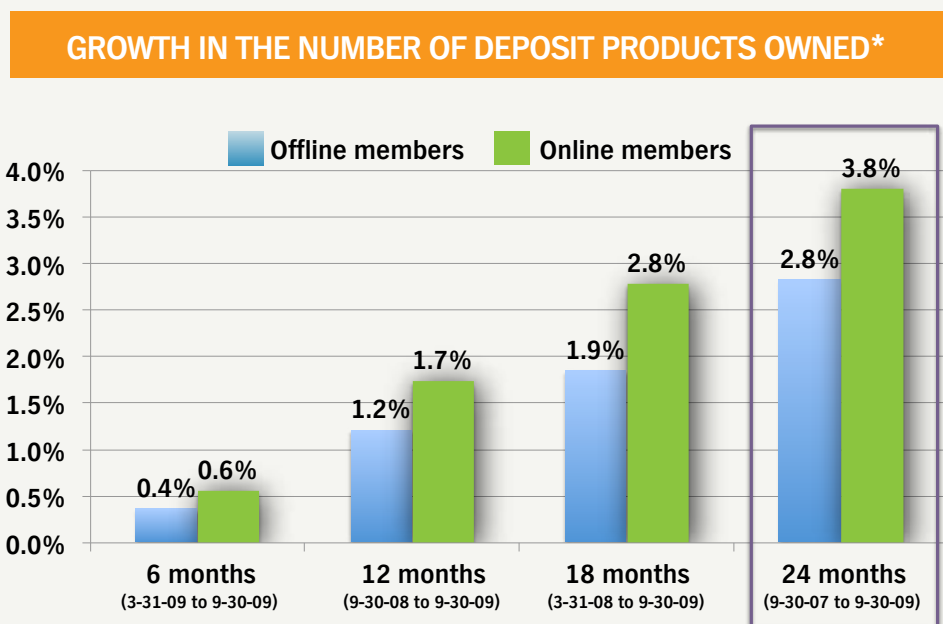
By conducting a time-series analysis and analyzing member behavior over a 24-month period, the study was able to answer that question. To conduct the time-series analysis, the credit union’s offline and active online members were segmented as of September 30, 2007. The number of accounts and the associated balances were compared for both groups after 6, 12, 18 and 24 months.

The time-series analysis demonstrates that, compared to offline members, the credit union’s online members have higher account ownership growth. Additionally, online members grow their credit account balances higher than the offline segment. So, for this credit union the question has been answered – members who adopt the online channel subsequently become more profitable by increasing the number of accounts they own and the balances in their credit accounts. The following figures demonstrate this point.

NUMBER OF DEPOSIT ACCOUNTS OWNED: In each of the four time frames analyzed, the number of deposit accounts owned by online members increased more than the offline member segment (Figure 3-1).

Over the entire 24-month period, online members grew their number of deposit accounts by 36% more than offline members during the same time period.

Figure 3-1



Base: All members with an open checking account. *Products include: checking, savings, CD, IRA and money market.

KEY FINDING #1 DEPOSIT ACCOUNT BALANCES: As for the balances of the deposit accounts over the 24-month period, the offline member segment had a 39% higher growth compared to online members (Figure 3-2).

CONT'D:

It is important to note that 55% of the credit union's offline member base is made up of Boomers and Seniors who are more likely to hold higher balances in their deposit accounts compared to younger consumers. Conversely, Gen Y/Xers make up 66% of the credit union's online channel users. This group is not far enough along in their financial lives to have accumulated substantial deposit balances (Figure 3-3). However, online Gen Y/X members hold higher deposit balances than do offline Gen Y/X members.

Figure 3-2

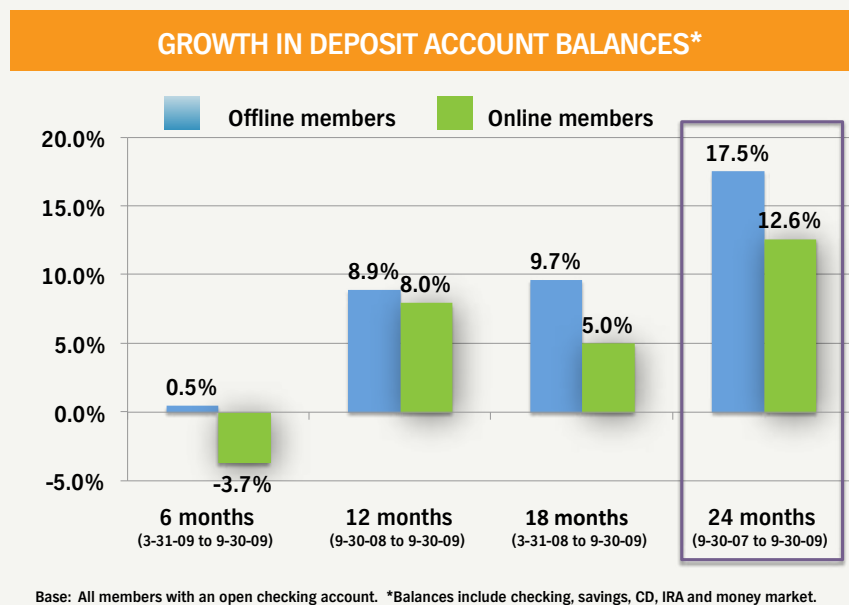
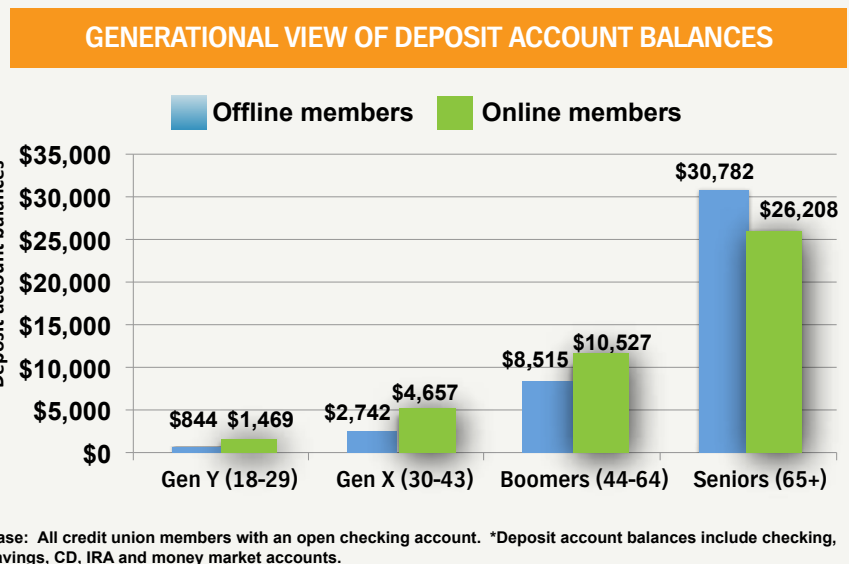


Figure 3-3

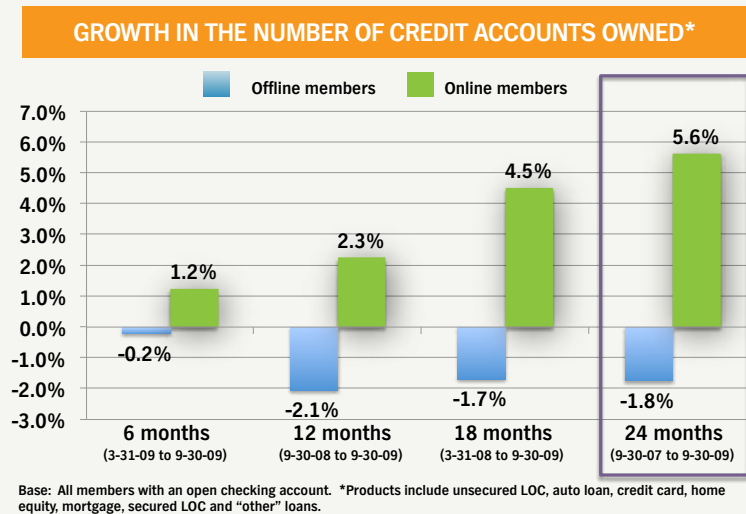


KEY FINDING #1 **NUMBER OF CREDIT ACCOUNTS OWNED:** In each of the four time frames analyzed, the number of credit accounts owned by online members increased more than the offline member segment.

CONT'D:

Over the entire 24-month period, online members grew the number of credit accounts owned by 6%, while offline members decreased their credit account ownership by 2% during the same time period (Figure 3-4).

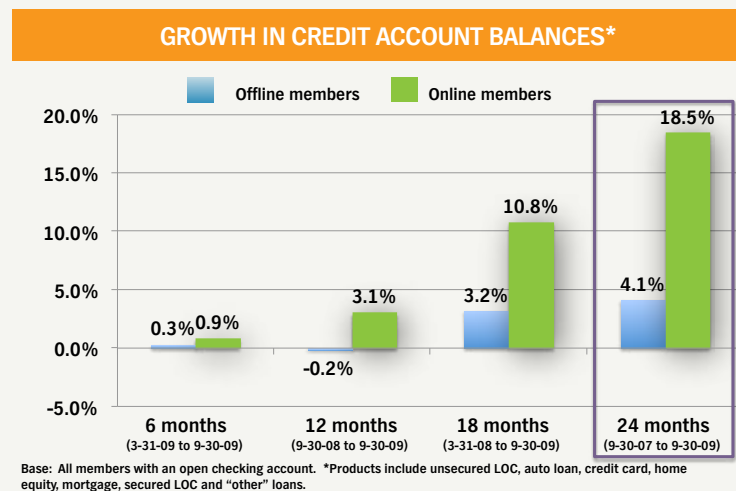
Figure 3-4



CREDIT ACCOUNT BALANCES: As for the balances of the credit accounts over the 24-month period, the online member segment grew their credit account balances 4.5 times higher than offline members during the same time period (Figure 3-5).

Similar to what was seen in deposit balances, credit balances have much to do with where consumers are in their financial lives. Since two-thirds of the credit union's online users are either Gen Y or Gen X, we would expect these younger consumers to be at the stage in their lives where they are heavier users of credit compared to the older, offline customer base who has had the time to pay down debt and is more focused on saving for retirement and accumulating wealth.

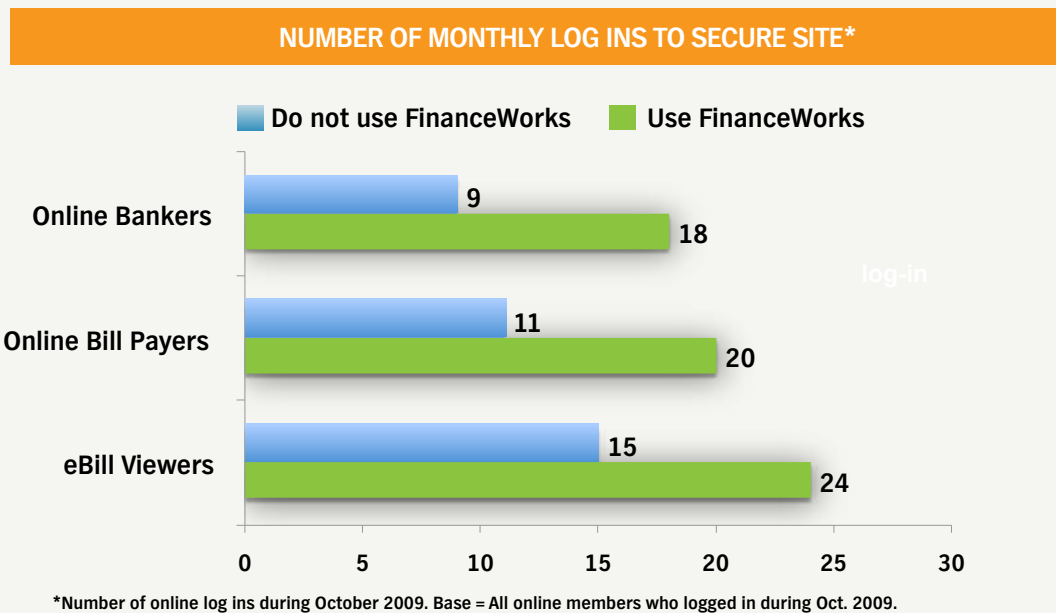
Figure 3-5



KEY FINDING #2: FinanceWorks users are more avid users of the online site.

The study found that when comparing online members who use FinanceWorks against those who do not, the credit union's members who utilize the service conduct significantly more online sessions each month (Figure 4). Online bankers using FinanceWorks log in 18 times per month, double the rate of online bankers who do not use the service. The more online sessions a user conducts, the more opportunity a bank or credit union has to: 1) cross-sell an additional product; and 2) lower the cost to serve by persuading users to serve themselves online.

Figure 4

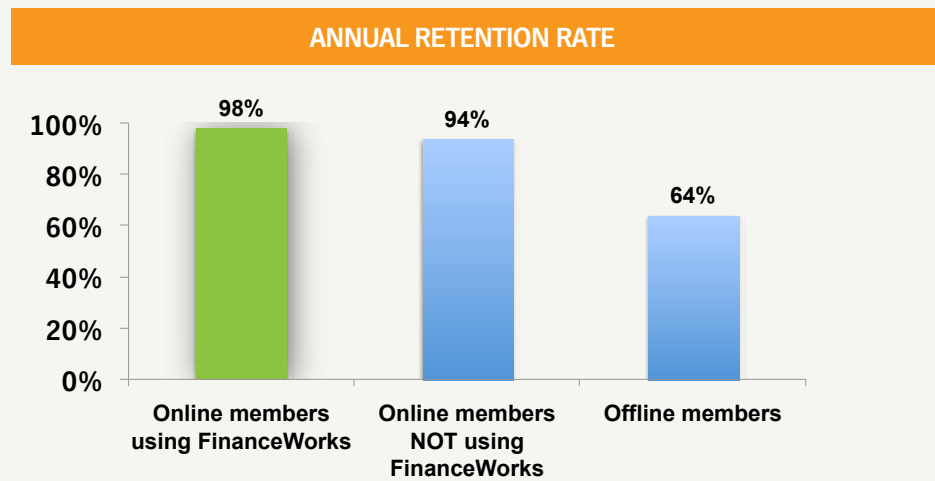


Online bankers using FinanceWorks log in twice as often as non-FinanceWorks users. The benefit of more online sessions? The credit union has more cross-sell opportunities and additional chances to highlight self-service capabilities.

KEY FINDING #3: Higher retention rates are positively correlated with the use of FinanceWorks.

To perform the analysis to calculate retention rates, all credit union members with an open checking account as of September 30, 2008, were identified. This group was then compared to members with an open checking account 12 months later, September 30, 2009. FinanceWorks users have a 98% retention rate, a rate that is 53% higher than offline members and 4% higher than online members not using FinanceWorks (Figure 5-1).

Figure 5-1

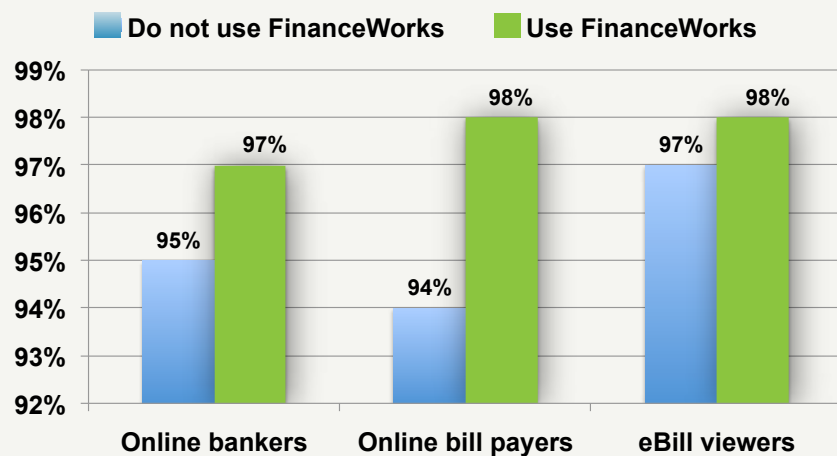


Base: All members with an open checking account.

Additionally, in each of the individual segments analyzed (online bankers, bill payers and eBill viewers) retention is higher for those who use FinanceWorks (Figure 5-2). For example, online bill payers not using FinanceWorks have a retention rate of 94% while online bill payers using the service have a retention rate of 98%, an improvement of 4%.

Figure 5-2

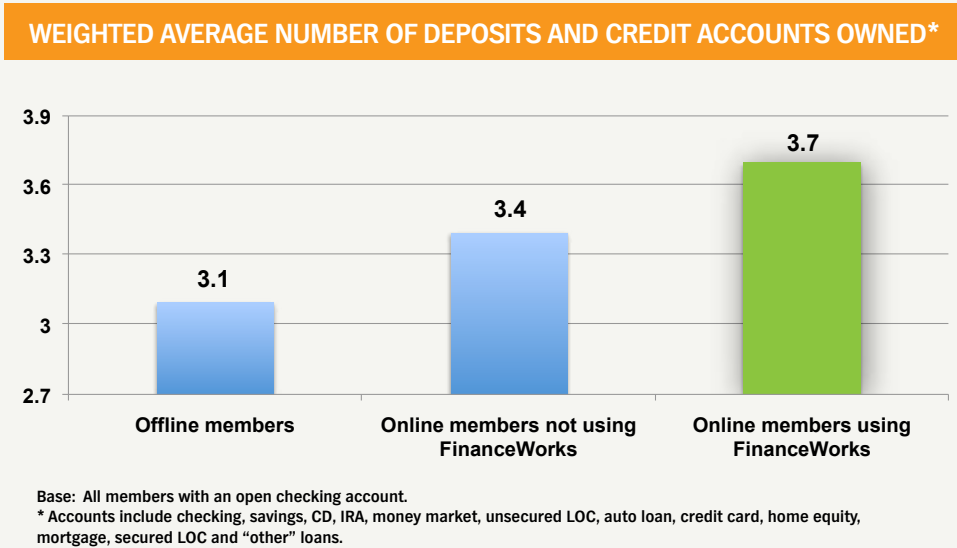
THE USE OF FINANCEWORKS CORRELATES TO HIGHER RETENTION RATES FOR ALL TYPES OF ONLINE USERS



KEY FINDING #4: FinanceWorks users have a deeper relationship with the credit union.

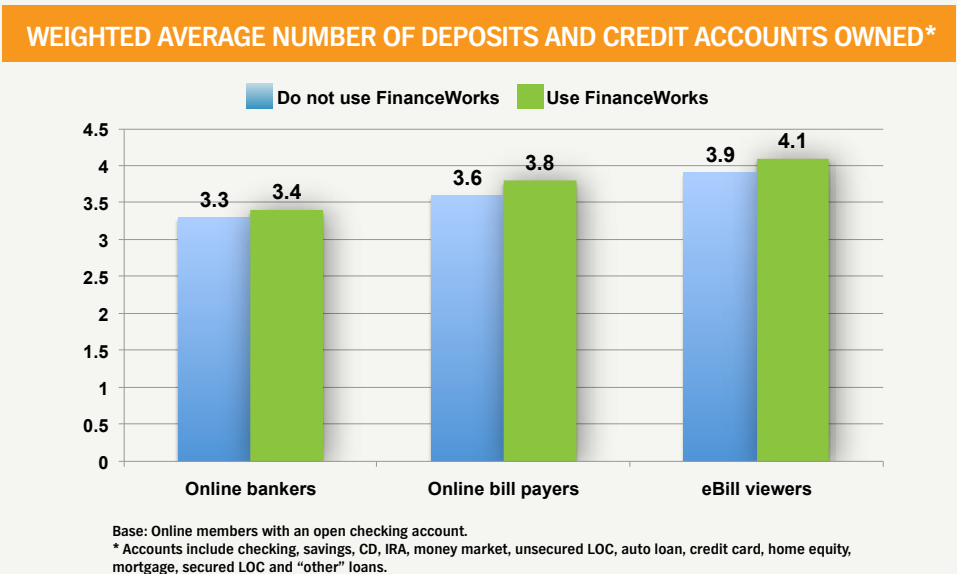
The study uncovered a positive correlation between the use of FinanceWorks and the number of deposit and credit accounts owned by the credit union’s members. Members using FinanceWorks own 9% more accounts than those not using FinanceWorks (Figure 6-1). Compared to offline members, FinanceWorks users have 19% more accounts.

Figure 6-1



The study also analyzed if the higher product ownership among FinanceWorks held true, regardless of the online services that members use. The assessment of the number of accounts owned by online bankers, bill payers and eBill viewers showed that members using FinanceWorks own more accounts than online members not using the service (Figure 6-2). For example, online bill payers who use FinanceWorks own 6% more accounts compared to online bill payers who do not use the service.

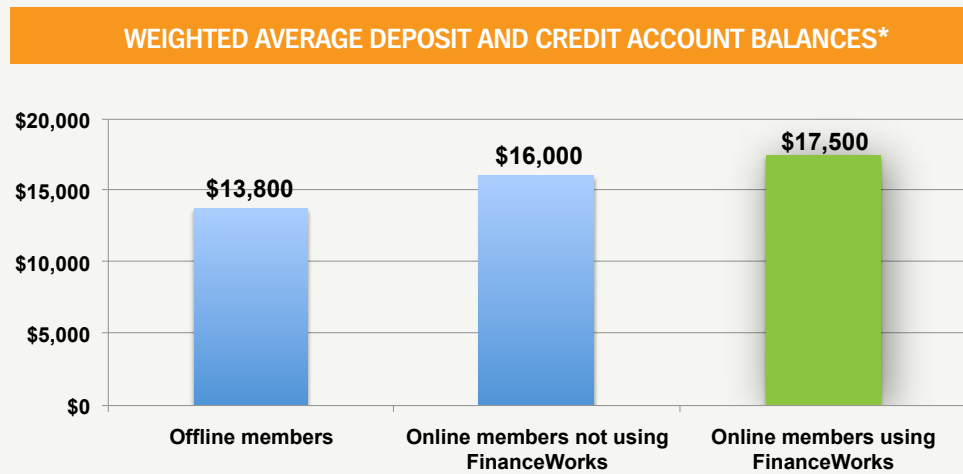
Figure 6-2



KEY FINDING #5: FinanceWorks users hold higher account balances.

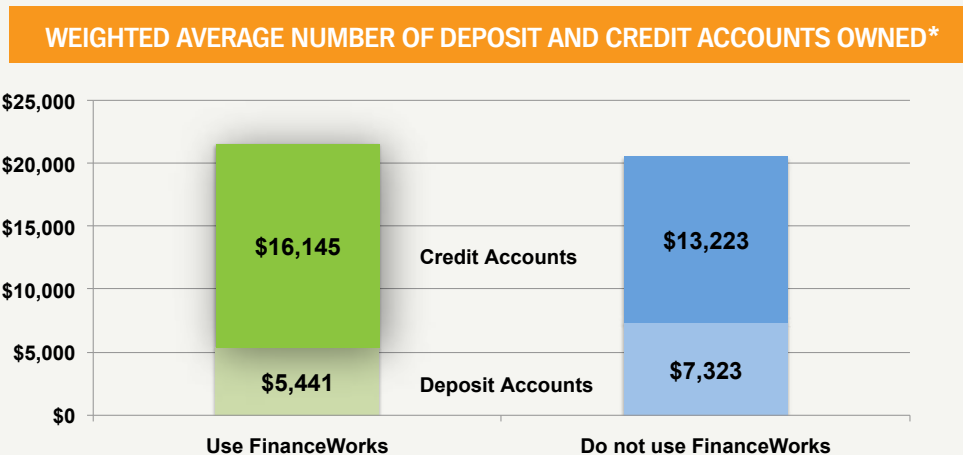
The total weighted average balance for deposit and credit accounts was \$17,500 for FinanceWorks users, 9% higher than online members not using the service (Figure 7-1). Additionally, the balances for FinanceWorks users were 27% higher than offline member balances.

Figure 7-1



Digging deeper into balances uncovered that credit account balances were higher for FinanceWorks users but not for deposit account balances (Figure 7-2). The lower deposit account balances are the result of the relatively young age of FinanceWorks users and where they are in their financial lives. Gen Y/Xers make up 75% of the credit union's FinanceWorks users. These younger members are not far enough along in their financial lives to have had the time to accumulate deposit and investment balances in contrast to the credit union's older Boomer and Senior members.

Figure 7-2

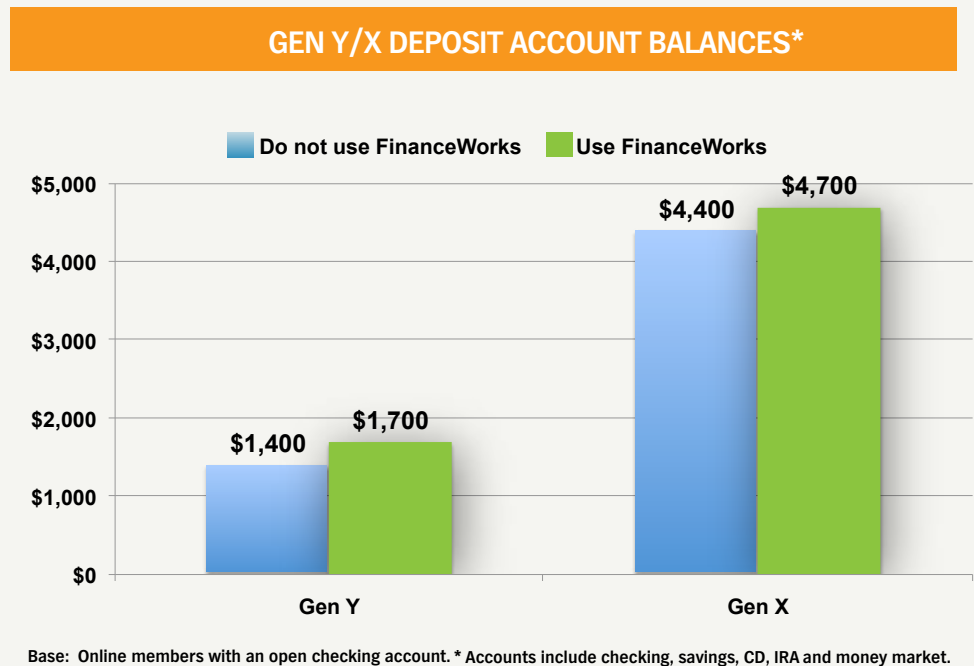


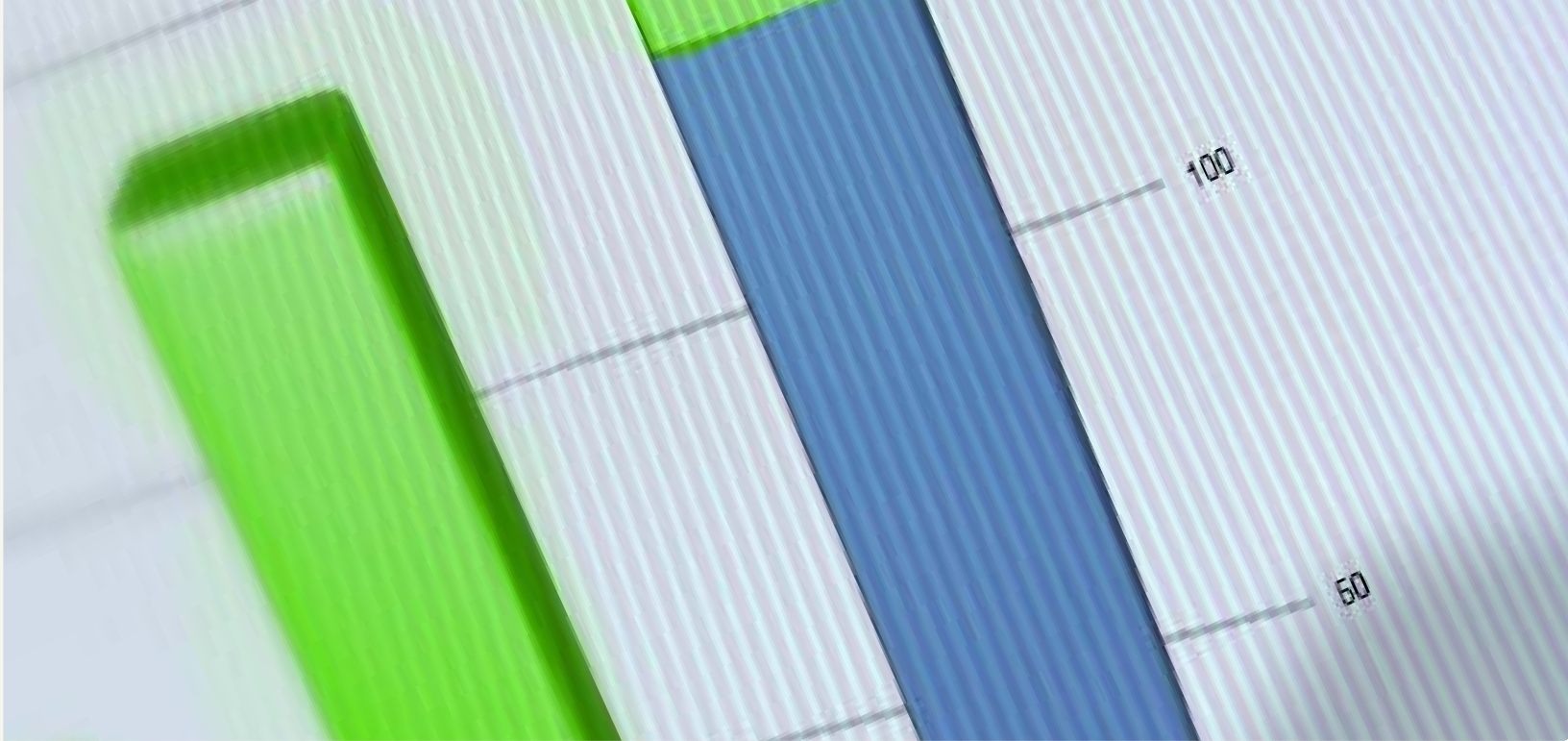
Base: Online members with an open checking account.

* Accounts include checking, savings, CD, IRA, money market, unsecured LOC, auto loan, credit card, home equity, mortgage, secured LOC and "other" loans.

KEY FINDING #5 Even though the credit union's Gen Y and Gen X members have lower deposit balances than Boomer and Senior members, when comparing deposit balances between the younger generations' *online* users the study found that the use of FinanceWorks was positively correlated to higher deposit balances (Figure 7-3). Among Gen Y members, those using FinanceWorks hold 19% higher deposit balances compared to non-users.

Figure 7-3





THE BOTTOM-LINE IMPACT OF ONLINE FINANCIAL MANAGEMENT

The data from this study provide multiple, positive correlations between the use of FinanceWorks and member behavior that has a positive impact on profitability.

The analysis conducted on the credit union's point-in-time data shows strong correlations between the use of FinanceWorks and higher retention rates. Deeper relationships with the credit union were also positively correlated with FinanceWorks usage in terms of the numbers of accounts owned and the balances on those accounts.

The challenge for many firms who conduct online channel studies is how to use the data to calculate the bottom-line benefits derived from the channel. Many firms also struggle with being able to isolate the bottom-line impact of new online services to determine if the new service has added *incremental* benefits – or not. To calculate the overall and incremental bottom-line benefits attributable to FinanceWorks users, it is critical to analyze both product profitability and the impact of attrition. The following figures detail the bottom-line benefits attributable to FinanceWorks users.

**THE BOTTOM
LINE IMPACT OF
ONLINE FINANCIAL
MANAGEMENT**

FinanceWorks users deliver higher product profitability versus non-users.

The study's data on attrition and product ownership was used to determine the annual net product profit for credit union members. The calculation assumes an annual product profit proxy of \$100 per account owned (Figure 8-1).⁴ For example, FinanceWorks users own 3.7 accounts at the credit union, resulting in a baseline annual product profit for each user of \$370. The impact of the annual attrition of 2% was then netted out and left FinanceWorks users with an annual net product profit of \$363 per year. Online members not using FinanceWorks had an annual net product profit of \$323, 12% lower than FinanceWorks users. Due to offline members owning fewer accounts and having a higher attrition rate, the annual net product profit for this group was \$198, 45% lower than members using FinanceWorks.

Figure 8-1

CALCULATING THE NET ANNUAL PRODUCT PROFIT PER MEMBER GROUP			
	Online members using FinanceWorks	Online members <i>not</i> using FinanceWorks	Offline members
Attrition rate ⁵	2%	5%	36%
Product profit proxy	\$100	\$100	\$100
Number of accounts owned ⁶	3.7	3.4	3.1
Baseline annual product profit per member ⁷	\$370	\$340	\$310
Less attrition impact on product profit ⁸	(\$7)	(\$17)	(\$112)
Average product profit per member (net of attrition impact) ⁹	\$363	\$323	\$198
Per member net product profit difference for those <i>not</i> using FinanceWorks		(12%)	(45%)

**THE BOTTOM
LINE IMPACT OF
ONLINE FINANCIAL
MANAGEMENT**

FinanceWorks users generate over \$2 million annually in net-product profit.

At the time of this study, the credit union had 11% of its members using FinanceWorks. These 5,726 FinanceWorks users deliver \$2.1 million to the bottom line in annual product profit, net of the attrition impact (Figure 8-2). To understand if FinanceWorks delivers bottom-line benefits *incremental* to other online services used by members, the analysis compared the average net product profit (annual net product profit) for FinanceWorks users versus members who use the credit union's online site but do not yet use FinanceWorks. The credit union's incremental benefit attributable to FinanceWorks is \$40 per member, for a total incremental bottom-line benefit of \$229,040 for its 5,726 FinanceWorks users.

Figure 8-2

CALCULATING THE OVERALL AND INCREMENTAL BOTTOM-LINE BENEFITS OF FINANCEWORKS	
	Online members using FinanceWorks
Number of members	5,726
Average product profit per member (net of attrition impact)	\$36
Total annual product profit (net of attrition) attributable to FinanceWorks users	\$2,078,538
Variance in net product profit from members using FinanceWorks ¹⁰	\$40
Incremental annual product profit (net of attrition) attributable to FinanceWorks users ¹¹	\$229,040



IMPLICATIONS

Unlike previously touted “killer apps”, Online Financial Management is not a fad.

Over 10 million consumers already use the service, either at their financial firm or through an online provider like Mint or Geezo.¹² These study results prove that today’s online financial management users add incremental value to the bottom line through increased retention rates, higher account ownership and higher balances.

But these are tough times for most banks and credit unions and, as a result, online channel managers are faced with reduced budgets and limited resources devoted to the Web. This leaves financial firms with a critical decision in regards to offering online financial management – do they?

Play defense: hunker down, sit on the sidelines, and wait until the situation improves before launching the service. If so, they risk:

- Losing Gen Y/Xers who leave for a competitor offering the service; and
- Missing the opportunity to acquire new Gen Y members with a compelling new online service.

Play offense: seize the market opportunities, pre-empt the competition and meet members’ needs by launching online financial management. Firms that do go on offense will reap the rewards as:

- Consumers who engage with online financial management stay with their provider and deepen their relationship; and
- The offering gives banks and credit unions the ability to attract new Gen Y members.

IMPLICATIONS Online Financial Management correlates to higher profitability.

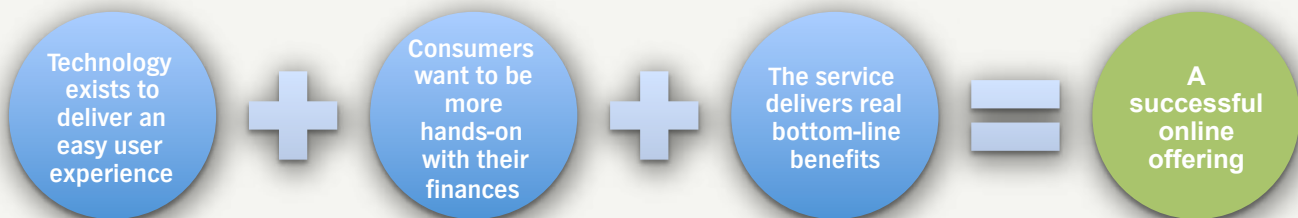
It should be noted that the data presented in this white paper are based on one credit union's experience with FinanceWorks. While the order of magnitude of some bottom-line benefits of online financial management may differ from firm to firm, it's important to note that this credit union's results were similar to the seven other firms that took part in the same online channel study. The results of this case study show a positive correlation between the use of FinanceWorks, higher retention rates and deeper member relationships.

Online Financial Management is poised for success.

The economic upheaval in the U.S. economy over the last 18 months has had a dramatic effect on how consumers handle their finances. Consumers who were previously hands-off in managing their day-to-day finances now want to have more control over their money. Ideally, consumers want online services to help them manage their finances with a service that's integrated into the online banking service they already use. Online financial management offered by banks and credit unions fills that need.

Online financial management, while in the early stages of adoption, already has over 10 million users of the service. This new online service has seen faster adoption than previous online offerings such as aggregation, mobile banking and eBills. Why has this happened? Think back to early days of aggregation: Consumers didn't flock to the service because they didn't see the benefit of aggregating their financial accounts in one place. In the early 90s the adoption rate on eBills was dismal because the available technology delivered a hard-to-use, unintegrated user experience. After several incarnations of mobile banking over the last decade, adoption rates remain low and a definitive business case has yet to emerge.

But unlike the early days of these other services, online financial management has all the ingredients for success:





**IMPLICATIONS
CONT'D**

Smart financial firms will launch Online Financial Management in 2010.

In this tough economic climate, banks and credit unions are challenged with online channel budget and resource constraints. That makes the *correct* prioritization of new online services even more critical. Based on the findings in this white paper, firms can build a solid business case for launching online financial management. Smart financial firms will implement this service in 2010. Besides meeting consumers' needs to better manage their finances, online financial management gives firms the opportunity to attract younger consumers to supplement and replace the aging Boomer and Senior portion of their base. By offering online financial management, banks and credit unions can lock-in the loyalty of Gen Y and X consumers now – and grow the relationship as these consumers move through their financial life.

FOOTNOTES:

- 1 In 2002, Bank of America announced the findings of a control group study that the firm conducted to determine the incremental value of online bill payers. The 2.5-year time-series study concluded that online bill payers grew their profitability 31% higher than the control group that did not use online bill pay. In 2008, SunTrust Banks released the findings from its study to quantify the profitability impact of eBill usage. The study concluded that avid eBill users (those viewing 3+ eBills per month) had a 5-year NPV that was more than twice that of its average customer.
- 2 The account types included in the number of products owned, and the balances on those accounts, are: checking, savings, CD, IRA, money market, unsecured line of credit, auto loan, credit card, home equity loan, mortgage, secured line of credit and “other” loans”.
- 3 Only “active” online users are included in this study. To be classified as an online banker, bill payer, eBill viewer or FinanceWorks users a member must have used the service in the past 90 days.
- 4 Some banks and credit unions assign an annual “product profit proxy” for the bottom-line return for individual product types as a simple means of determining customer profitability and establishing sales incentive programs. Typically, there is a wide range in the profit proxy. For example, a free checking account might be assigned a product profit proxy of \$75 while a \$75,000 home equity line of credit could have a product profit proxy of \$475. For purposes of simplicity in this study, we used a conservative product profit proxy of \$100, regardless of the type of product.
- 5 Attrition rates for the credit union are based on a 12-month time frame covering September 30, 2008, through September 30, 2009.
- 6 The types of accounts included in the number of accounts owned are: checking, savings, CD, IRA, money market, unsecured line of credit, auto loans, credit card, home equity, mortgage, secured line of credit and other types of consumer loans.
- 7 To calculate the baseline annual product profit per member, the product profit proxy of \$100 is multiplied against the number of products owned by each segment.
- 8 To factor in the impact attrition has on the annual product profit, the attrition rate is multiplied against the baseline annual product profit per member.
- 9 To calculate the average product profit per member, net of the attrition impact, the dollar amount of the attrition impact is subtracted from the baseline annual product profit per member.
- 10 The variance in net product profit is calculated by subtracting the net product profit per online member (\$323) from that of FinanceWorks users (\$363).
- 11 To calculate the incremental annual product profit (net of attrition), the variance in net product profit is multiplied against the number of FinanceWorks users.
- 12 Source: Compete/Intuit - March 2010. Estimates show that of the 10 million online financial management users, 6 million use the service at their bank or credit union while 4 million use a non-financial site like Mint, Wesabe or Geezeo.



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THE AUTHOR

Cathy Graeber, Founder of Swimming Upstream, consults in the financial services industry with a focus on the online and mobile channels, payments and self-service. Cathy is also a sought after speaker for both in-person speeches and Webinars. Prior to founding Swimming Upstream in 2008, Cathy was a Vice President and Principal Analyst with Forrester Research for 8 years. Before Forrester, Cathy spent 20 years in retail banking. Most recently, she was a Senior Vice President in charge of the Consumer Internet Division for Wells Fargo Bank. Prior to that, as a Senior Vice President at Bank of America, Cathy led the firm's Internet Banking Division.

SWIMMING UPSTREAM

Swimming Upstream provides both strategic consulting and tactical advice to financial services firms and technology providers. Areas of focus include the online channel, payments and mobile banking. In addition to consulting services and speaking engagements, Swimming Upstream partners to provide custom quantitative and qualitative research for clients.