Consumer Lending Cross-Sell and Product Bundling

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In today’s lending environment, cross-sell has become a way of life for most consumer lenders. Moving from a silo-product mentality to a consultative selling approach to help the customer with a variety of needs has resulted in a proliferation of cross-sell initiatives. While cross-sell efforts appear widespread, many bankers and lenders are not effectively executing, which results in low cross-sell ratios.

A recent JD Powers survey confirmed that satisfied customers are more likely to use their lender for deposit accounts, other lending needs, insurance, and financial advice. The study showed that 46% of home equity line and loan customers have a deposit account with their lender. According to Jeremy Bowler, senior director at J.D. Power and Associates, “On average, customers utilize an additional 1.57 products or services from their home-equity lender, and the number increases substantially among lenders with satisfied customers. With this in mind, cross-selling products can be extremely beneficial for lending institutions that have been successful in satisfying their customers.”

See figure 1 for comparison of additional products sold by performance levels.

A wide variety of industry research shows that customers with multiple products are less likely to attrite. As a result, many firms are working to introduce programs that will increase the “stickiness” factor of the relationship. Recently, Wells Fargo launched a program providing up to .50% off the rate of a home equity line or loan for customers with a Wells Fargo checking account. Bank of America is sending out “customer reward” coupons that allow a .50% discount off the rate if they open a home equity line of credit.

The benefit of a customer having multiple products seems logical and the “stickiness” factor resonates with business executives; yet the

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question remains on how to determine whether the cross-sell efforts are successful.

Common types of cross-sell strategies include the opening of a deposit account with a loan (and have the payment automatically deducted); a home equity line of credit bundled with a mortgage; or a credit card offer to a new deposit customer. For purposes of this paper, the scope is limited to cases where cross-sell is driving additional consumer lending revenue.

**Portfolio Mining Efforts**

The first place most firms look for cross-sell opportunities is within their existing customer accounts. This includes programs geared for newly booked loans, as well as leveraging the data for the existing customer database. Some of the common methods of marketing to an existing customer with a new cross-sell offer can include a welcome kit, direct mail, Voice Response Unit (VRU) messaging, prompts for branch and call center employees, telemarketing, loan coupon books, and statement inserts.

The targeting of existing customers is a key focus for Wells Fargo who has focused extensive efforts on increasing the number of products per customer. In fact, with some banks there is more focus on leveraging cross-sell into the existing customer base than on acquiring new customers.4

A challenge for lenders who are focused on cross-selling to the existing portfolio may be the ability to blend customer service with sales. The ability to cross-sell may require additional training or technology for the customer-focused staff members. Many service centers are measured on metrics such as “length of call” - staffing is often based on agents handling calls quickly. For lenders focused on cross-sell initiatives, the staffing models and performance metrics may need to be re-evaluated since the representative is focused on listening to customer needs and providing cross-sell recommendations.

At a recent financial services conference, John Stumpf, President and Chief Operating Officer of Wells Fargo, discussed the cross-sell success at Wells Fargo. During his presentation, he noted the percentage of total households that have purchased multiple products – showing that the focus applied by Wells Fargo is generating real results. (see figure 2)

### Wells Fargo Consumer Cross-Sell

<table>
<thead>
<tr>
<th>Cross Sell</th>
<th>2001</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>8 + Products</td>
<td>12%</td>
<td>17%</td>
</tr>
<tr>
<td>5 + Products</td>
<td>34%</td>
<td>42%</td>
</tr>
</tbody>
</table>

*Source: Lehman Brothers 2006 Financial Services Conference, May 17, 2006*  

**Predictive Modeling**

Firms that use predictive modeling based on their proprietary database of customer behavior will generally have higher cross-sell success. This allows the bank to better understand the needs of the customer and make the “right” offer at the “right” time. Firms who are striving for superior cross-sell results will leverage predictive modeling and then input results of each cross-sell initiative back into the predictive model to increase future success rates.

**Direct Marketing Efforts**

Customers who already have a relationship with a lender are often more willing to consider an offer. Examples of portfolio mining efforts may be a credit card mailing to a group of mortgage customers or customizing a pre-approved direct mail campaign to focus on existing banking customers. Filters can exclude customers who the lender would like to omit from the mailing such as those who have been delinquent in the past 12 months or private banking clients. Often mailings to an existing customer base will combine the familiar branding of the existing account with a “special exclusive offer” for current customers. Some lenders may even time the mailing to precede the monthly statement mailings by 1 or 2 days, so the envelope with the familiar logo will be

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received at a time when mail is expected from the bank and, thus, is more likely to be opened by the customer.

**Point of Sale Efforts**

While the ability to leverage an existing customer database is exciting, capturing customer interest at the point-of-sale is also a major component of cross-sell strategy. Providing the customer with an incentive to select additional products while also providing appropriate employee incentives are keys to the success of a cross-sell program. Other factors include a streamlined process and the use of automation to simplify the process.

**Alignment of Process**

Designing a process that makes sense for the customer, the employee, and the lender is critical. For a home equity sold with a mortgage, the customer does not want to attend a separate, second closing; and the lender would not want to incur the incremental fees associated with that second closing. The key is to design a process where the products being cross-sold can be seamlessly integrated into the process.

**Automation**

Technology can often be used to help make a good process better. For example many bankers offer optional products that can be sold at the point of sale. It should be as easy as point and click, with the ability to seamlessly transfer information and even integrate into the product underwriting, if necessary. The key is a simple process for the customer and employee that drive additional value for both the customer and the bank. By having an automated solution, lenders can also generate tracking and reporting of cross-sell success. This is critical for examining results versus projections and to identify lower performing regions or branches.

Automation also helps avoid the re-keying process that happens so often in banks when systems are not integrated. By having an automated solution, the bank is more efficient – and the data accuracy is higher. While automation is generally adding value, it is important that banks not allow existing automation to become a barrier. At one top-ten bank, a cross-sell program for selling home equity lines of credit to first mortgage borrowers with available equity was experiencing low results. The root cause was a bank risk executive that insisted on using the bank’s internal home equity custom score card, which required manual data input and duplicative processes for cross-selling a home equity loan to a mortgage applicant. Ultimately, the bank was able to determine a FICO-equivalent for their custom home equity scorecard and leveraged the data already in the mortgage application for streamlined underwriting and approval of the home equity product. The result was significantly higher cross-sell rates, as well as higher employee and customer satisfaction.

**Alignment of Incentive**

The structure of the employee incentive for cross-sell will have an impact on results. Balance is important between an incentive based solely on individual product merits versus a more holistic approach based on the incremental value the cross-sold product brings to the relationship. For example, when a deposit account is cross-sold a home equity loan, the incentive may well be based on the profitability of the home equity loan and/or the increased profitability of the deposit account (i.e. higher balances and increased retention).

While there is significant profitability for cross-sold products, how the money is divided can be an issue. For example, savings are provided to the customer in the form of discounts or waived fees. Additionally, the lender retains some profits to generate an acceptable return on investment. As a result, the amount remaining for employee incentives may be negatively impacted.

Another complicating factor is that lending products may require more work for the same incentive because of the pull-through rates for lending products. Most lenders pay employees on applications booked versus applications taken. Based on the 2005 BenchMark Home Equity Study, an average book-to-look ratio of 57% requires an employee to generate about 2 applications for each booked loan.
While the incentive should be commensurate with the added value to the lender, one also must recognize the competing products that are generally compensated on an application basis versus a booked loan pull-through basis. While the answer is generally not to pay on applications because of potential degradation of credit quality and lower book-to-look ratios, a balance must be struck.

Finally, incentives can include thresholds that require a minimum level of participation. This can assist in focusing efforts appropriately, particularly when the actual amount of the incentive may be less on the cross-sold product than the primary product (i.e. home equity cross-sold to a mortgage applicant). By putting in place realistic required levels of participation, management can drive the appropriate behavior by influencing overall incentive paid out.

Alternative Touch Points

Some lenders use alternative touch points after the application has been taken but before the loan closing. In these cases, a loan processor or loan closer would make the cross-sell offer instead of the loan officer. Often these sales support individuals don’t have the wide variety of incentive opportunities, and may well provide a higher conversion rate for a lower overall incentive amount. The key is designing a process that doesn’t detract from the processing or closing of the initial product.

Lenders using these processes have seen positive results, and this can also avoid the complication of a cross-sell where the additional product is approved, but the primary product is declined (i.e. customer applied for home equity loan that was declined, but cross-sold an unsecured credit card that was approved). It is critical to map out these different scenarios to make sure the customer is not negatively impacted – and the lender is effectively using its available resources.

Best Practices

In considering cross-sell initiatives, the somewhat obvious criteria often overlooked for success are adding value for the customer, incremental bank profitability, product bundling, and reporting and tracking.

Putting the customer first is a critical component for cross-sell success. A recent Forrester report identified the number one indicator of cross-sell success as customer advocacy. It seems that the customer, more than anything else, is looking for sales or service team members within financial services firms that are focused on meeting or exceeding the customer’s expectations. According to Forester, “to create top-line growth, firms should focus on the components of customer advocacy: simplicity, benevolence, transparency, and trustworthiness.”

Another key best practice is to focus on cross-sell initiatives that generate incremental bank profitability. This approach focuses on driving more revenue and income for the bank versus focusing on an individual product or channel goal. This can be difficult with the various product and channel silos that may exist, but the focus must be on a collaborative approach that zeros-in on the value of the overall relationship.

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While an increased cross-sell ratio seems appealing, this is only valuable when the incremental cross-sell is driving incremental profitability. Tracking and reporting of the cross-sold loans and profitability should be compared against the standard portfolio to identify differences in performance over time – and those findings should be inputs back into the cross-sell strategy.

Product Bundling is being leveraged at many banks to help drive higher customer satisfaction. This is accomplished through combined statements, linking of products, and free services to certain clients. From a front-end sales perspective, product bundling can create an easy-to-understand value proposition for loan officers and other bank personnel to articulate. Every home equity loan receives a 25bp rate discount with auto debit is easy to remember and easy to communicate to prospective clients. With product bundling, the products may still reside on separate systems, but are seamlessly integrated from a customer service viewpoint – so both the bank’s customer service area and the end customer have a holistic view of the relationship.

There are significant results for online banking and online bill payment offerings often common within product bundling. Both Wells Fargo and Bank of America have indicated far lower attrition in customers with online banking and who pay bills online. Specifically, Wells Fargo indicated that customers with online banking are 50% less likely to leave the bank than other customers; and those who use bill pay services are more than 70% less likely to leave. Similarly, Bank of America has found 55% less attrition for online banking customers, and an 80% reduction in attrition for online bill payment customers.6

Cross-sell ratio should be defined, tracked, and reported at all levels of the organization. Because systems may not be fully integrated, interim manual reporting may be created to provide the level of detail needed while more automated reporting solutions are pursued. The level of cross-sell success will typically depend heavily on incentives, so integrating this metric into incentive plans will drive appropriate behavior at all levels.

Pitfalls to Avoid

While best practices have been discussed, there are also some pitfalls to avoid. Many banks, through bumps and bruises, have provided the opportunity to learn from their mistakes. Some mistakes to avoid in the design and deployment of a successful cross-sell program include:

- Jeopardizing the primary client relationship
- Real Estate Settlement Procedures Act (RESPA) violations for all U.S. real-estate transactions (i.e. prohibits payment for referrals)
- Confusing or overwhelming customer with timing of offers
- Privacy issues and opt-out mistakes, particularly when partnering with third-party providers
- The impact of providing lower rates or better terms to customers that already have accounts in bundle
- VRU Messaging may be cumbersome, distracting, and annoying

Summary

Cross-sell can absolutely add value, and many lenders have this as a focus for both new and existing customers. The difference in low performers and high performers is not availability of ideas but successful execution and tracking. Lenders who put cross-sell as a focus, and develop and execute a solid cross-sell plan will see the results of their efforts both immediately and over time.

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