Spark

Key Performance Indicator Trends for the Mutual Sector

Our previous article *Mutual Sector Issues and Trends Relevant To Marketing Strategy*, identified and discussed issues and trends that we deem important when determining marketing strategies.

In this article we take a step further and look at the scale of the changes that have occurred and briefly discuss the relevance of these changes.

We have listed what we believe are important Key Performance Indicators (KPI's) when analysing marketing performance. The data has been compiled over 15 years from the reports presented to Mutuals based on the data held in the Movement Marketing Database. The database was built and developed by Cuscal and Abacus, with all data owned by Individual contributers to the database.

Main marketing KPI changes

	2001	2005	2010	2015
Products held	3.43	3.66	3.94	4.21
Net value	$232	$309	$410	$524
Adjusted for inflation	$232	$267	$303	$369
Margin	4.68	4.12	3.87	2.86
Home Loan	3.8%	4.6%	5.6%	6.3%
Personal Loan	15.6%	11.8%	9.0%	7.2%
Relationship	$10,834	$16,069	$24,834	$36,043
Adjusted for inflation	$10,834	$12,809	$15,846	$18,072
20-24 yr olds	24.6%	21.8%	18.4%	16.2%
65+	7.7%	10.4%	14.2%	18.8%
Trans per member	107	145	197	246
Transacting	67.2%	70.1%	71.6%	71.2%
Branch	31.8%	28.4%	21.6%	14.9%
Electronic (net)	10.2%	21.8%	40.1%	51.4%
Cost per transaction	$0.40	$0.34	$0.20	$0.13
Value of lowest 50%	-3.9%	-0.8%	0.4%	0.2%

Products held

The number of products held per member has risen, but only modestly. Data does show that Mutuals are deepening and strengthening member relationships as they attempt to become a members Main Financial Institution. The definition of product is critical to the value of this KPI. In our new Insights analysis we have developed an engagement score that measures all products and services that can be used to meet a members banking needs. This will include such products as direct entry, debit card and internet banking as these are everyday needs that deepen relationships.

Net value

Members' net value measures the return your organisation makes from each member before overhead costs. This value has been rising strongly at 6.5% p.a or 3.5% real growth annually since 2001. The increasing values indicate that Mutuals are increasing the value of members as they deepen relationships. Issue is that we still have a long way to go as other KPI's will indicate.

Margin

Margin spread has declined strongly due to a combination of increased competition and falling interest rates. This has put pressure on member value as returns per account have fallen. The increase in average value is quite sound given that margin spread has hindered increases in value. Having said this the new competitive environment is not expected to result in any major increase in margins. Mutuals need to work harder and smarter to maintain value per member.

Mortgage Take Up

Mortgages were historically not a part of most Mutuals product mix. After deregulation using mortgages as a way to deepen relationships has been a fundamental strategy.

The data shows that we have increased home loan penetration from 3.8% of 6.6% of members. Put another way, in 2001 around one in nine members with mortgages obtained them for their Mutual whereas it is now around one in five. This has been a strong source of increase relevance and value, but attracting only one in five mortgagees is still a large gap, with a target of one in two being the aim for the sector.

Personal Loan Take Up

The story of personal loans is the opposite of mortgages. Historically a strength, personal loans were the basis of valuable relationships and provided most of the income. Today personal loan numbers have dropped dramatically and there are now more mortgages than personal loans. Put into perspective personal loans now contribute only around 5% of a Mutual's loan book.

Personal loans are being replaced with credit cards and also members using their mortgages to finance personal expenditure.

The decline in personal loans reinforces the importance of targeting mortgagees; and of understanding more deeply loan behaviour as car loans still offer growth opportunities in certain segments.

Relationship

Relationship refers to the average relationship balance of members (both deposits and borrowings). This has grown strongly at over 9% per annum and has been driven largely by increased lending via mortgages. It must be noted however that growth in lending needs to be supported by a similar growth in deposits, if margins are to be maintained. It is the need to increase deposits strongly that also puts pressure on interest margins, as Mutuals now need to attract a greater proportion of a member's savings. This will include a need to increasingly capture investment deposits which are more expensive than transaction account deposits.

Age Profile

Historically Mutuals have attracted a working age demographic. The age profile is changing quickly and is perhaps the greatest concern facing Mutuals.

Members are quite loyal and many have remained for many years. The proportion of members aged over 65 has more than doubled from 7.7% to 18.8%. These members have an increasing bias towards deposits and investments.

Conversely the proportion of members in the 20-34 year old age segment who are primarily borrowers, has fallen from 24.5% to 17.5%.

Our age profile is not supporting borrowings. Additionally, it would appear that Mutuals are not attracting the young demographic to replace the ageing membership.

Transactions

Transaction activity has always been a cornerstone of Mutuals. Interestingly, transaction activity has more than doubled, although the number of transactors has only grown modestly.

Transactions per member have grown due to a growth in the number and complexity of transaction channels. The advent of electronic and digital technology has resulted in members making more transactions of less value. Note that many transactions are now for low value amounts, with a payment to iTunes for a nominal amount being the most common transaction. Understanding the changes in channels and their users is critical to establishing relationships and communicating with members effectively.

It is possible that the part of the decline in members aged 20-34 is due to Mutuals falling behind in delivering effective transaction capabilities and failing to deliver appropriate messages via appropriate channels.

Internet/ Electronic Banking

An example of the changing transactional mix is that of the proportion of members using internet banking. Growth is phenomenal and shows little sign of slowing down.

Over half of all transactions are now electronic and this is expected to grow rapidly.

Conversely proportion of members using a branch in any month has halved from 31.8% t0 14.9%.

Cost of Transactions

Historically transactions were costly, but the decline in face to face and increase in electronic transactions has reduced costs. Whilst transactors were once costly, they can now be viewed as an opportunity from which to develop valuable relationships.

Lowest 50%

The value of the lowest 50% of members has been a KPI set for Mutuals to illustrate the vast amount of potential value foregone in its membership.

A few years ago due to high transaction costs and low fees, this segment actually lost value. Transaction fees has ensured costs have been recovered, but overall this segment still delivers little value.

It is this segment that we believe contains the most easily gained growth opportunities for Mutuals going forward.

In our Insights analysis we focus on re-defining behavioural segments but with a view to increasing the value of the lowest 50% of members based on the profiling of the most valuable member segments.

For more information on Spark's Insights Service, email contact@spark.com.au.