



Member Loyalty Group

# Member Experience & Financial Performance

May 2022

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Jake Foreman  
Chief Program Officer

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# Slide Link

Today's slides can be found online at:

<http://bit.ly/2022-5-4-memberloyalty>

# We Encourage Questions

Use the

## Questions Box

located on the bottom of your screen to type your comments or questions.



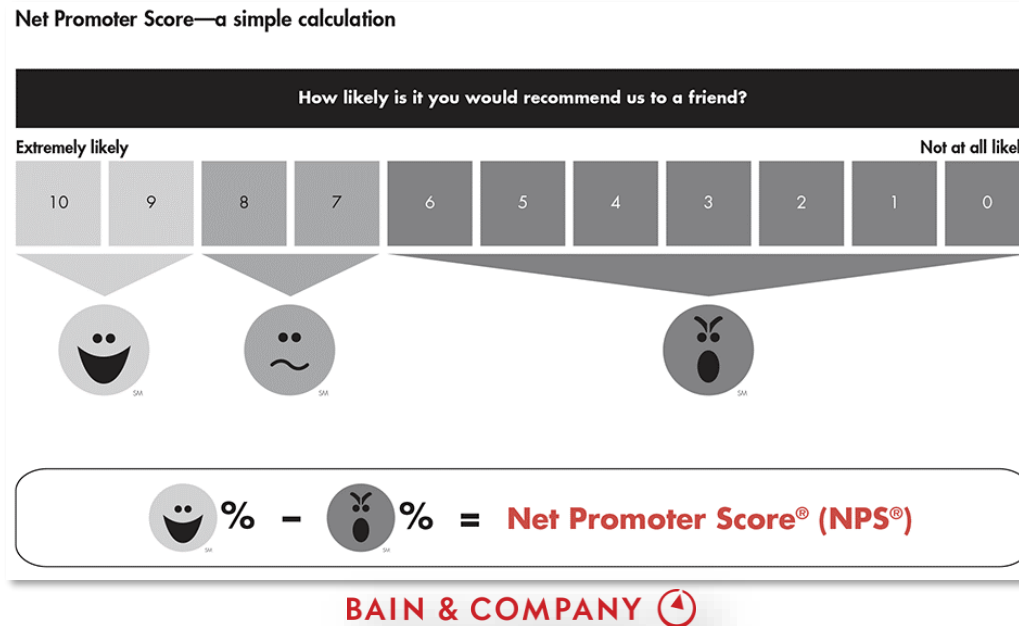
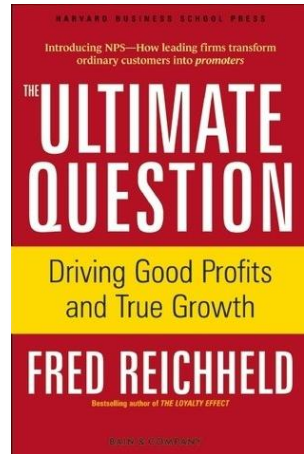
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# Background

## ORIGINS OF NET PROMOTER SCORE



### The One Number You Need to Grow

by Frederick F. Reichheld

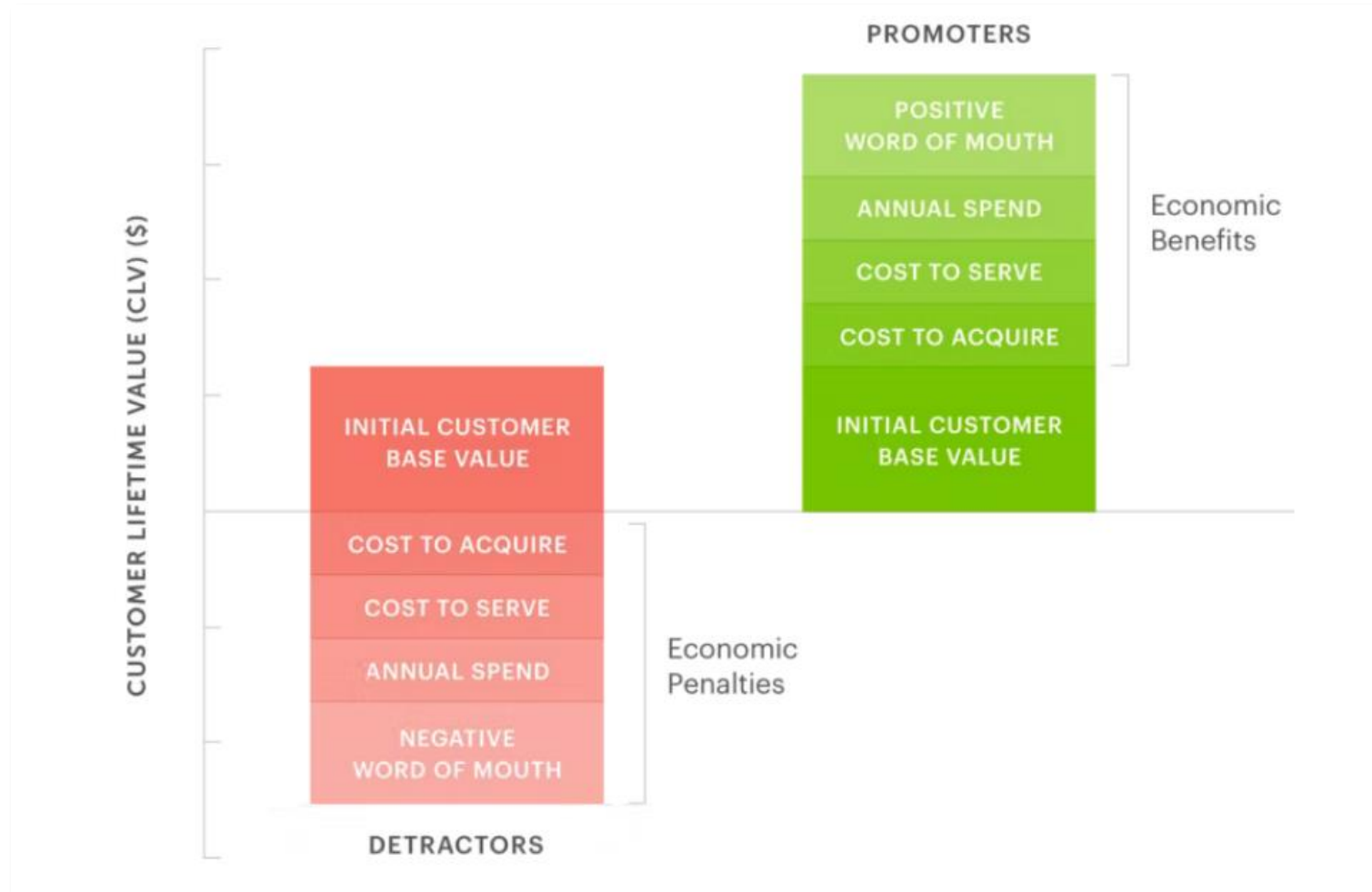
## KEY FINDINGS

- Original research was to find the most effective gauge of loyalty, closely correlating with an organization's growth/profitability.
- In 79% of case studies, likelihood to recommend question best aligned with growth/repeat purchases

# Net Promoter Research



## KEY FINDINGS



*\*<https://www.medallia.com/net-promoter-score/>*



# Member Loyalty Group

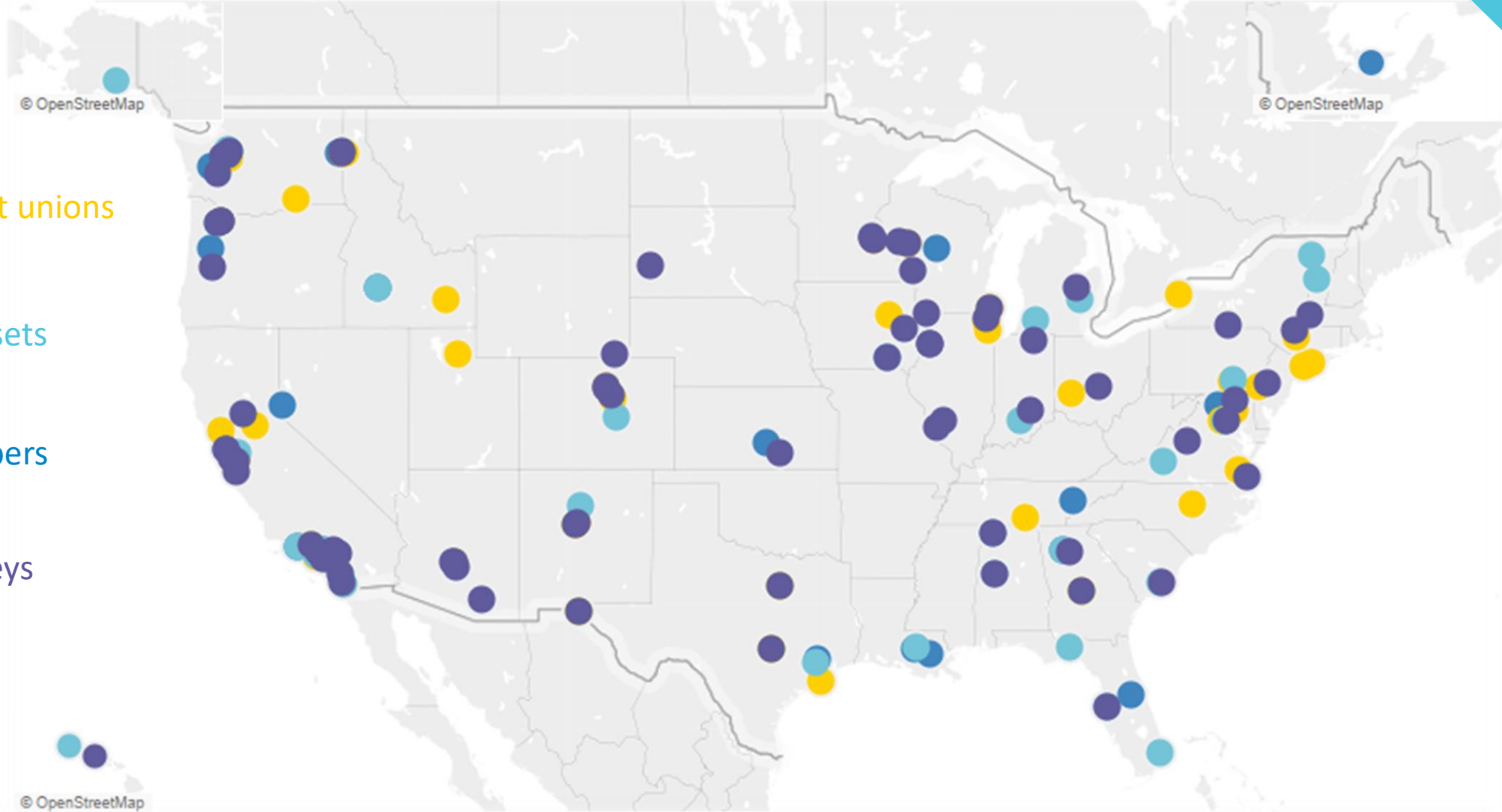


 **160+** credit unions

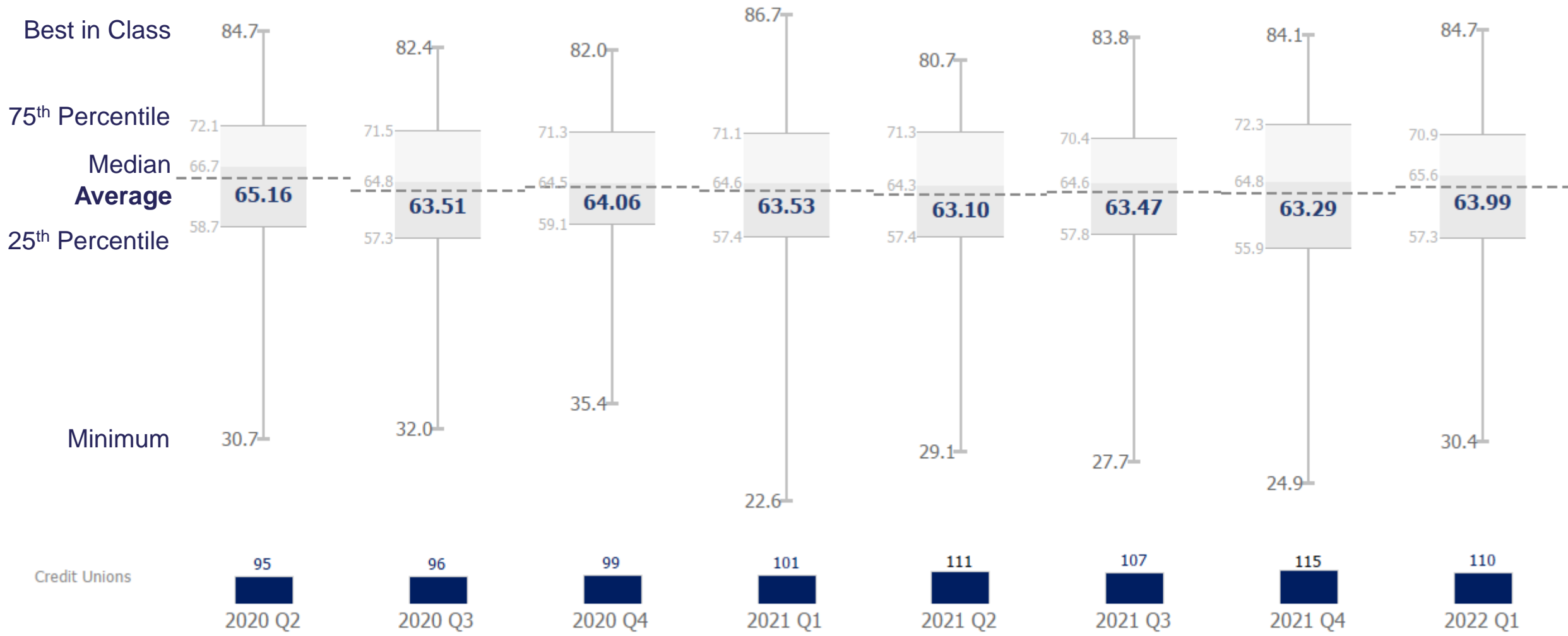
 **\$422B** assets

 **24M** members

 **8.5M** surveys



# Relationship Net Promoter Score Trend



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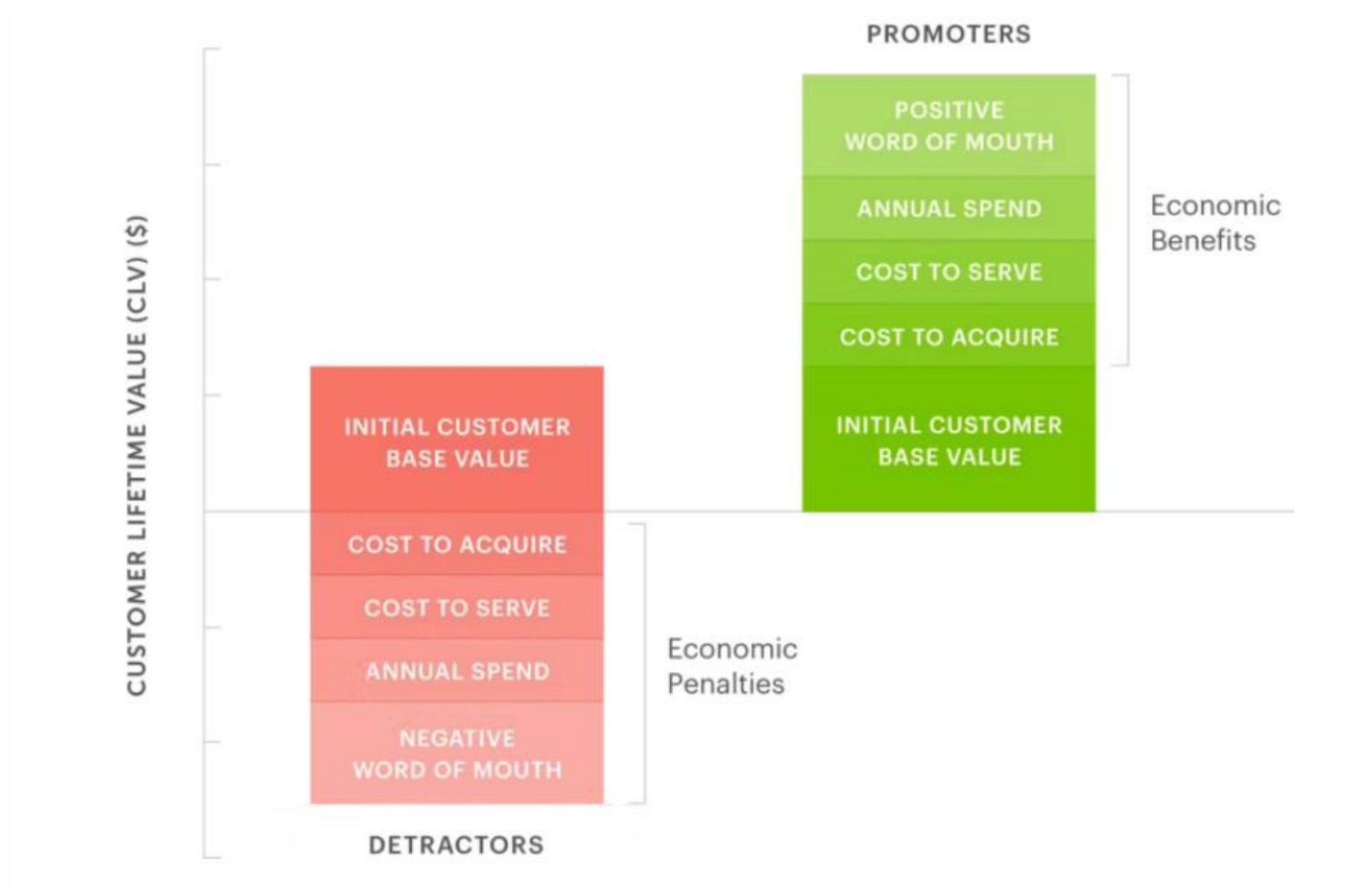
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# Let's validate this



## KEY FINDINGS



*\*<https://www.medallia.com/net-promoter-score/>*



# Analysis Details

- Year-end NCUA 5300 data for all CUs with assets over \$100M (referred to as industry)
- Member Loyalty Group's (MLG) Q4 Relationship Survey benchmarks were comparison basis for loyalty performance
  - Participants were split into thirds – top/mid/lower performers – based on their YE performance
- Wide range of financial metrics were analyzed, including segmenting the data a variety of ways (by assets, # of members, etc.)
  - Only key highlights are included for today's discussion
- **Key question: Is there a connection between loyalty and financial performance?**



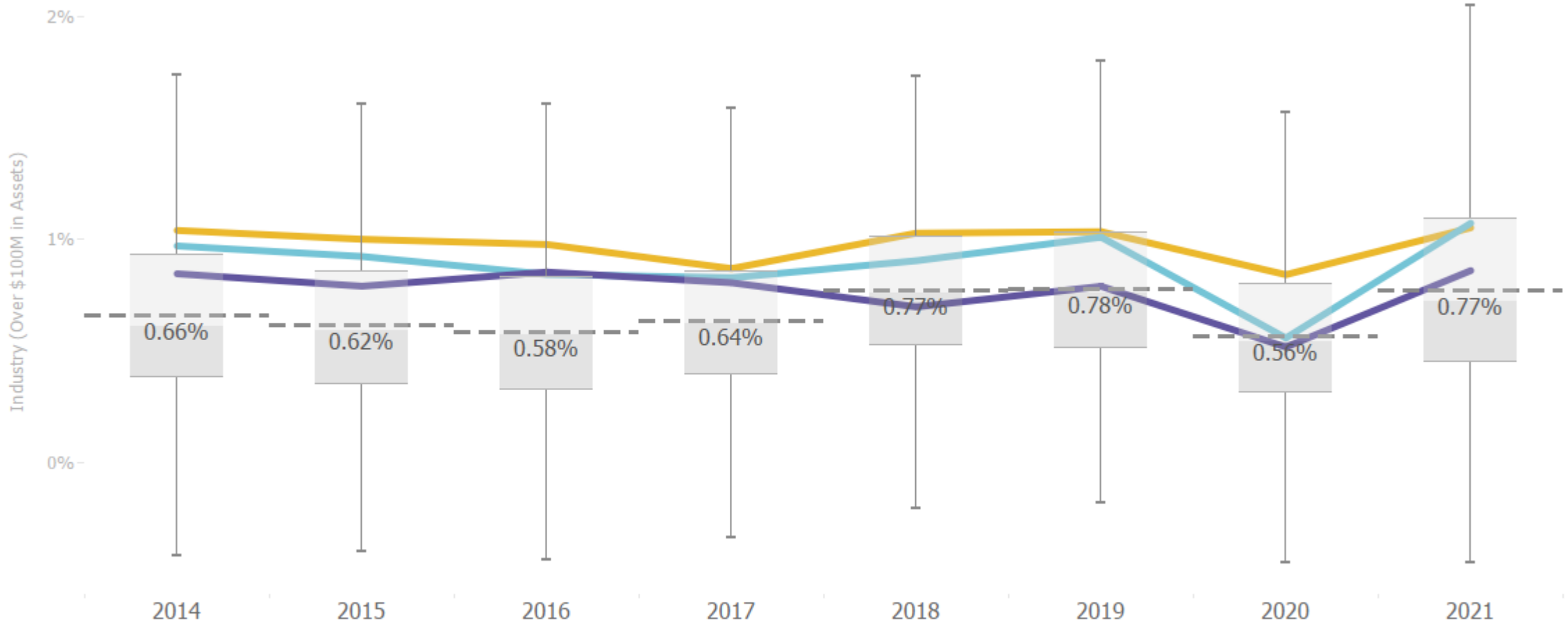
Loyalty Leaders reap the economic benefits that come from a member-centric focus



# Earnings Metrics



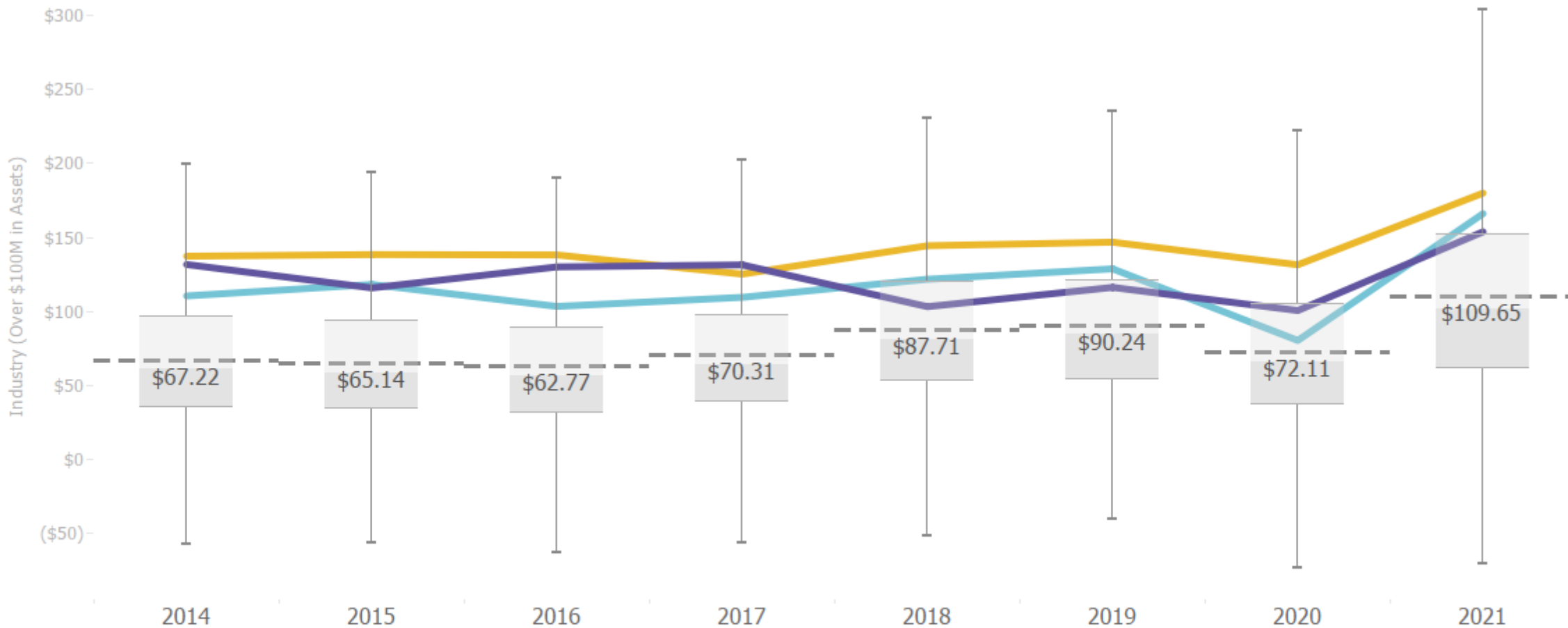
# Loyalty Leaders yield 22% higher ROA than Lower Performers



Top Performer	<b>1.04%</b>	<b>1.00%</b>	<b>0.98%</b>	<b>0.87%</b>	<b>1.03%</b>	<b>1.04%</b>	<b>0.84%</b>	<b>1.05%</b>
Mid Performer	<b>0.97%</b>	<b>0.92%</b>	<b>0.84%</b>	<b>0.83%</b>	<b>0.91%</b>	<b>1.01%</b>	<b>0.56%</b>	<b>1.07%</b>
Lower Performer	<b>0.85%</b>	<b>0.79%</b>	<b>0.85%</b>	<b>0.81%</b>	<b>0.70%</b>	<b>0.79%</b>	<b>0.52%</b>	<b>0.86%</b>



# Loyalty Leaders yield 10% more net income per member, compared to Lower Performers

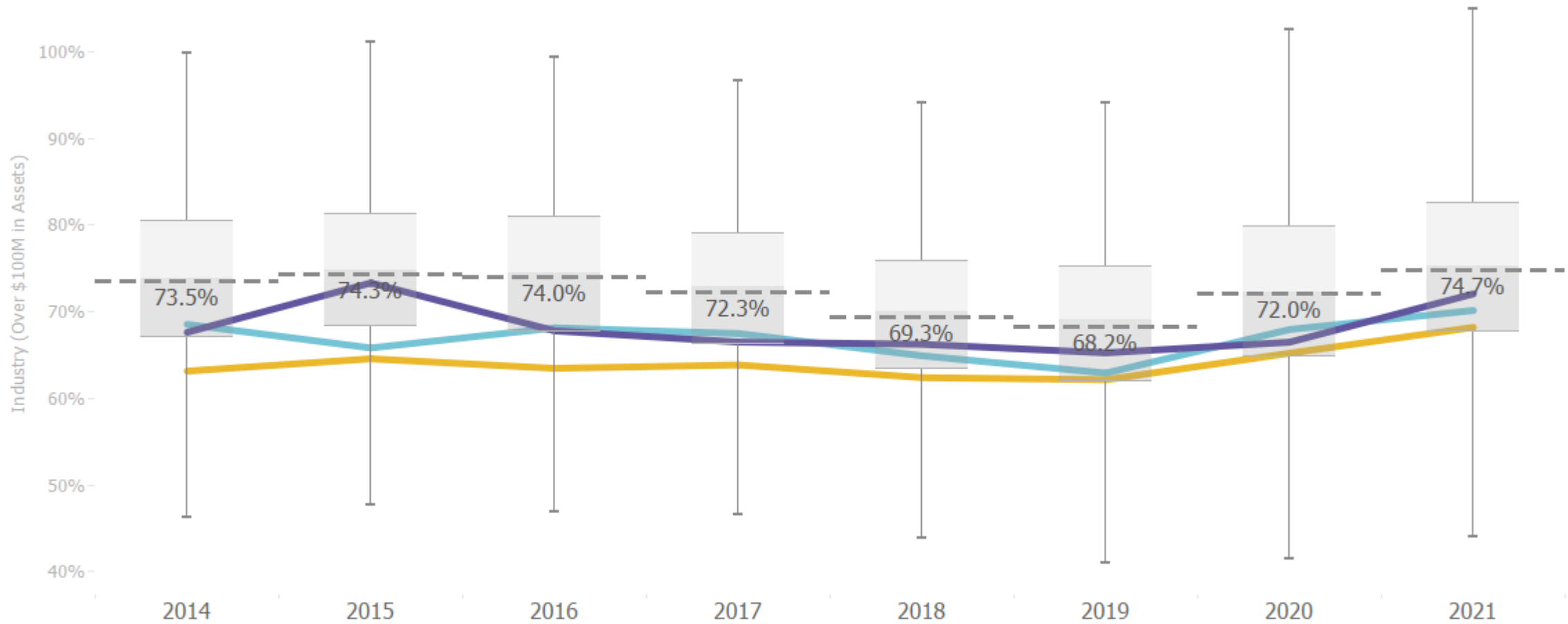


	2014	2015	2016	2017	2018	2019	2020	2021
Top Performer	<b>\$137</b>	<b>\$138</b>	<b>\$138</b>	<b>\$125</b>	<b>\$144</b>	<b>\$147</b>	<b>\$132</b>	<b>\$180</b>
Mid Performer	<b>\$111</b>	<b>\$118</b>	<b>\$103</b>	<b>\$110</b>	<b>\$122</b>	<b>\$129</b>	<b>\$80</b>	<b>\$166</b>
Lower Performer	<b>\$132</b>	<b>\$116</b>	<b>\$130</b>	<b>\$132</b>	<b>\$103</b>	<b>\$116</b>	<b>\$101</b>	<b>\$154</b>



# Loyalty Leaders have a stronger control on operating expenses

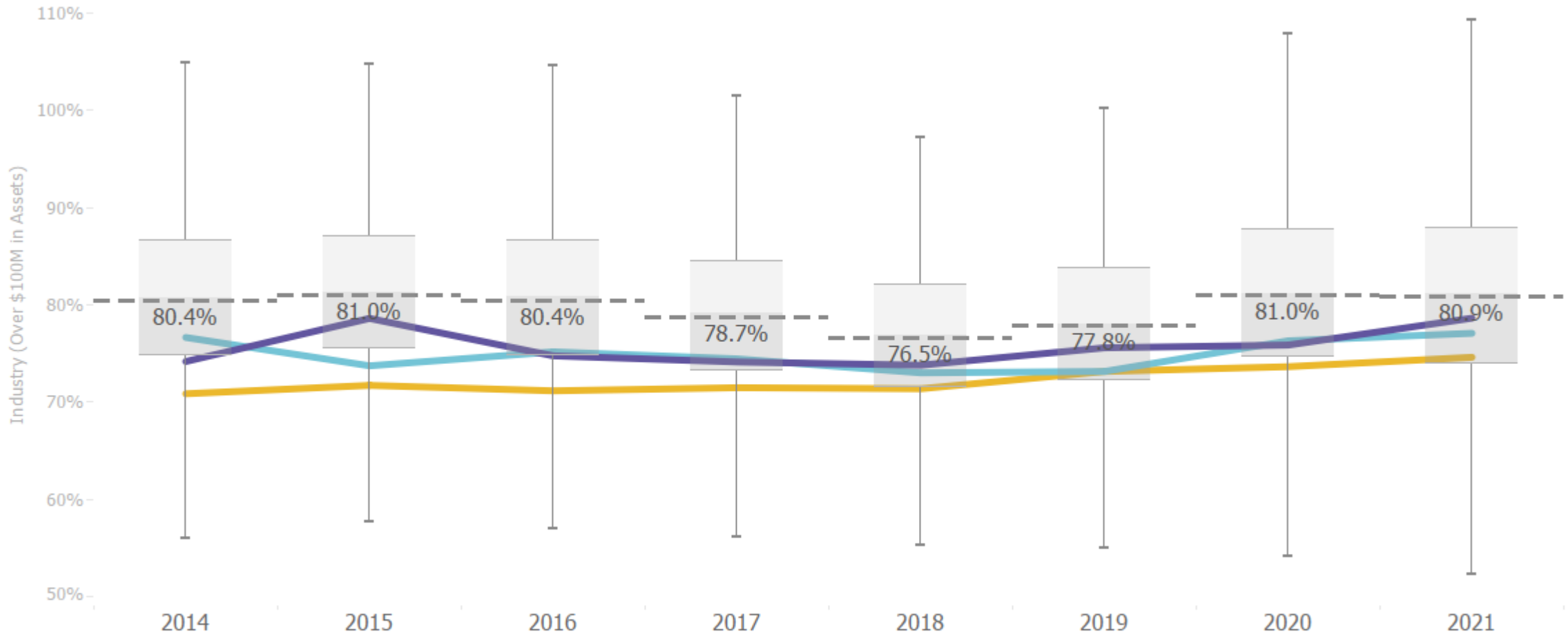
Operating Expense Ratio



Top Performer	63.1%	64.6%	63.5%	63.9%	62.4%	62.1%	65.2%	68.2%
Mid Performer	68.5%	65.8%	68.1%	67.5%	64.9%	62.9%	67.9%	70.1%
Lower Performer	67.6%	73.3%	67.8%	66.5%	66.2%	65.2%	66.5%	72.1%



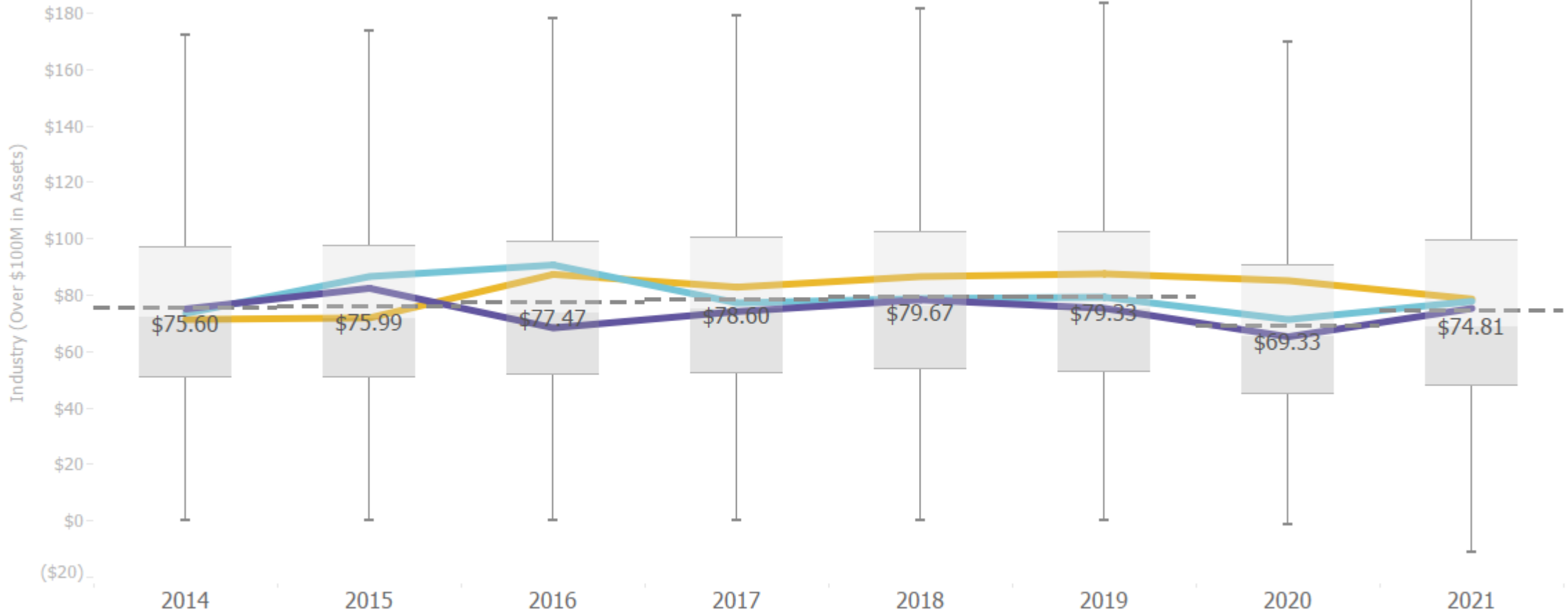
Loyalty Leaders have been able to keep efficiency ratios lower over the past year



Top Performer	70.9%	71.7%	71.2%	71.5%	71.4%	73.1%	73.6%	74.6%
Mid Performer	76.6%	73.7%	75.2%	74.4%	73.0%	73.1%	76.3%	77.1%
Lower Performer	74.2%	78.6%	74.7%	74.1%	73.8%	75.6%	75.9%	78.6%



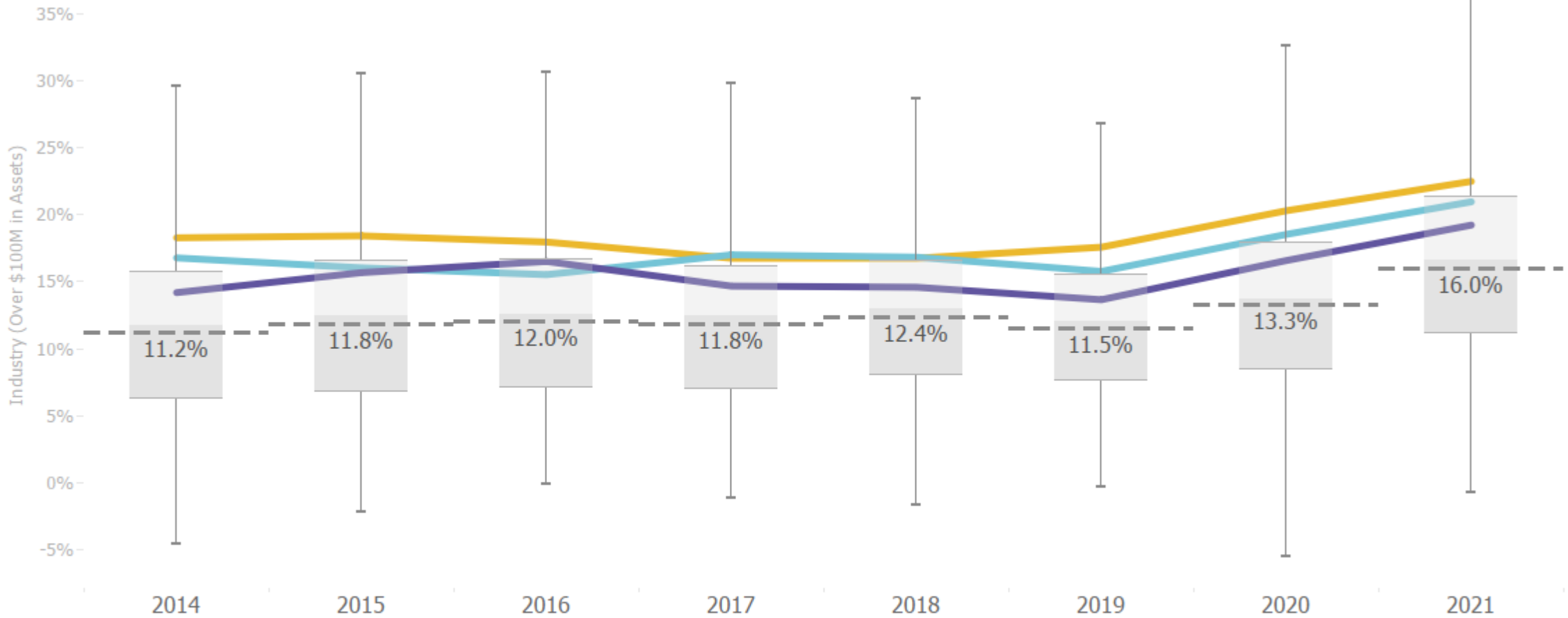
Loyalty Leaders have lowered fees to be more in line with the industry; very little differentiation among loyalty groups



Top Performer	\$71	\$72	\$87	\$83	\$87	\$88	\$85	\$79
Mid Performer	\$74	\$87	\$91	\$77	\$79	\$79	\$71	\$78
Lower Performer	\$75	\$82	\$68	\$74	\$78	\$75	\$65	\$75

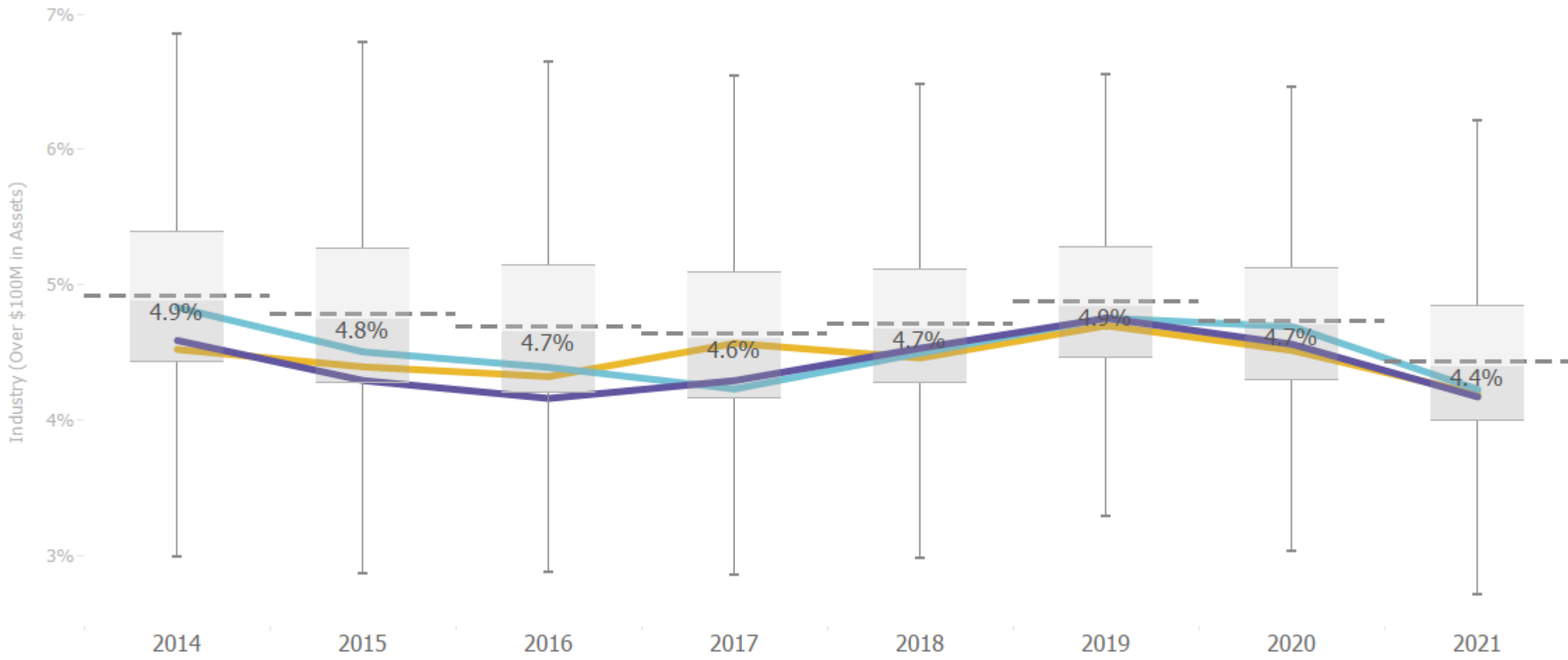


# Loyalty Leaders continue to yield more “other income,” primarily from sold first mortgages



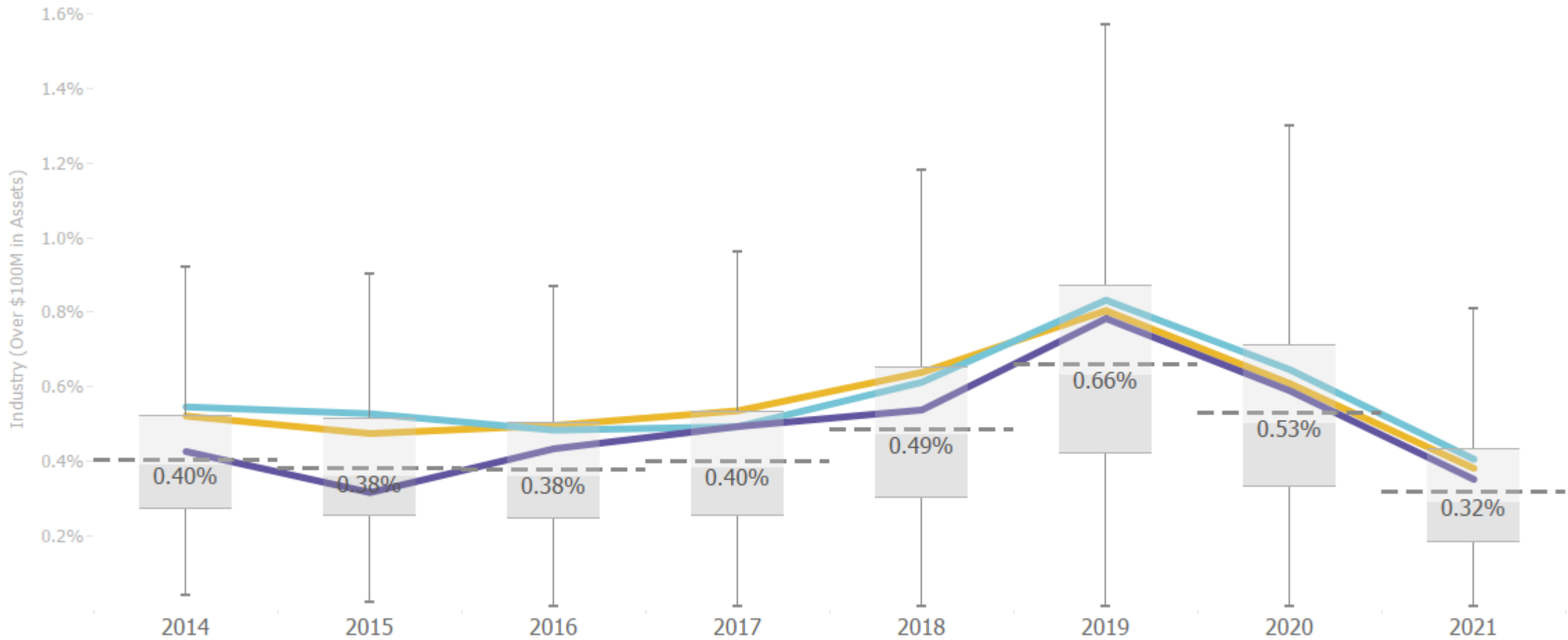
	2014	2015	2016	2017	2018	2019	2020	2021
Top Performer	18.3%	18.4%	18.0%	16.8%	16.8%	17.6%	20.3%	22.5%
Mid Performer	16.8%	16.0%	15.5%	17.0%	16.8%	15.8%	18.5%	21.0%
Lower Performer	14.2%	15.7%	16.5%	14.7%	14.6%	13.7%	16.6%	19.2%

Very little differentiation in yield on loans



	2014	2015	2016	2017	2018	2019	2020	2021
Top Performer	4.5%	4.4%	4.3%	4.6%	4.5%	4.7%	4.5%	4.2%
Mid Performer	4.8%	4.5%	4.4%	4.2%	4.5%	4.8%	4.7%	4.2%
Lower Performer	4.6%	4.3%	4.2%	4.3%	4.5%	4.8%	4.6%	4.2%

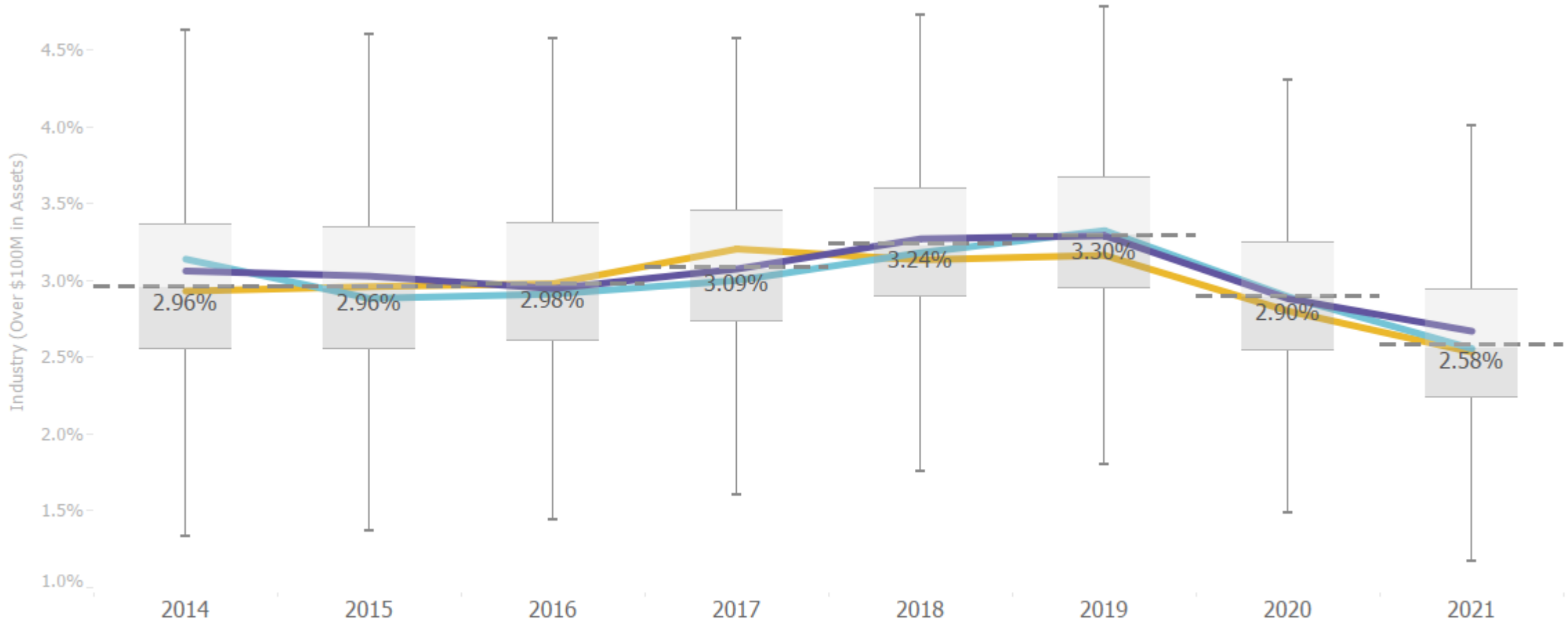
Cost of Funds is only slightly higher



	2014	2015	2016	2017	2018	2019	2020	2021
Top Performer	0.52%	0.47%	0.50%	0.54%	0.64%	0.80%	0.61%	0.38%
Mid Performer	0.55%	0.53%	0.48%	0.49%	0.61%	0.83%	0.65%	0.41%
Lower Performer	0.43%	0.32%	0.43%	0.49%	0.54%	0.78%	0.59%	0.35%



# Loyalty Leaders tend to have the lowest net interest margin



Top Performer	2.93%	2.96%	2.98%	3.20%	3.13%	3.16%	2.80%	2.53%
Mid Performer	3.14%	2.88%	2.91%	3.00%	3.18%	3.32%	2.89%	2.56%
Lower Performer	3.06%	3.03%	2.95%	3.07%	3.27%	3.29%	2.88%	2.67%

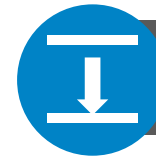
# Earnings Summary

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## Helping the bottom line

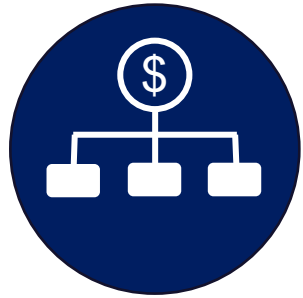
- Lower operating expense/efficiency ratios (higher productivity)
- Stronger earnings from other income



## Not helping the bottom line

- Lower net interest margin
- Fee income per member is more in line with the industry

**For Loyalty Leaders to yield such strong ROA and Net Income per Member, there has to be more to the story...**

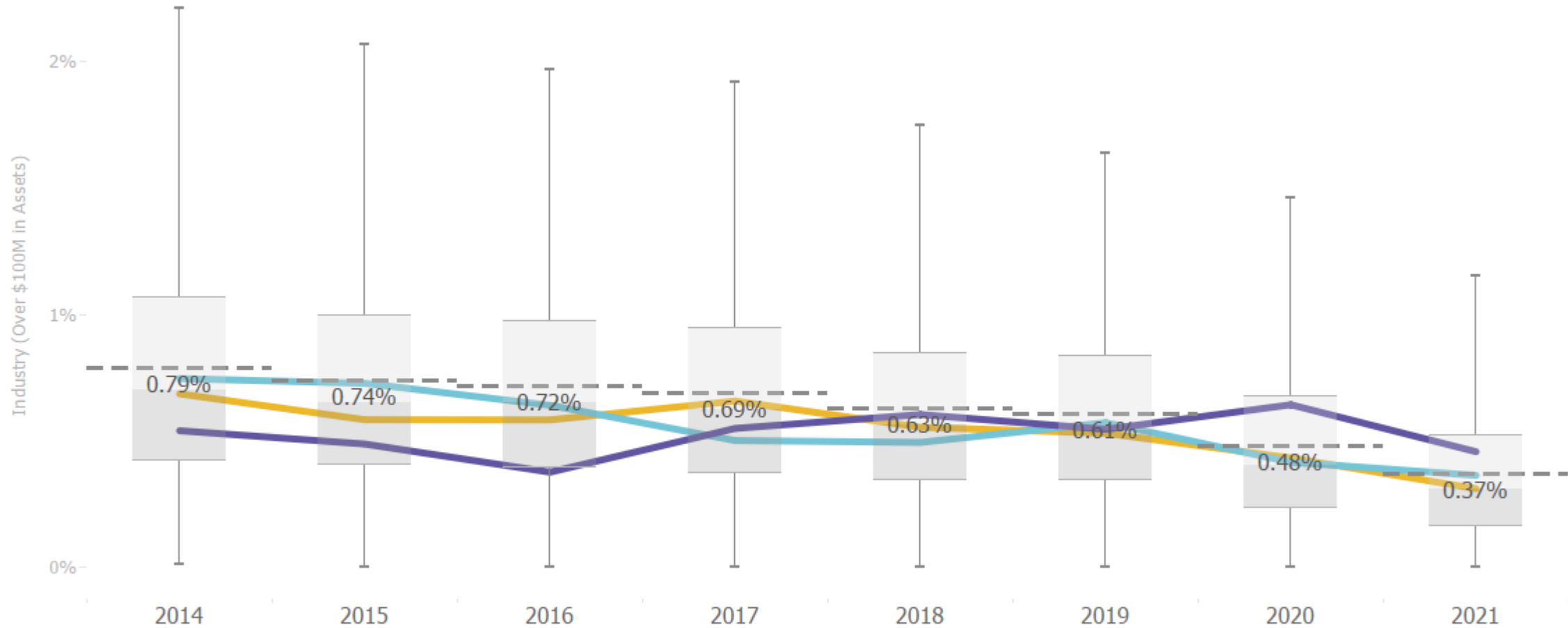


# Asset Quality



# Lower Performers were more impacted by delinquency during the pandemic

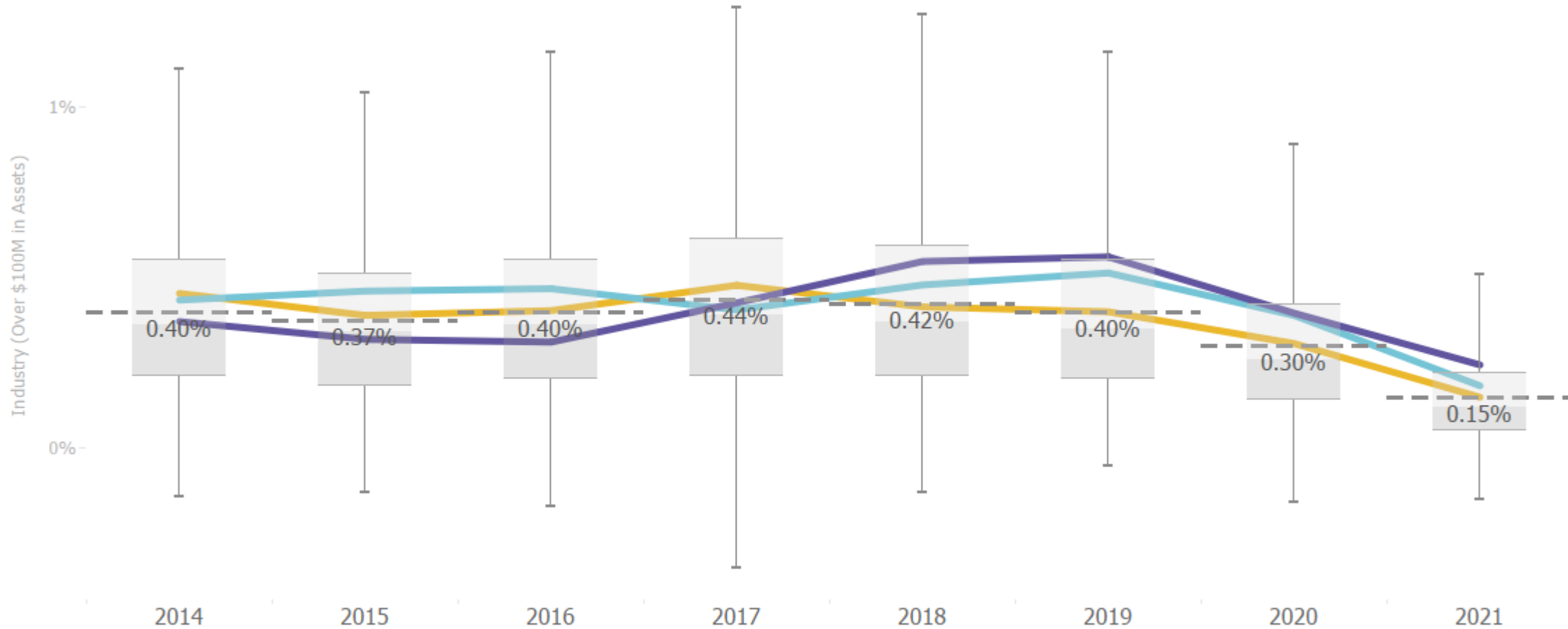
## Delinquency Ratio



Top Performer	0.69%	0.58%	0.58%	0.66%	0.55%	0.53%	0.43%	0.31%
Mid Performer	0.75%	0.73%	0.64%	0.50%	0.49%	0.57%	0.41%	0.36%
Lower Performer	0.54%	0.49%	0.38%	0.55%	0.60%	0.54%	0.64%	0.46%



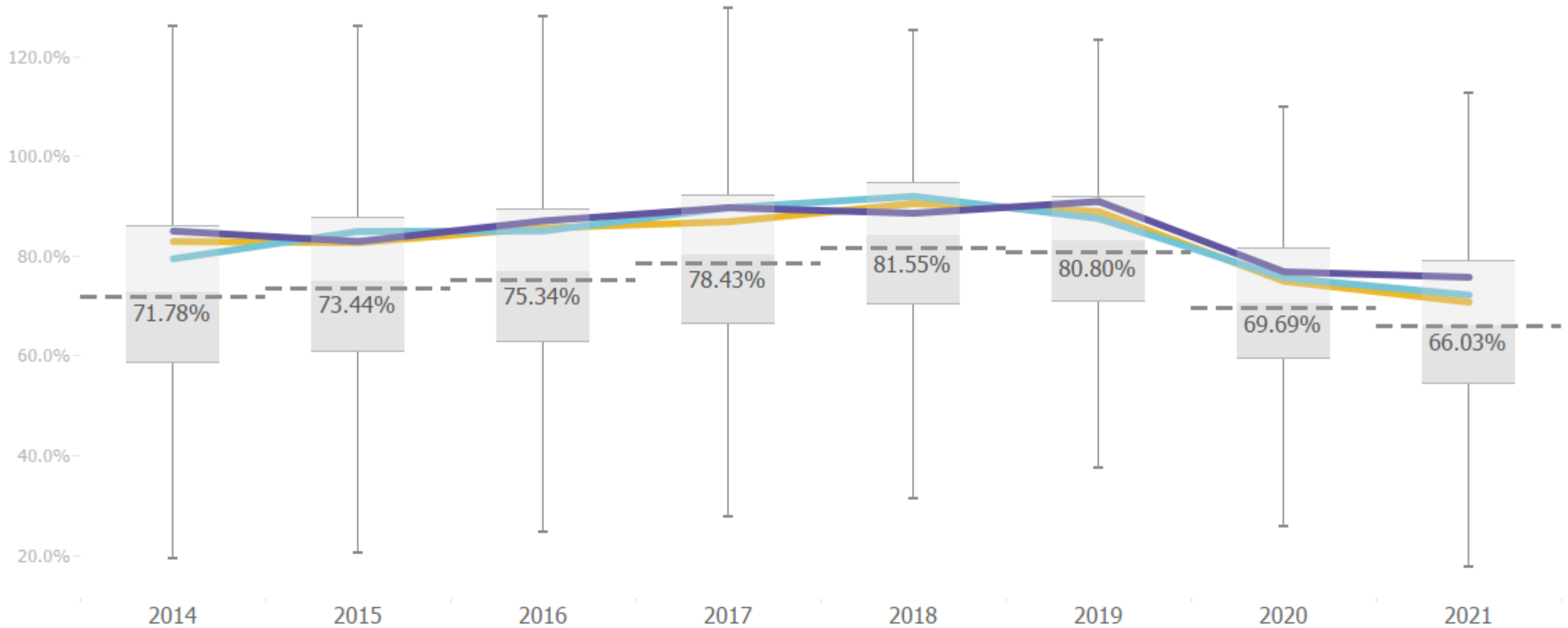
# Loyalty Leaders experienced the lowest charge-off ratios



	2014	2015	2016	2017	2018	2019	2020	2021
Top Performer	0.45%	0.39%	0.40%	0.48%	0.41%	0.40%	0.31%	0.15%
Mid Performer	0.43%	0.46%	0.47%	0.41%	0.48%	0.51%	0.39%	0.18%
Lower Performer	0.37%	0.32%	0.31%	0.43%	0.55%	0.56%	0.40%	0.24%



# Loyalty Leaders have more liquidity, driven by a surge in deposit growth



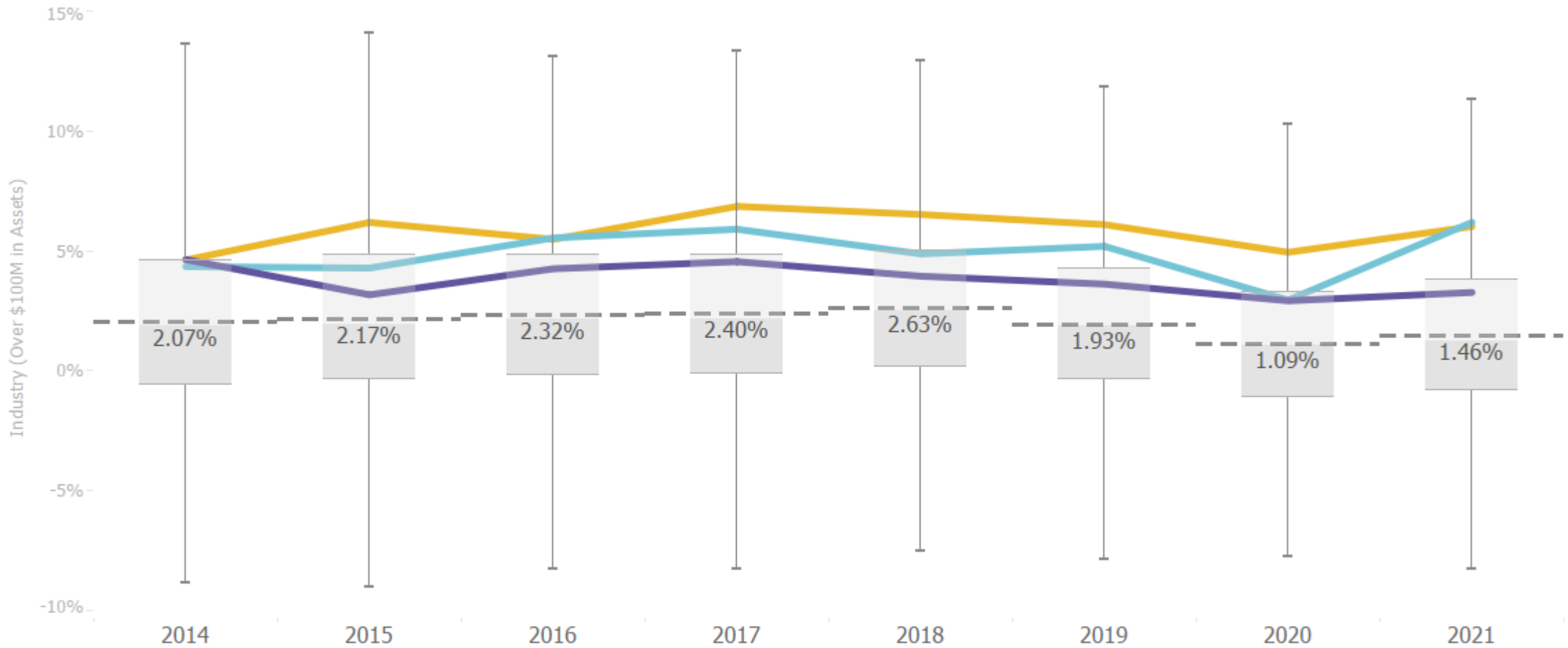
Top Performer	<b>82.95%</b>	<b>82.70%</b>	<b>85.66%</b>	<b>86.91%</b>	<b>90.55%</b>	<b>88.93%</b>	<b>74.98%</b>	<b>70.77%</b>
Mid Performer	<b>79.48%</b>	<b>84.96%</b>	<b>85.06%</b>	<b>89.72%</b>	<b>92.01%</b>	<b>87.55%</b>	<b>75.67%</b>	<b>72.19%</b>
Lower Performer	<b>85.02%</b>	<b>82.94%</b>	<b>87.08%</b>	<b>89.72%</b>	<b>88.61%</b>	<b>90.97%</b>	<b>76.87%</b>	<b>75.76%</b>



# **Growth & Product Participation**



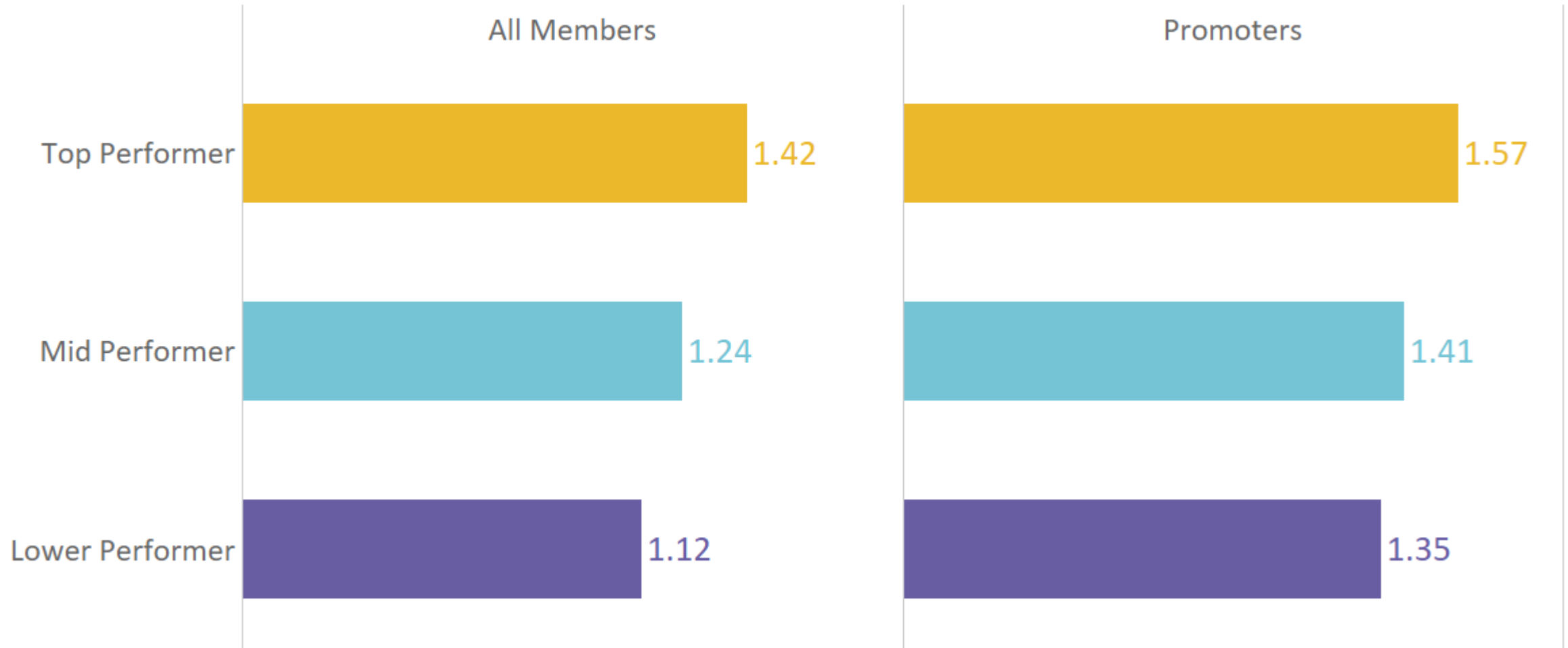
# Loyalty Leaders had nearly 2x the growth rate of low performing CUs



Top Performer	4.62%	6.18%	5.48%	6.85%	6.51%	6.09%	4.94%	6.01%
Mid Performer	4.34%	4.28%	5.54%	5.90%	4.87%	5.19%	2.95%	6.19%
Lower Performer	4.63%	3.17%	4.25%	4.55%	3.94%	3.61%	2.92%	3.27%



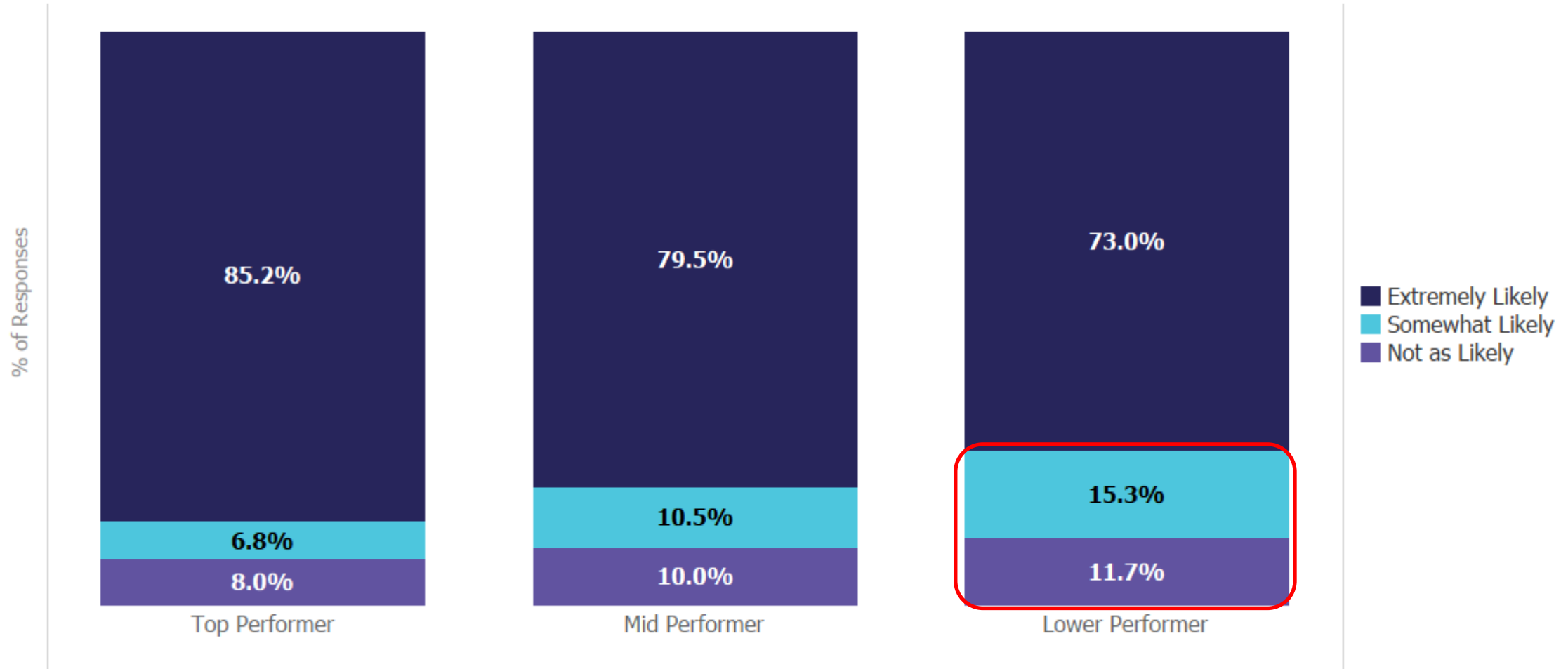
Loyalty Leaders received 27% more referrals from their members;  
16% more referrals from Promoters alone



\* 2021 MLG Relationship Survey: How many referrals have you made in the past 12 months?



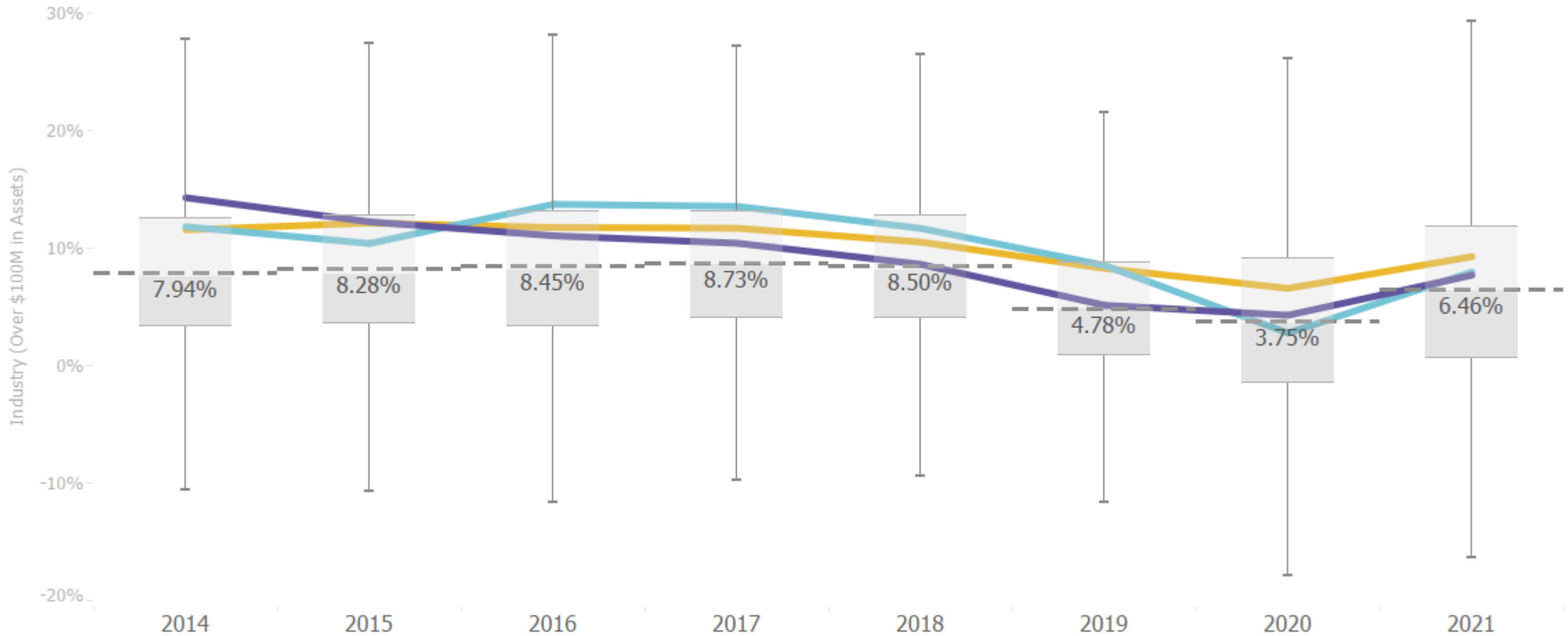
1 in 4 members from Lower Performing CUs not all that satisfied with their current relationship – providing a glimpse into retention



\*MLG Relationship Survey: How likely are you to maintain your relationship with the credit union?



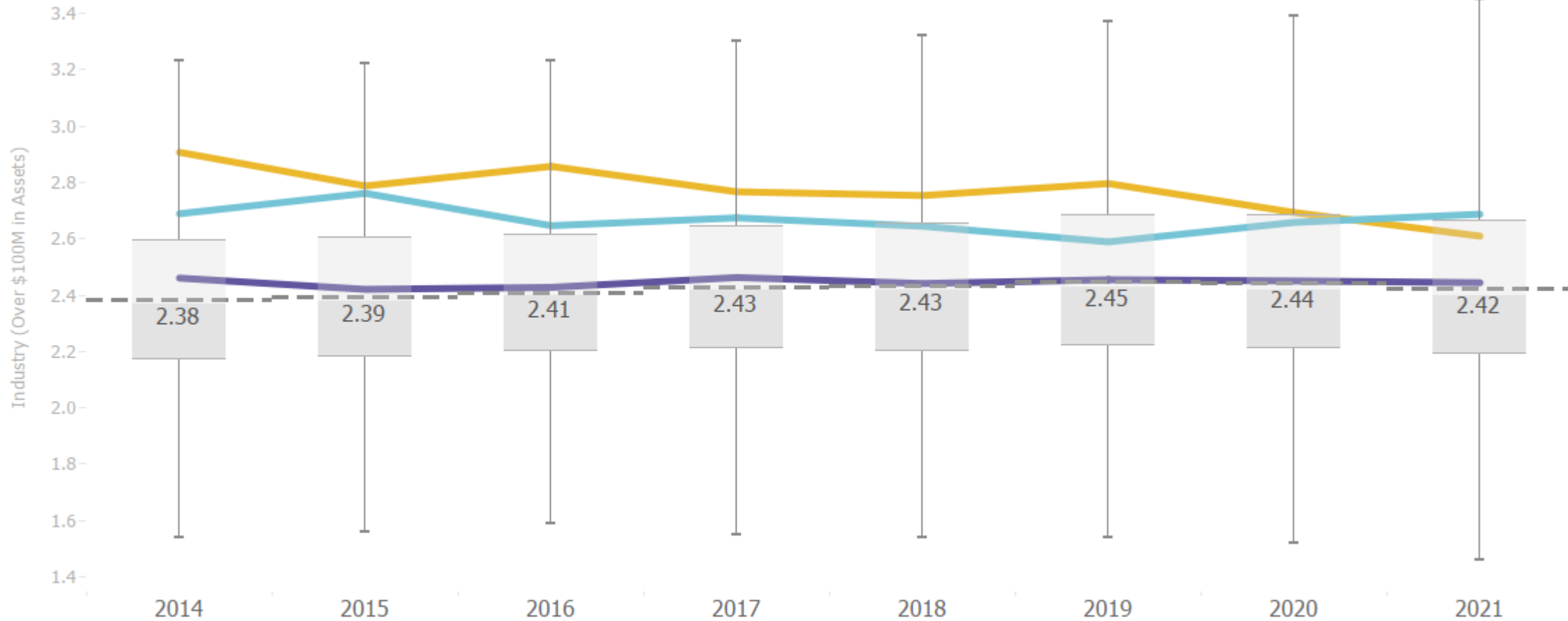
# Loyalty Leaders experienced 21% higher loan growth in 2021



	2014	2015	2016	2017	2018	2019	2020	2021
Top Performer	11.58%	12.16%	11.78%	11.72%	10.54%	8.29%	6.59%	9.30%
Mid Performer	11.85%	10.42%	13.76%	13.58%	11.70%	8.55%	2.78%	7.99%
Lower Performer	14.32%	12.26%	11.08%	10.44%	8.64%	5.15%	4.30%	7.71%



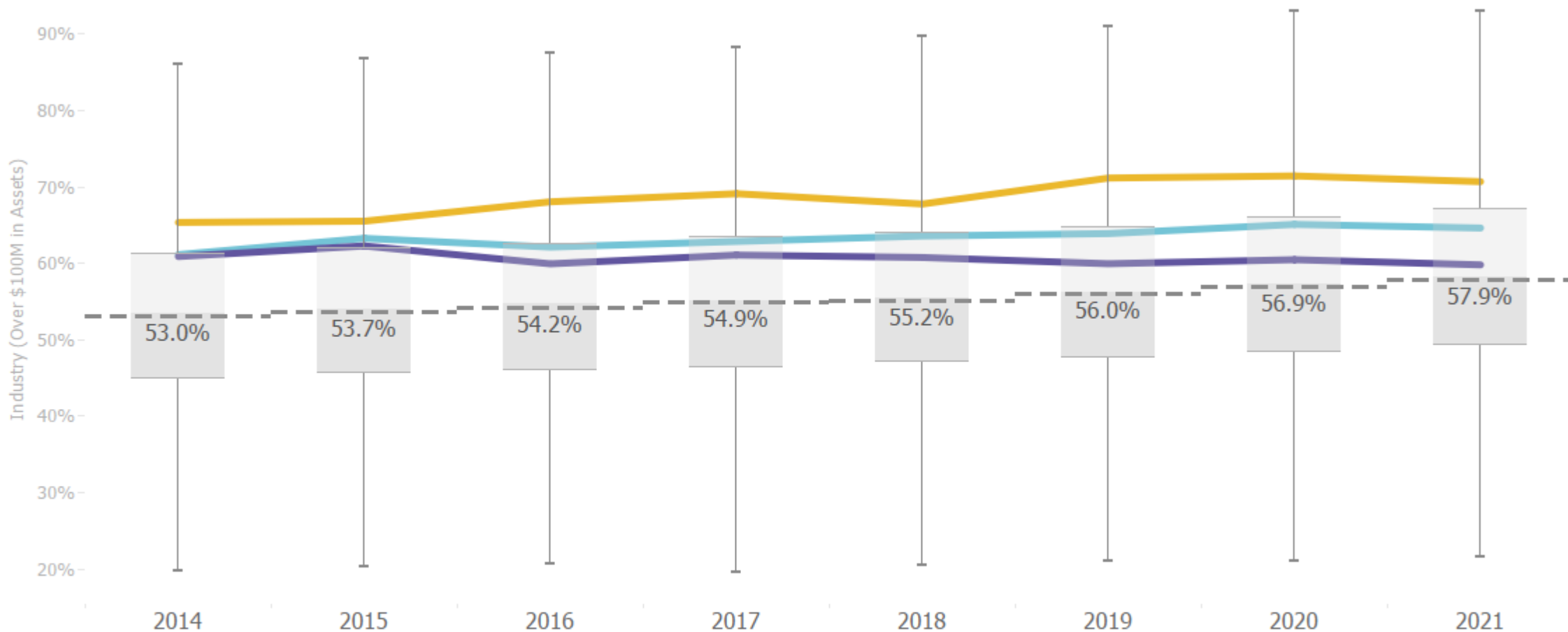
# Higher performing CUs have much more accounts per member



	2014	2015	2016	2017	2018	2019	2020	2021
Top Performer	2.91	2.79	2.86	2.77	2.75	2.80	2.69	2.61
Mid Performer	2.69	2.76	2.65	2.67	2.64	2.59	2.66	2.69
Lower Performer	2.46	2.42	2.43	2.46	2.44	2.45	2.45	2.44



Nearly 3 out of every 4 members from Top Performing CUs have a checking account



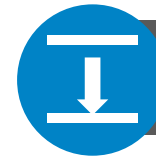
Top Performer	65.4%	65.5%	68.1%	69.1%	67.8%	71.2%	71.4%	70.7%
Mid Performer	61.2%	63.3%	62.1%	62.9%	63.6%	63.9%	65.1%	64.6%
Lower Performer	60.9%	62.3%	60.0%	61.1%	60.8%	60.0%	60.5%	59.8%

# Growth & Product Participation Summary



## Helping the bottom line

- 2x member growth
- Stronger WOM referrals and retention
- Higher loan growth
- Stronger product participation (credit card, checking accounts)

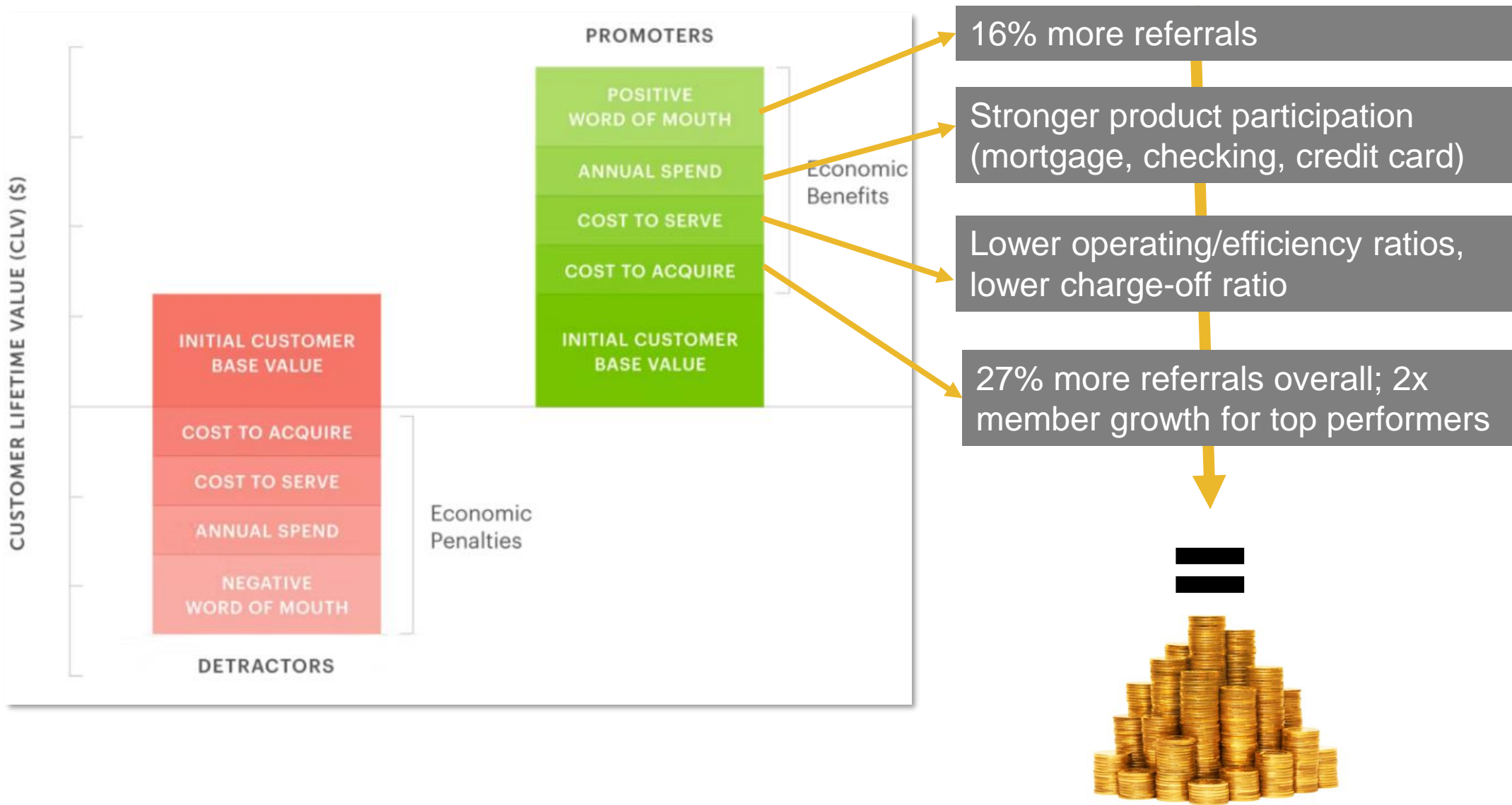


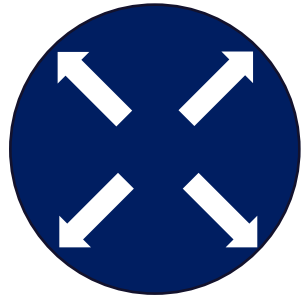
## Not helping the bottom line

- Potential costs to service these increased products/services – but we know operating expenses are lower
- Acquisition costs – but Loyalty Leaders receive WOM marketing.

With strong growth and product participation metrics, Loyalty Leaders are maximizing the profitability from the relationships they have with their members (interchange income, fees, etc.)

# Loyalty Leaders have a higher NPS, therefore, more Promoters



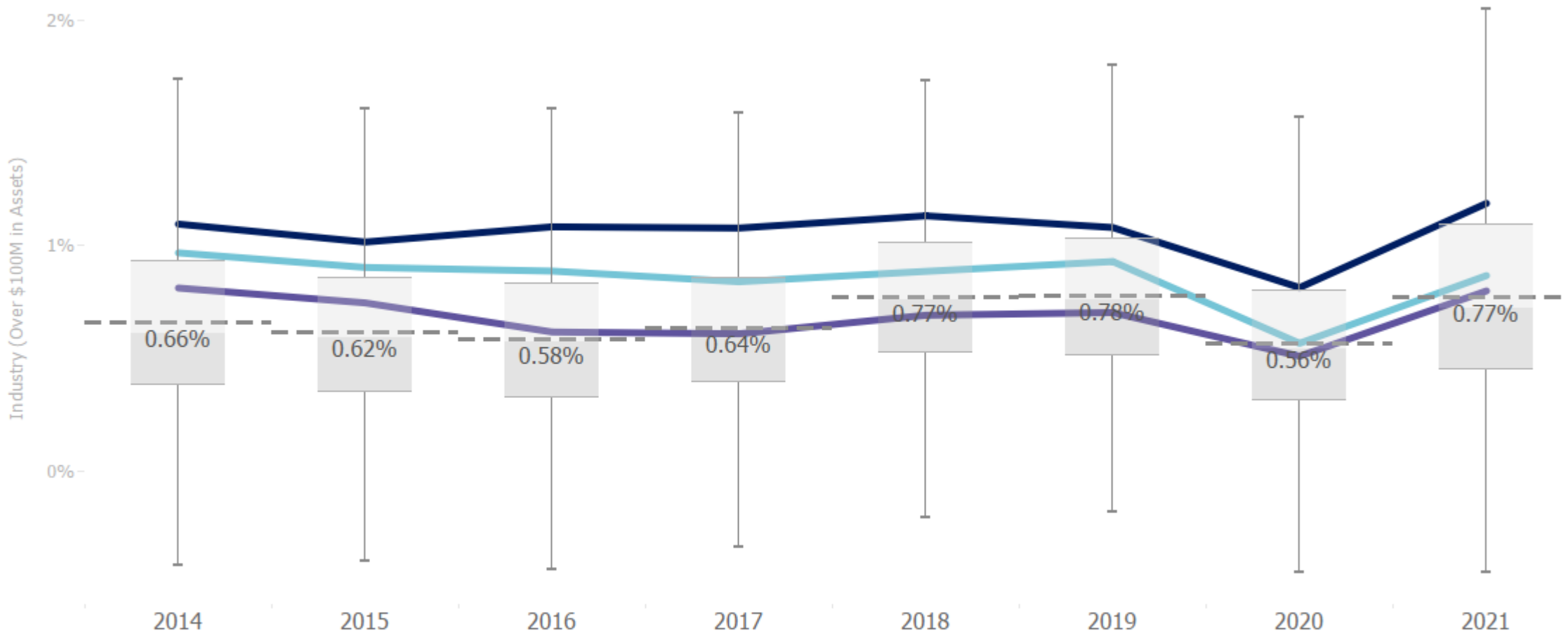


**How does asset size  
impact this analysis?**



# Higher assets seems to yield stronger ROA

ROA (return on assets)

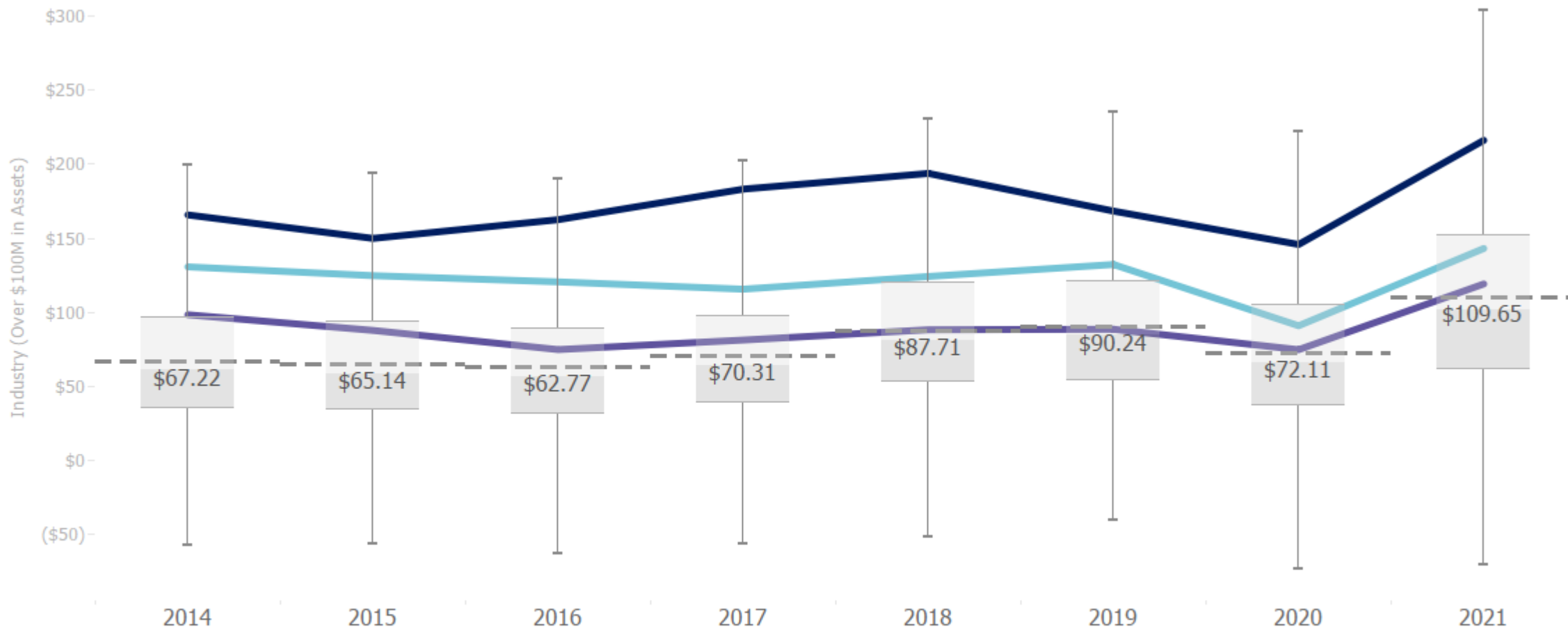


Over \$3 Billion	<b>1.10%</b>	<b>1.02%</b>	<b>1.08%</b>	<b>1.08%</b>	<b>1.13%</b>	<b>1.08%</b>	<b>0.81%</b>	<b>1.19%</b>
\$1 - 3 Billion	<b>0.97%</b>	<b>0.90%</b>	<b>0.89%</b>	<b>0.84%</b>	<b>0.89%</b>	<b>0.93%</b>	<b>0.57%</b>	<b>0.87%</b>
< \$1 Billion	<b>0.81%</b>	<b>0.75%</b>	<b>0.62%</b>	<b>0.61%</b>	<b>0.69%</b>	<b>0.70%</b>	<b>0.51%</b>	<b>0.80%</b>

\*Member Loyalty Group participants only



# Higher assets seems to earn more net income per member



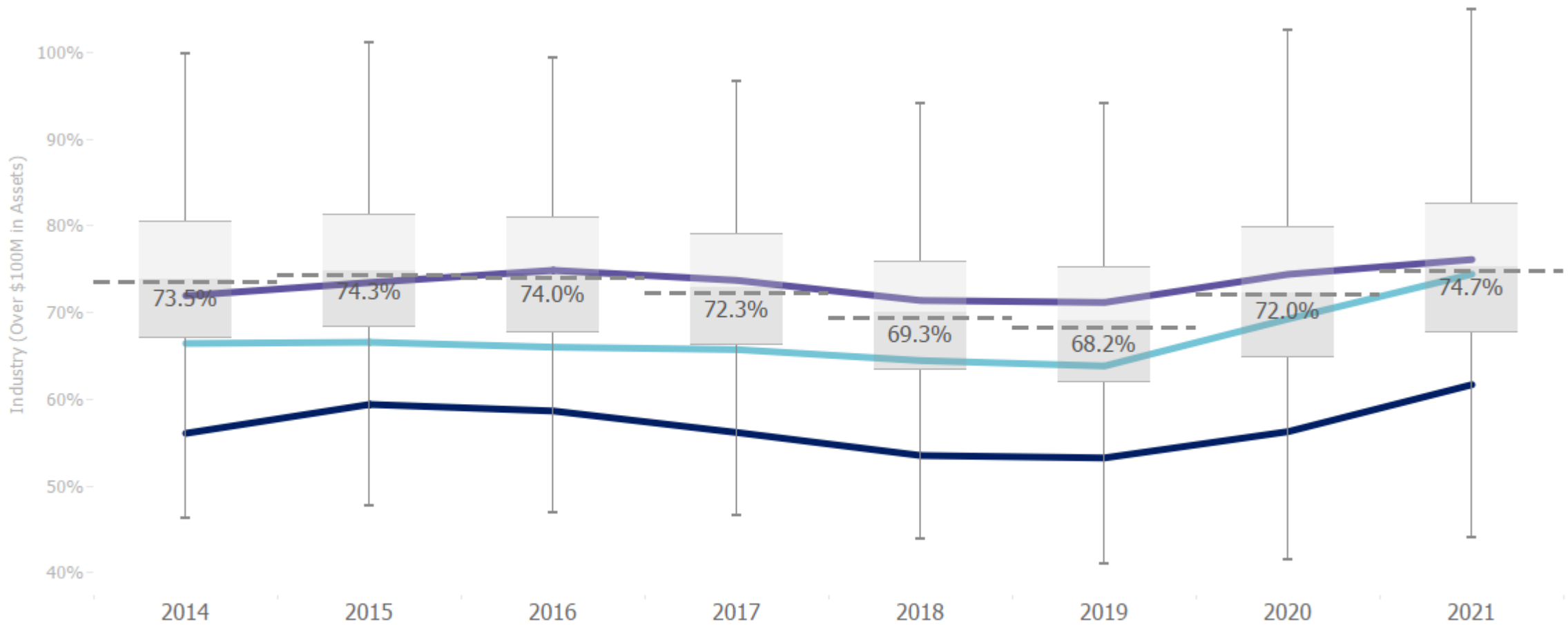
Net Income per Member

Over \$3 Billion	<b>\$166</b>	<b>\$150</b>	<b>\$163</b>	<b>\$183</b>	<b>\$194</b>	<b>\$168</b>	<b>\$146</b>	<b>\$216</b>
\$1 - 3 Billion	<b>\$131</b>	<b>\$125</b>	<b>\$121</b>	<b>\$116</b>	<b>\$124</b>	<b>\$132</b>	<b>\$91</b>	<b>\$143</b>
< \$1 Billion	<b>\$98</b>	<b>\$88</b>	<b>\$75</b>	<b>\$81</b>	<b>\$88</b>	<b>\$89</b>	<b>\$75</b>	<b>\$119</b>

\*Member Loyalty Group participants only



# Economies of scale come into play with larger asset groups

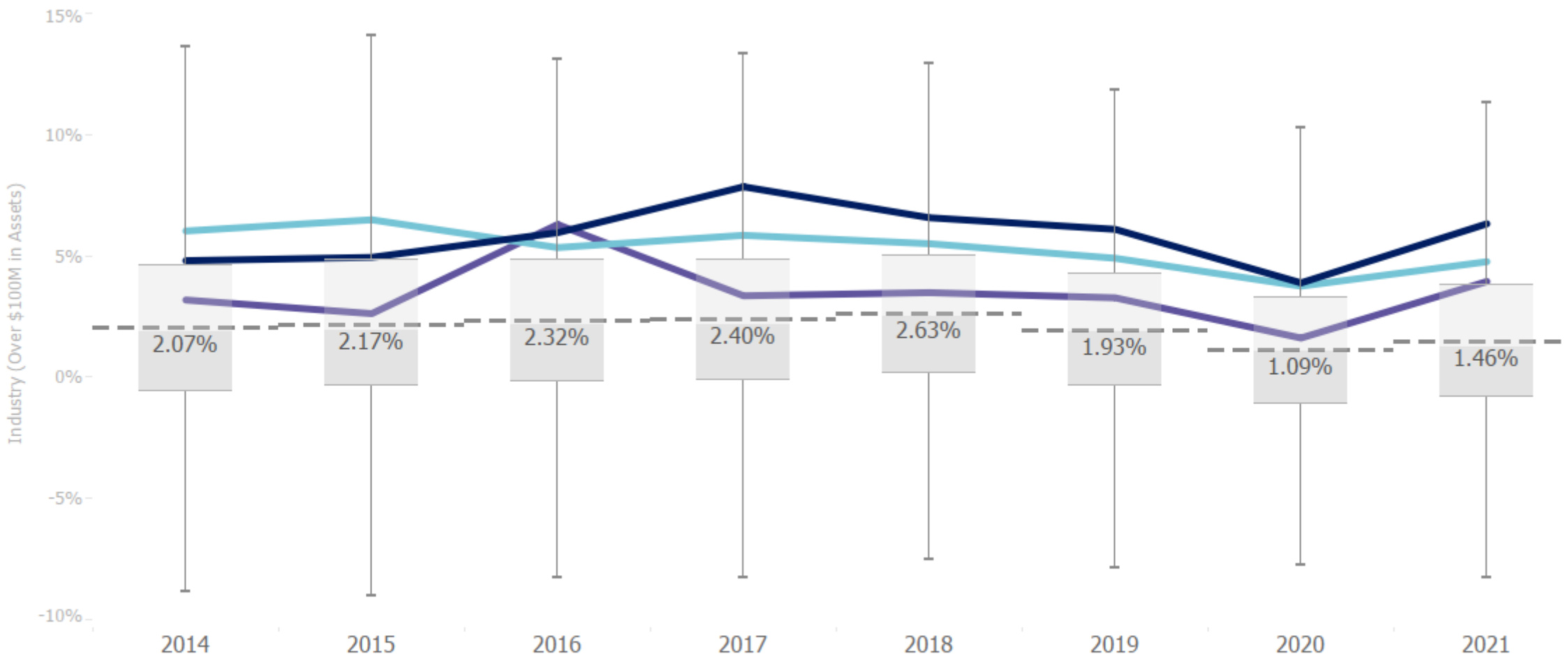


Over \$3 Billion	<b>56.1%</b>	<b>59.4%</b>	<b>58.6%</b>	<b>56.2%</b>	<b>53.5%</b>	<b>53.2%</b>	<b>56.3%</b>	<b>61.7%</b>
\$1 - 3 Billion	<b>66.4%</b>	<b>66.6%</b>	<b>66.0%</b>	<b>65.7%</b>	<b>64.5%</b>	<b>63.8%</b>	<b>69.3%</b>	<b>74.4%</b>
< \$1 Billion	<b>71.9%</b>	<b>73.5%</b>	<b>74.9%</b>	<b>73.7%</b>	<b>71.4%</b>	<b>71.2%</b>	<b>74.4%</b>	<b>76.1%</b>

\*Member Loyalty Group participants only



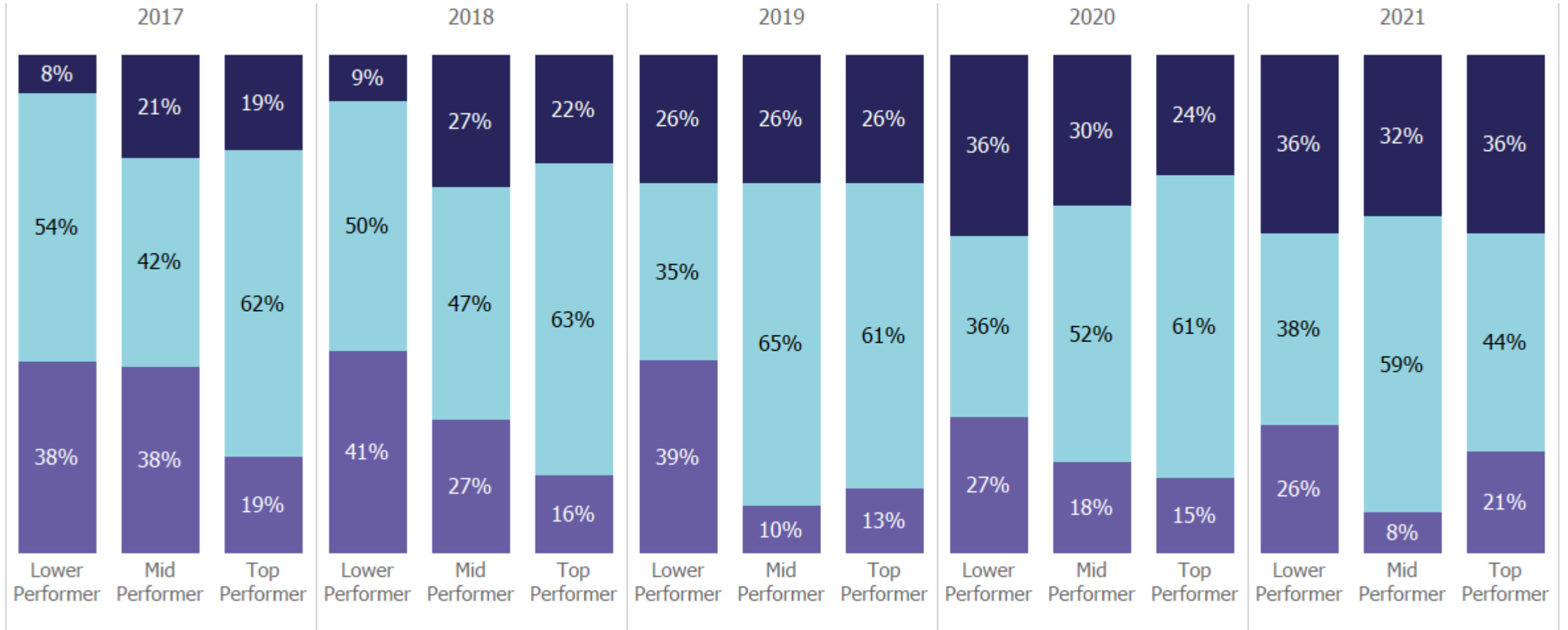
# Larger asset sizes only have a slight advantage in member growth



	2014	2015	2016	2017	2018	2019	2020	2021
Over \$3 Billion	<b>4.80%</b>	<b>4.94%</b>	<b>5.95%</b>	<b>7.84%</b>	<b>6.57%</b>	<b>6.09%</b>	<b>3.88%</b>	<b>6.32%</b>
\$1 - 3 Billion	<b>6.02%</b>	<b>6.48%</b>	<b>5.34%</b>	<b>5.84%</b>	<b>5.50%</b>	<b>4.90%</b>	<b>3.75%</b>	<b>4.76%</b>
< \$1 Billion	<b>3.18%</b>	<b>2.62%</b>	<b>6.29%</b>	<b>3.35%</b>	<b>3.48%</b>	<b>3.27%</b>	<b>1.61%</b>	<b>3.94%</b>



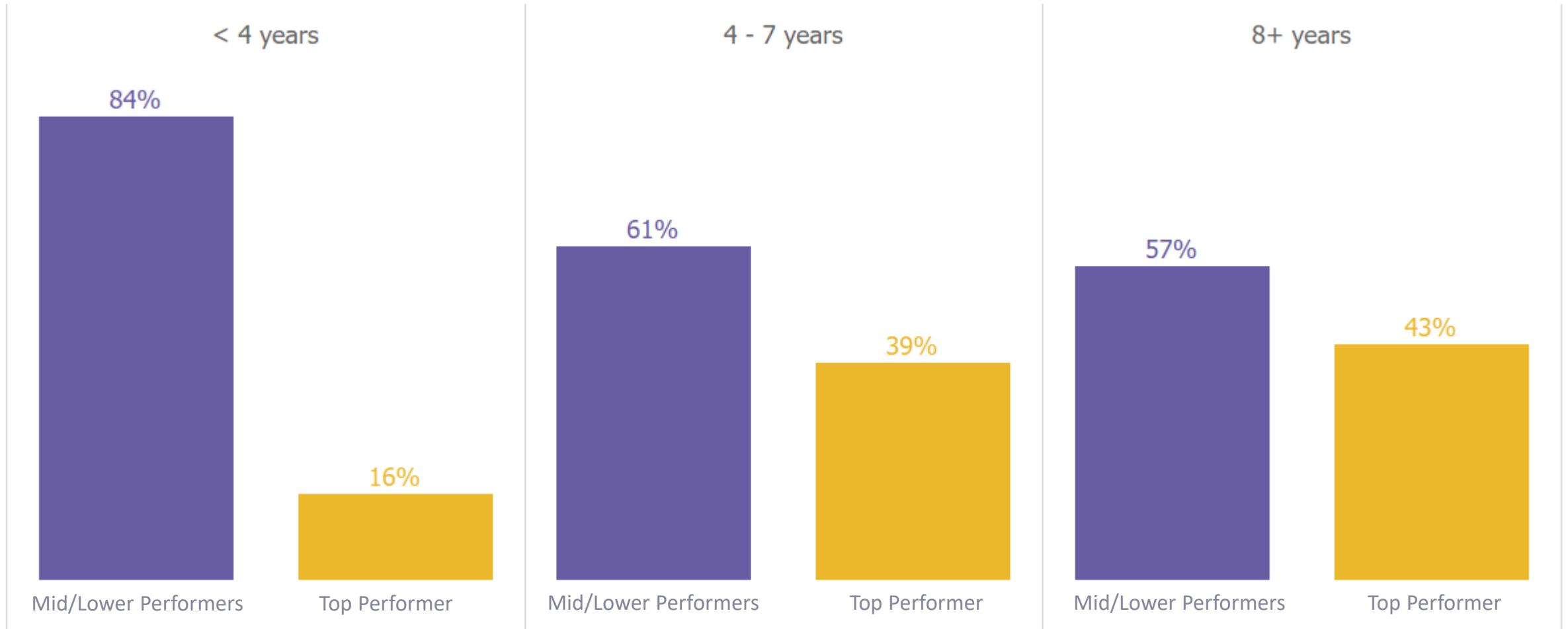
# Asset mix for the various performance groups – take note of the similarities for top and lower performing groups



Over \$3 Billion    \$1 – \$3 Billion    < \$1 Billion



Tenure with MLG's robust Voice of the Member program is more indicative of success – 82% of Top Performer group has been on MLG's VOM program for 4 or more years





**Member  
Loyalty**  
GROUP

# Questions?

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