Rapidata's Charity Direct Debit Tracking Report

2009 mid-year update

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Introduction

In January we released the first *Rapidata's Charity Direct Debit Tracking Report*.

In that, we identified several trends regarding direct debit cancellations. The most important of those, we believe, was that monthly direct debit cancellations had 'skyrocketed' since the start of the credit crunch in September 2007. The numbers of people cancelling their direct debits in each of the following months was way above what we'd been experiencing prior to the onset of the credit crunch – and now, of course, the recession – and more than you would expect from a natural fluctuation in the data.

This mid-year report aims to discover whether those cancellations trends are continuing and whether the recession is still continuing to bite.

We'll be coming back to this in January to give a picture for the whole of 2009.

But for the 2010 edition of *Rapidata's Charity Direct Debit Tracking Report,* we'll be expanding our research and looking at a different subject, probably lifetime value and reactivations.

If you have any feedback, like to share your experiences with direct debit payments or would like to discuss this report with me, please do not hesitate to get in contact.

Scott Gray, managing director, Rapidata

Contents

1 Executive Summary

Monthly direct debit cancellations are falling, hitting the lowest figure recorded so far this year, and stabilising. Encouragingly, this could mean direct debit cancellations rates are about to plateau.

Over the last quarter, the percentage difference to the pre-recession average has begun to fall. However, June 2009 figures remain higher than this time last year, end June 2008, and overall figures are still significantly higher than the pre-credit crunch/recession average for each calendar month.

For March-June 2009, cancellations were about 34 per cent higher than for an average March-June period prior to the recession, compared to around 50 per cent higher for most months for 2008. And encouragingly, the cancellations for June fell to just 28.6 per cent higher than the pre-recession average.

But monthly cancellation rates are unlikely to return to pre recession levels during 2009. To do so would require cancellations rates to drop over the summer and autumn whereas, for the past six years, the trend has been for the rate of cancellations to rise over the summer.

The best we can hope for is that they will not rise as much as they did in 2008. 2009 will still be a year of higher than average direct debit cancellations.

2 Executive Summary of the main 2009 report

The f Charity Direct Debit Tracking Report 2009 can be downloaded from the Rapidata website, www.rapidataservices.com

2.1 Direct Debit Cycle

Direct debit cancellations rate (the percentage of live DDs that are cancelled in a given month) follows an annual cycle. It rises throughout the summer reaching a peak in August/September falling back over Christmas, rising again in January (due in main part to suspension of operations over Christmas), before falling again through February and March for the cycle to be repeated at the start of the next financial year in April.

2.2 Overall fall in cancellation rates

From April 2003 until the summer of 2007, there had been an overall fall in average monthly cancellations rates. This was both a drop in the monthly year-on-year figures (e.g. a progressive overall drop in March 2003, March 2004, through to March 2007); as well as a fall in the annual average monthly cancellation figures, which dropped from 3.54 per cent in 2003/04 to 3.05 per cent in 2006/07.

This fall was particularly marked at the end of 2006 and beginning of 2007 and it appears that some external factor was driving down cancellations rates at the point the credit crunch struck.

2.3 Effect of the credit crunch and recession

From September 2007 – the time of the Northern Rock collapse – onwards, monthly cancellations rates began first to rise, and then to soar.

The Relative Direct Debit Cycles broke down completely in 2007/08 with a continual rise in cancellations rates on a roughly straight line from around 30 per cent below the monthly average for 2007 to 20 per cent above it.

Cancellations rates skyrocketed from the summer of 2008 as the UK first entertained the possibility of, and then entered, recession. For instance, in December 2008, 67 per cent more people cancelled their direct debits than for an average December in the pre-credit crunch/recession period. And a statistical analysis shows that these cancellations rates were so high that they were unlikely to have ever occurred under the conditions that were driving cancellations prior to September 2007.

3 Mid-year update

This report aims to discover whether the trends identified in the main report released in March 2009 (containing data to the end of January 2009) have continued.

3.1 Methodology used in main report

To assess the impact of the recession on direct debit cancellations we calculated the average monthly cancellations rate for each calendar month prior to the onset of the credit crunch/recession (which we dated from the collapse of Northern Rock in September 2007).

First, for the pre-recession dataset (April 2003-Aug 2007) we worked out the average cancellations rate for each calendar month and then measured how each actual calendar month varied from the average.

For example, the cancellations rate of 3.90 per cent for April 2004 was 28.29 per cent above the average April; while the rate of 3.15 per cent for July 2005 was 5.4 per cent below the average rate for July. The full figures are contained in the Appendix.

We measured the standard deviation of these percentage variations and plotted these on a distribution (bell) curve, which gives a fairly normal distribution (see Appendix).

Next, we did a similar exercise for the post recession months (September 2007-January 2008) – working out by how much the cancellations rate for each month varied from the pre-recession average month.

We then plotted this on a distribution curve (variations from all months compared to the pre-recession average). This gave a very skewed distribution that demonstrated to our satisfaction that the onset of the recession had spurred people to cancel their charity direct debits. (This basically showed that the variations in averages we noted after the recession could not be fitted into the pre-recession dataset – see Appendix for a full working.

NB. The data used for this Tracking Report represents a broad range of charities which use differing and varied fundraising methods and mixes. The does not reflect on any one particular fundraising channel.

3.2 Inferences from updated data

The data in the main report ran up to the end of January 2009. This update contains data until 30th June 2009, so bringing it up to the mid-year mark.

Cancellations rates for the months February-June 2009 have now been added to table A in the Appendix.

Table 1 – Latest monthly cancellation rates

Feb	4.43
Mar	4.33
Apr	4.16
May	4.25
Jun	4.09

These latest figures change slightly the overall averages for calendar months and years and this is highlighted in the raw data in the appendix.

What we are interested in with this mid-year update is to find out what these new cancellations tell us about the effects of the recession.

So the first thing to do is to compare these new cancellations rates with the pre-recession average for each calendar month and then calculate the percentage difference to the average, as we did in the main report.

Table 2 – Recession period differences from pre-recession monthly averages

Year	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Pre-rec'n Avge	**3.04**	**3.13**	**3.18**	**3.33**	**3.61**	**3.39**	**3.74**	**3.34**	**2.32**	**3.65**	**3.06**	**3.14**
2007-08						3.61	3.51	3.90	3.71	4.01	3.53	3.95
Percentage difference	_	_	_	_	_	*6.59*	*-6.12*	*16.77*	*59.91*	*9.97*	*15.36*	*25.80*
2008-09	3.60	4.00	4.02	5.16	4.40	5.16	5.52	4.77	3.89	5.63	4.43	4.33
Percentage difference	*18.42*	*31.95*	*26.42*	*54.95*	*21.88*	*52.2*	*47.59*	*42.81*	*67.67*	*54.25*	*44.77*	*34.59*
2009-10	4.16	4.25	4.09									
Percentage difference	*36.84*	*35.78*	*28.62*									

As can be seen quite clearly, the latest cancellations rates are still far, far higher than pre-recession calendar month averages.

In the original report, as described above, we tested for significance for these variations in monthly averages and found that the pre-recession and post recession cancellations constituted two discrete datasets. The variations we found after the start of the recession were so big that they could not be part of the natural variation we found before the recession.

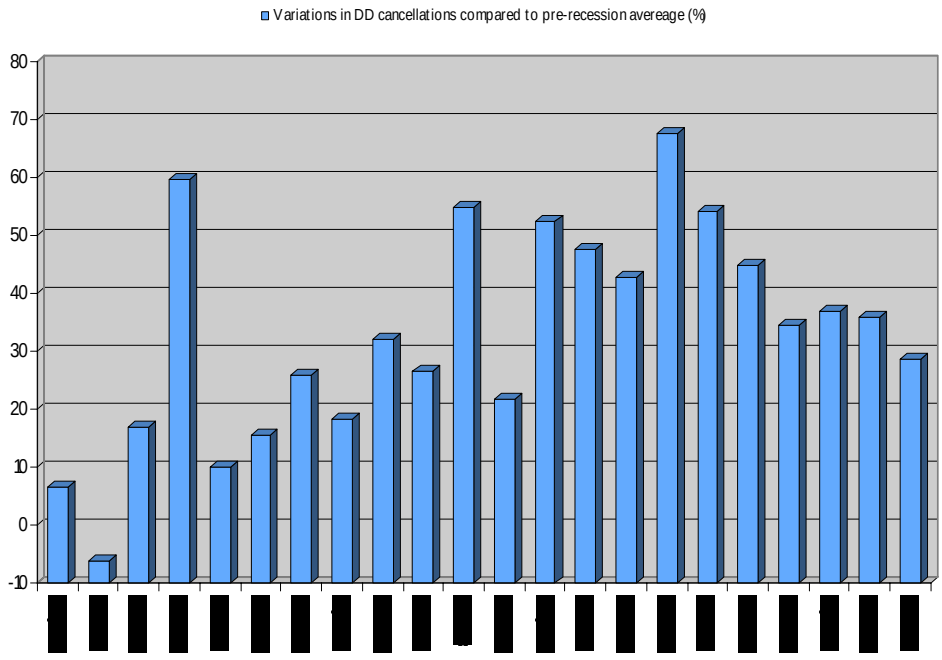
We have not repeated the exercise to incorporate the latest figures for February-June 2009. The latest figures would change only slightly the standard deviation of the dataset and yet it is clear that the percentage differences are still so large that they don't fit the pattern we found.

So, our first conclusion is that:

<u>People are still cancelling their charity direct debits in significantly higher numbers than they were doing before the onset of the recession in August 2007.</u>

But we can also see that the cancellation rates since March are not as bad as they were for the peak period of cancellations between July 2008 and February 2009. We had three consecutive months (Mar-May) where the rates of cancellations are only about a third higher than they were before the recession compared with about 50 per cent higher for those peak months. And June's cancellations show another fall to 28.6 per cent higher than the pre-recession average for June. But there have been other years where June's figure fell only to rise again throughout the late summer.

Figure 1 Variation in direct debit cancellations rates compared to pre-recession calendar month averages (%)



Our second conclusion is:

This could be the first sign that cancellations might – we stress might – be beginning to plateau.

The people most likely to have cancelled charity direct debits due to the economic climate have already made the decision to do so. Although cancellations began to rise immediately after Northern Rock, it wasn't until the effects of the recession were beginning to be felt in summer 2008 that people began to stop regular charity giving in earnest.

Current economic conditions are keeping cancellations rates higher than before the recession because people cancelling now are doing so because they are suffering financial hardships.

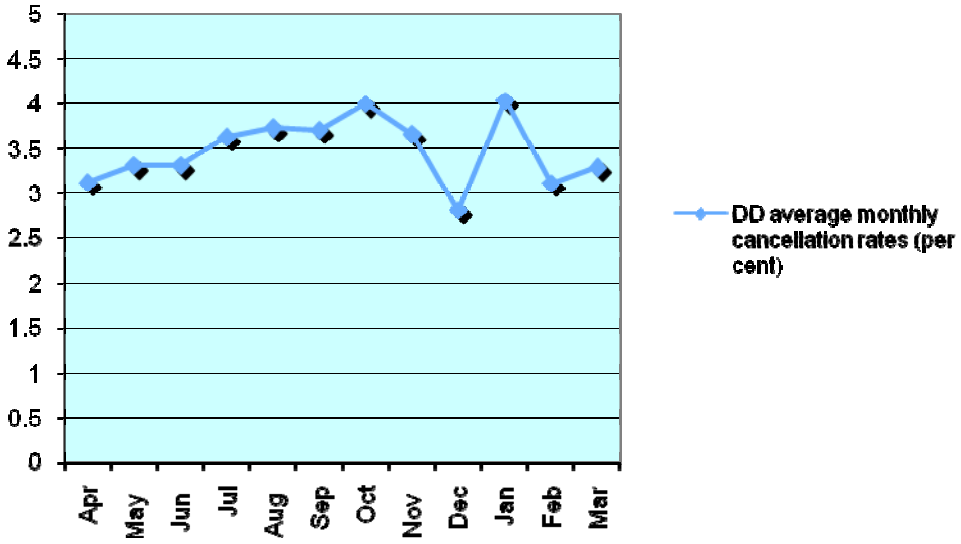
However, the higher cancellations – often above five per cent a month – seen in 2008 – might have been swelled by those people who cancelled the direct debits as a preventive measure against perceived future financial difficulties, as well as those who genuinely could no longer afford to give each month.

It's important also to consider groups that we now know are not in fact suffering from the recession and are benefiting from lower interest rates, lower mortgage payments, and finding more disposable income in their hands. This could mean there are sections of the donor population that will refrain from cancelling direct debits or indeed will be open to reactivation.

However, we cannot be complacent here.

In the main report for 2009, we identified the Annual Direct Debit Cycle.

Figure 2 – The Direct Debit Cycle (average for 2003-2009)



This shows that we can expect cancellations rates to rise throughout the summer and autumn. So for cancellations rates to return to credit/crunch pre-recession levels, we would need to see cancellation rates for the financial year 2009/10 actually fall over the next four months, rather than steadily increase, as they have done for the last six years.

This suggests to us that, while the numbers of people cancelling their direct debit each month may be slowing down, it's not likely that we will see a return to monthly cancellations in the region of 3-3.5 per cent, as we were getting in the two years prior to August 2007.

This brings us to our third conclusion:

2009 will still be a year of higher than average direct debit cancellations.

4 Summary of conclusions

Monthly direct debit cancellations are falling, hitting the lowest figure recorded so far this year.

Encouragingly, this could mean direct debit cancellations rates are plateauing even though figures are still significantly higher than the pre-credit crunch/recession average for each calendar month.

The percentage difference to the pre-recession average is beginning to fall. For March-June 2009, cancellations were about 34 per cent higher than for an average March-June prior to the recession, compared to around 50 per cent higher for most months for 2008. And encouragingly, the cancellations for June were just 28.6 per cent higher than the pre-recession average.

But monthly cancellation rates are unlikely to return to pre recession levels during 2009. To do so would require cancellations rates to drop over the summer and autumn whereas, for the past six years, the trend has been for cancellation rates to rise over the summer.

The best we can hope for is that they will not rise as much as they did in 2008. 2009 will still be a year of higher than average direct debit cancellations.

We would encourage you to look at the recommendations for the future made in the original report, published in March 2009.

Appendix

Variations in monthly averages

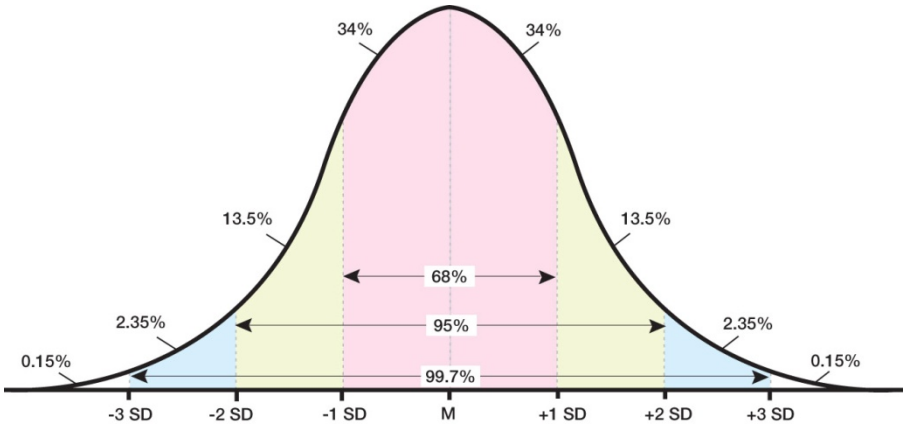
The methodology for comparing pre- and post-recession variations in monthly averages is described in section 3 of this update report.

We elaborate on it in this appendix but we recommend looking at the main report.

All the variations from the mean were plotted on a distribution curve. The standard deviation (SD) of this dataset is 12.43. The standard deviation is a measure of how much individual data vary from the mean. In what is called a normal distribution, or the familiar bell-curve:

- 68 per cent of data will fall within ±1SD
- 27 per cent will be between ±1 SD and ±2SD
- 4.70 per cent will lie between ±2SD ±3SD.
- Virtually nothing will be bigger than 3SD either way.

Figure A1 – normal bell curve

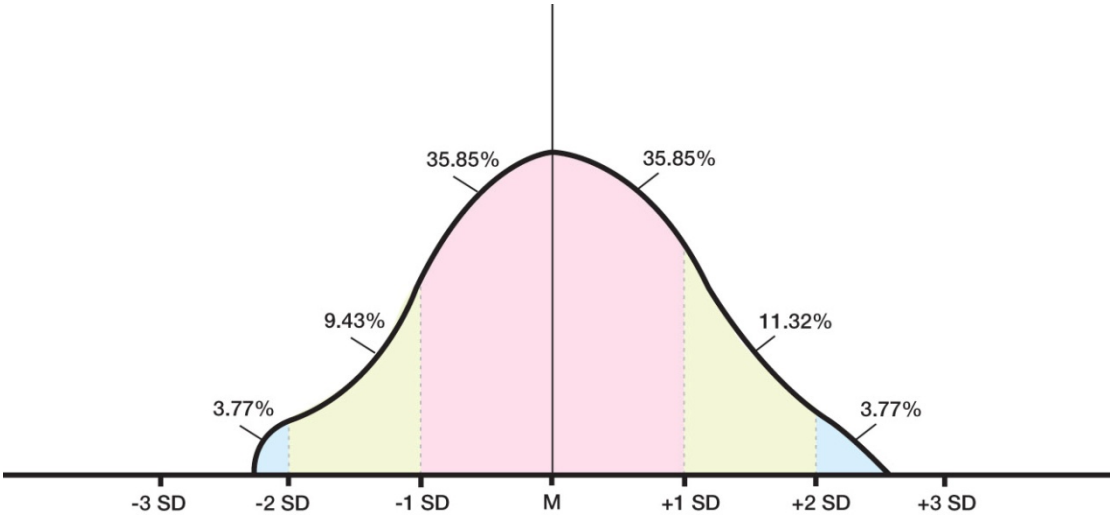


The data for pre-recession variations is skewed slightly but it's pretty close to a normal distribution, with:

- 71.70 per cent of the data fall within ±1SD
- 20.75 per cent like between ±1 SD and ±2SD
- 7.55 per cent lie between ±2SD ±3SD
- Nothing is beyond ±3SD

So that means, for our data of variations from the monthly averages, 71.70 per cent lie within 12.43 per cent either side of the monthly average.

Figure A2 – Distribution of variations in monthly averages Apr 03-Aug 07



Now we need see by how much the cancellations rates for the credit crunch/recession months (September 2007-January 2009) differ from the pre-recession monthly averages as calculated in Table 2 (in main body of this update report).

If recession cancellations were occurring at roughly similar rates or slightly enhanced rates, we'd expect to see the differences from the monthly averages falling within the ±3SD band, because on a normal distribution, ±3SD contains 99 per cent of all the data. This would suggest that the variations we see from September 2007 to January 2009 could have been fitted into the pre-recession distribution curve and so might not be that aberrant.

What we see here (Table 2 in this report) is that the differences increase steadily throughout 2008 until July onwards, the differences from the monthly averages are way, way off the scale. Cancellations rates for September 2008 are more than 4SD greater than the pre-recession average while December 2008's cancellations are almost 5.5SD greater (i.e. 67.67 is almost 5.5 times greater than 12.43 – the standard deviation of the pre-recession dataset). Any data that are more than 3SD either side of the average are extremely unlikely to have happened by chance. If similar drivers to those operating in the pre-recession months had continued after September 2007, then it would have been highly unlikely that September and December 2008 would have recorded such high cancellations rates.

We believe this has to have been driven by some external occurrence and the only thing that we can suggest that fits this pattern is that people have been cancelling their direct debits because of the actual or perceived effect of the recession.

Unfortunately, we cannot compare the pre- and recession averages in a test for significance because the current recession dataset is too small to derive averages.

But we can consider the entire dataset and work out the distribution of that. This would have the percentage differences for all months but, of course, the overall monthly averages would be different – higher – because of the effect of the recession months.

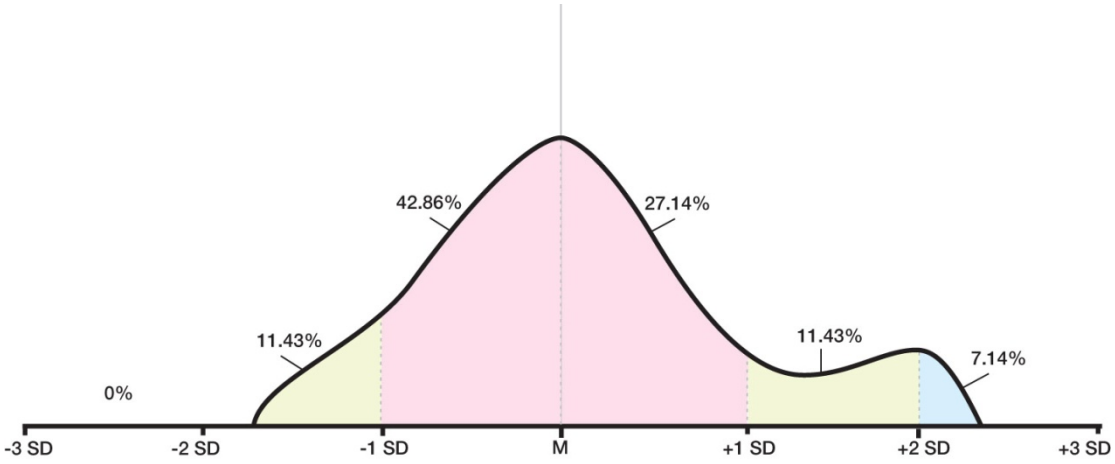
The standard deviation of this dataset is 17.89, but the distribution-curve for this is anything but normal.

We still have:

- 70.00 per cent of the data within ±1SD
- 22.86 per cent between ±1 SD and ±2SD
- 7.14 per cent between ±2SD and ±3SD
- Nothing beyond ±3SD

Which is very similar to the pre-recession data. But the curve is horribly skewed and not symmetrically around the average at all.

Figure A3 – Distribution of variations in monthly averages Apr 03-Jan 09



All the data between 2-3SD is on the positive side of the curve, with none on the negative side; while of the 70 per cent of data that fell within 1SD of the average, only two-fifths are on the positive side, but three-fifths are on the negative side.

<u>This shows that some very large numbers indeed have affected the normal distribution: these large cancellations rates ARE due to the recession.</u>

Table A1 Monthly direct debit cancellations rates from April 2003 to January 2009

Year	Events	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	**Avge[1]**
2003-04	Tsunami appeals	3.90	3.50	3.48	3.84	3.31	3.81	3.62	3.42	2.79	4.13	3.25	3.56	**3.54**
2004-05	Tsunami appeals	3.01	3.36	3.42	3.46	3.88	2.92	4.92	4.04	2.34	3.78	3.19	3.13	**3.45**
2005-06		3.06	2.96	3.39	3.15	3.93	3.71	3.39	3.13	2.03	3.33	2.92	3.12	**3.18**
2006-07		2.98	3.64	3.33	3.18	3.39	3.10	3.04	2.78	2.11	3.35	2.90	2.75	**3.05**
2007-08	Northern Rock (in September)	2.25	2.47	2.30	3.04	3.54	3.61	3.51	3.90	3.71	4.01	3.53	3.95	**3.32**
2008-09	Credit Crunch Recession	3.60	4.00	4.02	5.16	4.40	5.16	5.52	4.77	3.89	5.63	4.43	4.33	**4.62**
2009-10		4.16	4.25	4.09										**3.93**
Avge[2]		**3.28**	**3.45**	**3.43**	**3.64**	**3.74**	**3.72**	**4.00**	**3.67**	**2.81**	**4.04**	**3.37**	**3.48**	

1) The average monthly cancellations rate for each year is shown in the second last column. It is calculated by summing the monthly cancellations rates and dividing by 12. This is the same calculation as: adding up the monthly totals of live direct debits; adding up the monthly totals of cancelled direct debits, and calculating one as a percentage of the other. They give the same results. However, the average annual monthly cancellations rate is NOT the same as the annual attrition rate. This figure is an average 'rate' of cancellations and so is not dependent on the number of unique DD's processed by Rapidata. Focusing on the monthly rates of cancellations allows a much closer look at donor behaviour than simply examining five lots of annual attrition figures.
2) The bottom row shows the average monthly cancellations rate for each month over the last six years. For example, the average rate of DD cancellations for April from 2003-2009 is 3.28 per cent. It is calculated by summing the cancellations rates for those months and dividing by the number of months (seven, or six, because 2009-10 is not yet a full year).

The second column – 'Events' – lists the external events that might have impacted on cancellations rates.