

FEE INCOME

Boosting Income Without Losing Customers

The Durbin amendment and new overdraft rules significantly cut into fee income, creating more unprofitable accounts. So what should banks and other financial institutions do to generate more fee income? StrategyCorps' managing partner Mike Branton talks about how financial institutions can increase fee income from these accounts without scaring off profitable customers.

What are banks doing today to get more checking-related fee income?

There are three camps. One camp continues to do nothing. Maybe they think overdrafts are going to make a comeback.

Another camp is doing what we at StrategyCorps call “fee-ectomies”—charging for things banks have been giving away for free or relying on past tactics like balance requirements with penalty fee (maintain a \$500 minimum balance or be charged \$6). These fee-ectomies are perceived as unfair by customers—paying fees while adding nothing of value. Economists describe this as “an unfair value exchange.”

The third camp recognizes that consumers have been trained to value traditional checking benefits at zero due to free checking; that perceived fairness drives customer reaction to fees; and that you must not make the same checking account changes across the board with no recognition of the individual customer’s existing relationship profitability with the bank. We think the third camp will be the winners financially and with their customers.

What specifically is this third camp of banks doing?

These banks have first found a way to understand which checking customer relationships are profitable and which ones aren’t. Doing this allows for checking account changes to selectively fix the unprofitable ones and protect the profitable ones, rather than a wholesale change that may raise fees on every customer.

Once the banks have this identification and segmentation, the account design changes include adding non-traditional benefits if you are going to add a checking fee. Adding a fee without blending in new benefits results in customers feeling their bank is just greedy by charging for things that have been given away for so long. Think about how you feel about when airlines charge for luggage.

Third, once banks have determined the precise checking account changes to each customer segment, they should communicate these changes clearly and directly to each customer with an “upgrade” message

rather than a “we need more fees but aren’t providing you any more value” message. And they train their branch personnel to understand how these changes are truly fair for the customer, so they can deal with inquiries from customers about those changes.

In a nutshell, these three things are what StrategyCorps does for financial institutions.

So I guess you don’t agree with banks or thrifts charging fees for the use of a debit card at \$4 or \$5 per month?

It’s insane. You’re taking the number one most convenient, most popular way that customers want to pay for something and now you start charging a usage/penalty fee for that card right at the time you need significantly greater transaction volume? This negative reinforcement won’t work and there’s consumer research showing 80 percent to 90 percent of consumers oppose this idea and 20 percent to 30 percent will change banks over it.

With the Durbin amendment (which caps debit fees at 21 cents per transaction for banks above \$10 billion in assets), banks have to make it up with volume. So incentivize customers to use it more. We’ve designed our products to do this and are seeing transactions at least double. Charging a fee is going to not only tick off customers but also cause material account attrition that will offset significantly any fee lift.

Aren’t there going to be a lot of customers who say, “I don’t want to pay for a checking account?” Won’t a large number of people call the bank and say, “I don’t want the five dollar account, give me the free one?”

Actually, no. We understand this expectation and concern here by bankers, but we’ve done this account upgrade process hundreds of times. The reality is there is no appreciable negative response and minimal incremental attrition if you incorporate a fair fee-based account.

Doing this will get banks more fee income annually per account—the range is between \$60 and \$75—from unprofitable accounts, which is usually 40 percent to 50 percent of all checking accounts. Do the quick math; this is a significant number. The financial reward far outweighs the risk of losing accounts that were costing the bank money anyway.

And for the profitable accounts, there are several ways the relationship can be protected with this kind of “fair and upgraded” account strategy that significantly reduces their attrition risk.



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