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YOU ARE HERE: [HOME](#) > [BOARD ISSUES](#) > [RETAIL](#) > WHAT'S NEXT FOR CONSUMER CHECKING AFTER DURBIN?

BOARD ISSUES : RETAIL

Nothing for Something?

BY MIKE BRANTON | OCTOBER 6TH, 2011

Every consumer is intrigued by the offer of something for nothing. Retailers have depended on the positive, natural response of consumers to this marketing message for decades to generate purchasing interest.

So it is odd, strange and frankly confusing that mega banks (Bank of America, JPMorgan Chase and Wells Fargo), which claim to be retailers, are doing just the opposite by offering “nothing for something” when it comes to charging their customers for debit cards.

Sure, debit cards have inherent value. But financial institutions of all sizes have diluted that value by giving the cards away for many years. This has trained consumers to feel that banks can make money by providing them for free and are now being greedy by charging for them.

Three, four or five dollars per month for a debit card probably won't put many more people in the poor house, but it sure feels unfair. Response has been overwhelmingly negative by customers, non-customers, consumer advocates, politicians and even other financial institutions.

As a practicing amateur psychologist, it is easy to see why the reaction has been so negative. Nobody: rich/poor, male/female, black/white/brown, gay/straight, or city slicker/hayseed likes to get nothing for paying something. **It violates what economists call the “fair exchange of value.” It violates what I call common sense.**

And that's what these big banks miscalculated here. It's not the amount of the fee itself that is riling up the masses, nor is it the justification of why fees must be charged:—the government made us do it.

Rather, it's the perception of the fee as unfair that's causing the uproar. Earlier this year, Russell Herder, a Minnesota-based marketing research company, conducted a survey of more than 500 United States bank and credit union checking and savings account customers to ascertain if, and to what degree, loyalty to their financial institution is impacted by fees.

The bottom line, according to the survey: “The belief that a particular bank fee is unfair has a much stronger impact on consumer sentiment than the fee itself. In fact, as long as charges are perceived to be fairly assessed, the research showed no negative impact on consumer sentiment whatsoever.”

If you don't believe these results, tell me how you feel about having to pay for your luggage when you fly.

It's this miscalculation of the impact of these fees on the collective psyche that provides a fantastic opportunity for competing financial institutions. It offers a “bags fly free” type of marketing opportunity to gain market share and mind share of consumers just like Southwest Airlines has.

There are smarter ways to get more fee income from consumer checking customers than, in their minds, getting charged something and getting nothing. You have to be creative and not rely solely on traditional checking design and pricing, because these also face customer backlash given the value perception in customers' minds anchored around "getting charged for using my money".

But it can be done. **Hundreds of banks are successfully doing this already and there are millions of checking customers gladly paying fees equal to or greater than what these big banks are requiring customers to pay for debit cards.** Customers are willingly paying \$5-\$7 per month for benefits like local merchant discounts, identity theft protection and accidental death insurance (bundled with traditional checking benefits). These benefits provide tangible value to customers in terms of real savings and ample personal security. In other words, banks are simply asking customers to pay a modest fee for something that is perceived as and is valuable, instead of for paying something and getting nothing new for it in return.

Someone said "chaos creates opportunity". **And when it comes to consumer checking accounts, this is just the beginning of chaos that we'll see as banks try to recapture lost fee income.** For some of you reading this, it'll be your "bags fly free" opportunity. For others that follow the lead of Bank of America, it'll be just another reason for consumers to broadly brush banks as out of touch with their customers.

Which one are you?

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