

What to Do with Unprofitable Retail Checking Accounts?

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The Checking Experts

by Mike Branton
Managing Partner
StrategyCorps
www.strategycorps.com

A recent survey by StrategyCorps of 150 retail banking executives showed that 96% said at least 30% of their retail checking accounts were unprofitable. Detailed analysis by StrategyCorps of about 50 banks (of all sizes) consistently has found 30%-50% of all retail checking accounts are unprofitable. The FDIC estimates about 50% of all checking accounts aren't profitable. (The break-even revenue line is estimated at \$250 annually, inclusive of all net interest income and recurring account fees for all accounts related to the checking account). Other firms like Celent, LLC and Austin Associates estimate \$250-\$350 as the break-even range.

So there are thousands of retail checking accounts that are costing each bank lots of money to support and service. As the overdraft fee "safety net" contracts, even more accounts will become unprofitable. Banks must figure out how to deal with these low balance, single service and no fee checking account relationships.

The three options to grow revenue from these relationships are:

1. a higher deposit balance per account (driven primarily by interest rate paid)
2. more products/services sold per customer (the elusive cross-sell) or
3. higher non overdraft fee income per account.

Let's focus on option three. For years, banks put their best products/services with strong, intrinsic value into free checking. It was a financially justified checking strategy at the time – maximize new account volume to generate maximum overdraft/NSF fees.

However, the unintended consequence is checking customers now value these products/services at zero (free). Charging fees to customers for the same things they've gotten for free for the last decade is a tough sell. It's equally difficult to impose requirements to qualify for free checking, particularly if there's a fee involved that is penal (for example, a penalty fee for falling below a minimum balance requirement; Raddon Group research shows that nearly half of customers say they are likely to leave their bank when a \$500 minimum balance requirement with a \$6 penalty fee is considered).

Compounding this situation is the current, historically low trust level of banks by consumers. New fees for products/services heretofore valued as free or with penalty fee based requirements will significantly increase potential attrition risk, particularly with profitable customers. And in most cases, the financial contribution of these methods of new fee income is not significant enough to justify the risk taken.

Therefore, it's critical to identify and segment checking accounts by levels of profitability. Segmenting allows the bank to not take a "one size fits all" approach to generating more fee income, where both profitable and unprofitable accounts are treated the same. Rather it provides information to more precisely design solutions that "fix" the unprofitable checking accounts and protect the profitable ones - not "run off" the unprofitable ones and make the profitable ones angry.

However, segmentation to identify profitability levels is not enough. Banks must now think more creatively about new checking account solutions they adopt. Customer-friendliness in account design cannot be dismissed. StrategyCorps' has determined three rules to better win the checking profitability game:

1. Make Your Line-Up Simple
2. Make Your Products Better, and
3. Make It Easy to Buy and Sell at the New Accounts Desk.

The best performing retail banks make these three the cornerstone of any checking account re-design. It results in a winning situation for everyone – the customer, the front line banker and the bank. Plus it goes a long way to dealing with those thousands of unprofitable checking accounts that banks now find weighing down their retail checking related profitability.

About the Author

Mike Branton is the Managing Partner of StrategyCorps, which has been creating customer-friendly checking fee solutions for nearly 10 years. He can be contacted at mike.branton@strategycorps.com.