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What's Next for Consumer Checking after Durbin?

BY MIKE BRANTON | JULY 11TH, 2011

The two major checking-related fee income sources have been the targets of regulation. Durbin will decrease interchange fees by about 45 percent (44 cents per average transaction down to 24 cents). Sure, there's still uncertainty regarding the exclusion for financial institutions with less than $10 billion in assets, but even the most optimistic banker will concede that interchange fees will not be at levels where they've been before. Add to that, the estimated financial impact of FDIC and OCC overdraft guidance - a reduction of an additional 15 percent to 25 percent on top of Reg E's first year negative impact of about 10 percent to 20 percent. So, checking account products and pricing will have to change to adapt to these new rules.

These changes to replace lost fees won't be popular, given overall consumer sentiment towards banks these days. This challenge is compounded by the fact that free checking has convinced consumers that traditional checking benefits aren't worth paying for. In the minds of many consumers, since banks have been able to financially justify not charging for these benefits for the last decade or so, no longer doing so is just another "fee grab" by greedy banks.

This means the easy and convenient changes like starting to charge fees for the same benefits that have been free or instituting certain requirements, like minimum balances to avoid penalty fees, is a risky move. It will anger customers, especially the most profitable ones, and chase many of them away to competitors. Plus, history has proven that these kinds of checking changes will generate only a fraction of the revenue that needs to be replaced.

Banks must make changes to their retail checking accounts to incorporate a fair exchange of value with customers. This means an upgrade in what they get when their bank begins charging fees for services. Sorry to sound like a broken record, but charging fees for benefits that customers haven't paid for in the last decade or adding requirements to avoid a fee is a tough sell, and just defaulting to this approach will be unproductive at best.

So smart banks see the post-Durbin world of checking as an opportunity to launch innovative checking products-including adding non-traditional checking benefits deemed worthy of a charge, such as local merchant discounts and identity theft protection. And look for pricing strategies that simply and immediately reward customers by reducing checking fees based on desired banking behaviors from customers that don't revolve around minimum balances. This differently defined "pathway to free" will replace the traditional free checking account, which will be hard to justify in the future from a profitability standpoint.

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