WHITE PAPER

EMERGING BEST PRACTICES IN CONSUMER CHECKING

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As the consumer checking world continues to be redefined – by regulation, technology, consumer expectations and bottom line imperatives – there are a number of key considerations that can help guide the design of the next generation of transaction services.

Simplify, simplify, simplify …

Checking product lines often offer a variety of account types and packages – accounts designed to appeal to consumers' diverse financial needs. While in theory the concept has merit, in practice it doesn't hold up.

First, while account functionality and convenience is important, customer engagement is limited, even to the extent that a growing number of younger consumers don't even know what a "checking" account is – and think more in terms of their everyday banking, debit card or payments account.

Additionally, the greater the complexity, the more choices and options, the more challenging it is for bankers and customer support staff to understand and remember. Keeping on top of which name goes with which account, as well as specific requirements and features and benefits can be difficult – and make the sales and service processes more cumbersome and less effective.

Bankers need to be enabled to have broader, more needs-based dialogues of substance with customers, not a recitation of numerous, and often confusing, checking account variables.

Simplification and transparency offer ease of selection and better customer understanding of options for getting the features and benefits they value.

Focus on relationships

The transaction account remains most consumers' primary financial relationship. It is the foundational account – the personal "clearing house" of financial activity – where paychecks are deposited, daily transactions made and bills paid.

Free checking led many institutions to focus more on the overdraft fee engine and interchange income than on the greater long-term value of customer relationships.

Structuring accounts and packages to incent deeper relationships can help grow deposit, loan and fee-based revenues, and sustain customer relationships – making them more valuable over time and less likely to attrite. And well-designed relationship accounts can be effective in recognizing and rewarding your best customers.

Developing relationships of substance and longevity requires breaking down the organizational and technology silos, and focusing on better serving customer needs.

As the urgency grows to drive revenue growth, banks will get more lift from expanding customer relationships than from raising fees or cutting costs. Winning institutions can offset the damage by serving customers more fully than before. (Source: Novantas, April 2011)

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Aim for customer relevancy

While life stage can be a telling indicator, the diversity of consumer financial circumstances, needs and preferences calls for options from which customers are able to select – based on a combination of balances, transaction types and volumes, and channel usage.

Many financial institutions continue to offer 50-55+ “senior checking.” However, consider the profile of today’s 50+ customer. Many are baby boomers still in the workforce, kids in college, parents requiring support, retirement savings struggling, banking online, etc. This is not yesterday’s senior citizen. Free travelers checks and senior outings have lost their relevancy for this segment and the senior account has outlived its usefulness.

Conversely, there is merit in offering a student account designed for the Gen Y segment, establishing affinity and early-on relationships that will remain loyal and grow over time. This is their financial hub, and they demand accessibility and functionality that meet their expectations. Not considering their unique needs could have negative long-term ramifications in a world of emerging, and aggressive, non-traditional players.

The rapid emergence of mobile banking, email and text alerts, P2P and expedited payments, remote deposit, PFM tools and other new capabilities, offers an ideal platform for redefining “free checking” as a paperless (or “green”) account, with a few basic requirements like direct deposit, estatements, debit card and/or bill pay transactions. This not only offers the opportunity to add features and benefits sought by an increasingly technologically-savvy customer base, but delivers a lower cost model.

Reloadable prepaid cards are also finding a more mainstream place in consumer payment options and may play an increasingly relevant role as a low cost alternative, perhaps as a way to serve the “underbanked” market, or the student segment, or as a supplemental payment vehicle.

Reduce costs

The fundamental restructuring of the consumer checking business model offers the opportunity to drive customer behavior and reduce direct and indirect costs. Here are several suggestions:

- **Reduce reliance on overdraft subsidization.** Require that all accounts contribute to profitability – either through balances, fees and/or transaction activity. This will realign costs with value to the customer – and encourage the shift to lower cost alternatives.
- **Limit interest-bearing accounts.** Given the continuing low interest rate environment, consumers have become desensitized to checking account interest – usually measured in terms of cents. Where the return means little to the typical individual customer, in aggregate it can mean a lot to the bottom line.
- **Make paperless statements and notices standard.** Charge for paper-based statements and return of checks for most accounts and provide as a no-fee option only for select accounts and relationships.
- **Integrate direct deposit into account requirements.** Reduce costs while strengthening customer longevity.
- **Incent online and mobile banking behaviors.** Support the redirection of branch and call center volumes for basic information inquiries and transactions by building incentives into the account structure.

The opportunity to reduce costs is not limited to account structure – but in how customers are served and communicated with. For instance, obtaining email addresses and mobile numbers will not only support strengthened customer communications, but will lower costs as well.

Build loyalty with incentives, rewards and value-add services

Although we're seeing debit card rewards programs being dropped by some given the prospect of interchange limits, the idea of customer incentives and rewards remains viable when tightly aligned with objectives of building relationships and loyalty or specifically tied to desired customer behaviors. New (and old) approaches are emerging – including the more traditional, tied to account-specific benefits like reduced account fees, interest rate bonuses and discounts and added account benefits, as well as high-value add-on services like identity protection and a move to merchant-funded rebates and rewards – all more tangible, more immediate and simpler. Expect these programs to continue to evolve as financial institutions seek meaningful ways to incent and reward profitable relationships and behaviors, and in some cases, generate additional fees.

> **"… It's essential for banks to use data to understand, recognize and reward the customer across products, no matter how they interact. It's not just about bringing in new customers, but also about ensuring that the customers who stay and continue to do business are rewarded."**
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> (Source: Colloquy, March 2011)

There is no one-size-fits-all ideal product lineup

Each financial institution will have its own set of business drivers and influencing factors that will guide their next generation transaction product lineup. Strategic priorities, current offerings, system and operational capabilities, financial and staffing capacities, customer segment needs and other important considerations will all play a role – as will the uniqueness of each market and competitive environment.

Critical to success will be the ability to understand the dynamics of product and customer relationship profitability – with greater attention paid to channel usage and transaction type and volume. Even as this becomes increasingly difficult with numerous systems unable to capture and integrate at this level of detail, it is vital to assuring profitable product, customer relationship and marketing strategies.

The next few years will continue to demand market responsiveness, change and innovation as traditional financial institutions strive to keep pace with the rapidly expanding and highly competitive payments world.

There is no silver bullet, no perfect product lineup, but there is an extraordinary opportunity to redefine the business model to better meet customers' evolving needs and expectations while driving increased efficiency and greater bottom-line profitability.

> **Retail banking has reached an inflection point, where prevailing assumptions begin to lag emerging realities. Customer behavior, competition, and business models are changing. Perhaps at no other time in the history of finance has the business model for retail banking been under such pressure.**
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> (Source: Council on Financial Competition, April 2011)

MindBridge Marketing is a Minneapolis-based marketing company focused on the financial services industry.
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