

# The Reshaping of Consumer Checking

January 2012

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**Drivers of Change**



**Strategic Directions**



**Opportunities & Options**



## Drivers of Change



# Drivers of Change

- Regulation
- Technology & innovation
- Emerging payments alternatives
- Consumer demographics, preferences & behaviors

# Drivers of Change

## Regulation & compliance – 2012

- Consumer Financial Protection Bureau (CFPB)
  - Cordray appointment sets the wheels in motion for implementation of many Dodd-Frank provisions and new rulesetting
- FDIC Overdraft Guidance
  - Extension to all transaction types, processing order, consumer notification and education, etc.
- FDIC Division of Depositor & Consumer Protection
  - Strengthens focus on compliance and enforces CFPB rules
- UDAAP (Unfair, Deceptive and Abusive Acts and Practices)
  - Open to subjective interpretation and emerging as a top compliance risk

***"Fasten your seat belts. It's going to be a bumpy [year]."***

***Margot Channing [Bette Davis] in All About Eve***

Source: A Closer Look – The Dodd-Frank Wall Street Reform and Consumer Protection Act  
(PwC September 2011)

# Drivers of Change

## Technology & innovation

- Online banking & bill pay – expanded functionality
  - Account alerts
  - E-statements (with check images)
  - Expedited payments
  - Account and bill payment history
  - Loan funding
- Mobile banking – account information, alerts, locations, transactions, bill pay, account services, etc.
- Person-to-Person (P2P) payments
- Remote deposit
- Financial management (PFM) tools

**PwC Research projects that mobile banking will be the banking norm by 2015.**

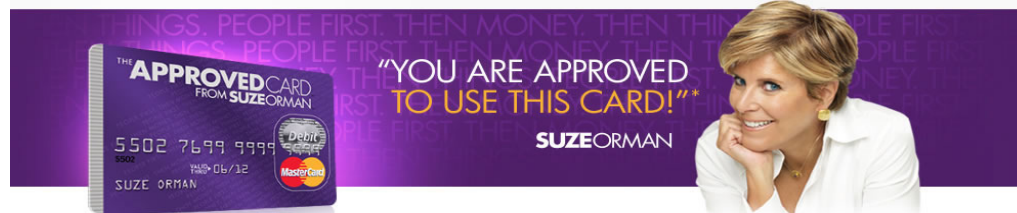
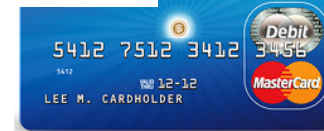
Source: CU Times, January 16, 2012

# Drivers of Change

## Emerging payments alternatives

### General purpose reloadable (GPR) prepaid cards

- Fast moving developments
- Alternative to checking and check cashing services – not just for the underserved
- Direct issue and cobranded options – Visa, MasterCard, American Express, Discover
- Fees can be high – for purchase, reloading, access, etc.
- Greater regulatory requirements ahead (disclosures, fee limits)



# Drivers of Change

## Emerging payments alternatives

### The race to digital/mobile wallets

- **Google Wallet** partnership with Citibank, MasterCard and Sprint
- **PayPal** enters POS payments (Home Depot trial expands) beyond online purchases, P2P and mobile bill payment
- **Isis** Verizon, AT&T and T-Mobile wallet with Visa, MasterCard, Discover and AmEx (mid-year launch)
- **V.me** by Visa soon launching
- **Apple** expected to launch a wallet in 2012
- **Fiserv** includes CashEdge popmoney<sup>®</sup>, ZashPay<sup>®</sup> and CheckFree



Photo-Illustration by Thomas Hannich for TIME



# Drivers of Change

Consumer demographics, preferences & behaviors

## **Gen Y... increasingly important and elusive segment**

- Ages 12-32 (estimated at 75 million people); annual income projected to be \$3.4 trillion by 2018
- Active users of online tools, channels and technologies
  - Mobile banking mandatory
  - Debit cards are primary payment method
  - Robust online banking and bill pay important
  - Expect email and SMS alerts and confirmations
  - Want to open accounts online
  - 40% use PFM tools to manage their finances
  - Want surcharge-free ATMs
- Generally trust their community-based FI – but not “highly satisfied”
- More likely to use nonbank alternatives and switch for lower fees, locational convenience and more robust online services
- Value advice from professional advisors – though also turn to friends, family, social networks, and online research and tools

*(Sources: Deloitte, Catalysts for Change , 2008; Javelin Gen Y studies, 2009/2011; Cisco Retail Banking Study, 2010; AITE “Engaging Gen Y: Cultivating a New Generation of Banking Customers,” 2009)*

# Drivers of Change

## Consumer frustration and distrust

- Heightened industry visibility and scrutiny (e.g., “too big to fail”, Credit Card Act, Reg E, Durbin, etc.)
- “Bank Transfer Day” movement triggered by BofA’s \$5 monthly debit card fee
  - CUNA estimated 214,000 consumers moved their accounts to credit unions (down from initial estimates of 650,000)
- A fall 2011 study of 1,000 American adults by The Chicago Booth/Kellogg School Financial Trust found the following:
  - Only 23% surveyed said they trusted the country’s financial systems
  - Close to 60% said they are angry about the current economic situation
  - Trust in banks has fallen to 33% overall
- Frustration and distrust directed primarily at the big banks
  - A unique opportunity for community banks and credit unions

# Drivers of Change

## Insights: J.D. Power & Associates

- 8.7% said they switched their primary bank (up from 7.7% in 2010)
- Most common reason for switching: moving/change in life circumstances
  - Reasons also include fees and rates, unmet expectations, mergers and poor service
- Most important decision factors: advertising, branch convenience, products/services, promotional offers, and direct and indirect customer experience (including past interactions, recommendations and reputation)
- Fees and interest rates are not significant *purchase* decision influencers (about 17% of those switching said they were a driver)
- “Blunt instruments” of ad spend, branch density and promotional offers have been effective in capturing market share
- Only 43% of customers who purchased an additional banking product did so at their primary bank – with promotional offers being the biggest driver (and positive past experience)

*2011 Retail Bank New Account Study<sup>SM</sup> : Survey conducted November/December 2010; 4971 customers who shopped for a new banking account or new primary financial institution during the previous 12 months*

# Drivers of Change

## Rethinking the checking business model

- The checking world changed in 1986 with “Totally Free Checking with Gift”
- Consumers have been conditioned to expect “FREE”
  - Financial institutions have MY money
  - Fees are punitive
  - Minimum balances are unfair
  - Activity requirements are restrictive
- Greatly increased consumer awareness and public reaction to checking pricing have reinforced this view
- Financial institutions have historically not priced for value – nor communicated it – even as that value (and costs) increased

**People** Branches  
**Systems & Technology**  
ATMs Call Centers IVR  
Tellers Debit Cards **Fraud**  
**Protection** Deposit  
Insurance **Checks**  
Online Banking **Bill Pay**  
Privacy & Security **24/7**  
Mobile Banking Remote  
Deposit **Rewards**  
**Programs**



# Strategic Directions



# Strategic Directions

## Emerging checking trends

- Cost reduction
- Fee income replacement
- Relationship focus

**“Strategies for replacing lost fee income include creating new fee-based products, improving operational efficiency, and aggressive marketing and cross-selling to deepen customer engagement.”**

*Source: BAI & Finacle "Index of Bank Sentiment, January 2011"*

# Emerging Checking Trends

## Cost reduction

- Elimination of “free checking” and debit rewards
- Implementation of fee “buy down” options such as electronic statements, direct deposits, online bill payment and debit card usage – to shift behaviors to lower cost options
- Limiting or eliminating not-on-us (foreign) ATM fee waivers and surcharge reimbursement – by account type, higher balance requirements, relationships
- Cost-saving account requirements – including e-statements, direct deposit, online bill pay, debit card usage
- Limiting interest options – e.g., higher balance requirements, fewer account options, flat rates vs. tier structures, etc.
- Limiting free checks – by account types, check styles, first vs. ongoing orders, not including shipping/handling
- Increasing branch network performance – closing branches, moving from transaction to consultative focus, enhancing technology, etc.

# Emerging Checking Trends

## Fee income replacement

- Basic flat fee accounts
- Minimum balances with monthly fees
- New (or increased) not-on-us ATM fees
- New overdraft protection options (e.g., transfer fees, annual fees)
- Fee for paper statements and/or return of checks (or account fee discount)
- Increase in “other services” fees (e.g., wires, cashier’s checks, stop payment, etc.)
- New fee-based services (e.g., security and fraud protection, add-on and bundled benefits packages, prepaid cards, etc.)



# Emerging Checking Trends

## Relationship focus

- “Sticky” services and incentives – drive relationship-building behaviors
  - Direct deposit, online banking and bill pay, debit card, auto payments
  - Rate bonuses and discounts
- Value-add services – increase customer/member reliance and retention
  - Alerts, mobile, remote deposit, PFM tools
- Relationship accounts and packages – strengthen loyalty and tenure
  - Greater value for multiple account relationships
- Add-on, fee-based features and benefits – either bundled into accounts or available as additional services, for instance:
  - ID fraud protection, credit bureau monitoring, purchase protection and extended warranties, travel perks/discounts, emergency auto services, etc.)
- Move to more cost-effective *merchant-funded* rewards, including cash back and Groupon-type programs (Zions, BBVA Compass, PNC)
- Shift towards relationship-based rewards, with points earned on account relationships and cost-saving, high-retention behaviors (KeyBank)

# Emerging Checking Trends

## Structure & positioning

- Simplification – streamlining account selection
- Multi-channel convenience and functionality
- Relationship benefits
- Added-value fee-based service offerings
- Stress the many checking benefits (i.e., “free” services)
  - Debit card (instant issue)
  - Unlimited check writing
  - ATM access
  - Online banking and bill pay
  - Online e-statements
  - Mobile banking
  - Alerts (email, mobile, voice)
  - 24/7 phone banking
  - Unlimited teller service



# Opportunities & Options



# Opportunities & Options

Business goals drive strategy



# Opportunities & Options

## Environment of opportunity

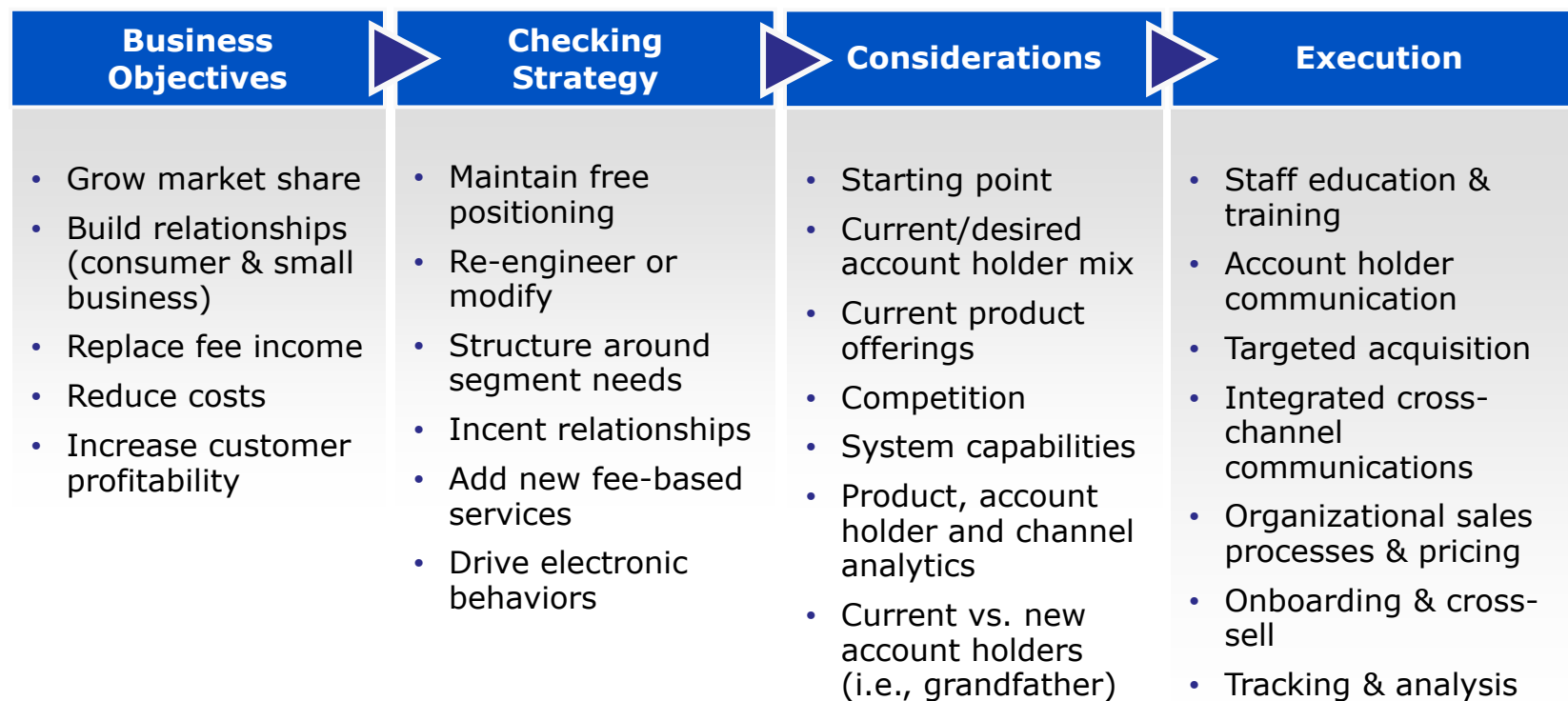
- Opportunity to re-rationalize checking
  - Move from overdraft (and interchange)-based profitability to account and customer/member profitability
- Opportunity to differentiate and capture market share
- Opportunity to drive lower-cost behaviors and channel usage
- Opportunity to strengthen relationships
- Opportunity to innovate and introduce new (fee-based) services
- Opportunity to acquire (and “switch”) new customers and members

**“Interchange regulation is going to have profound repercussions throughout the banking and payments industry, well beyond merely slashing banks’ profits. Counter intuitively, the Durbin amendment is likely to usher in a new wave of innovation in U.S. retail banking and payments.”**

*Source: Gwenn Bezard, Research Director, Aite Group*

# Solution Options

Not a one-size-fits-all solution



# Discussion

Thank You!



Please give us a call or send us an email if you'd like to learn more about how we can help you.

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