The True Value of the Checking Account

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When someone asks where you bank, your answer will likely be...

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... the financial institution with which you have your primary checking account. "In the minds of most consumers, the checking account is the core banking relationship," said Tina Young, senior strategist for Harland Clarke Marketing Services. When it comes to frequency of use and access, it trumps savings accounts or any type of loan.

Small financial institutions spend about $250 per year to maintain a customer checking account; for large institutions, the figure is closer to $400 per year. Average revenues attributable to checking accounts were about $414 per year last year.[1] But if average revenues exceed average expenses, why are banks continuing to lose money on deposit accounts and how can they reverse the trend?

The answer is that not all checking account holders are created equal. About 45% of checking accounts are not profitable for banks. Another 30% are only marginally profitable.[2] Identifying the profitable segments and focusing checking acquisition efforts on them is essential.

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[1] BankDirector.com, *The Profitability of the Average Checking Account,* April 22, 2013
[2] MarketRatesInsight.com, *Free or Fee? Making Bank Customers Profitable,* September 13, 2013

Checking Is a Gateway to Greater Profitability

Consider whether an unprofitable checking account relationship has potential to be profitable in the future, Young suggests. When a person gets his or her first job, for example, a checking account is usually an immediate need. Auto loans often follow within a couple of years, and home mortgages come next. If an institution doesn't land the checking account, it has missed its best chance to get the account holder's loan business. For instance, a premium checking account is usually profitable, with performance characteristics and larger balances contributing to a 20% return on equity at many banks.[3]

Successful financial institutions have a plan for nurturing the checking customer and promoting a deeper relationship. "A checking account is about household acquisition as a primary point of contact; then, institutions offer engagement services — like debit cards and mobile banking — so the customer will use the account," said Young. "The next step is cross-selling to further the relationship and make it more profitable for the institution."

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When a relationship with the account holder develops fully, it can be very rewarding. Of course, there is no guarantee that a new checking account holder will ever become profitable. But, according to Young, financial institutions have become more adept at managing their checking products in recent years. "There are all sorts of checking accounts. Some have maintenance fees or required minimum balances. Many require direct deposit. Financial institutions have come a long way since the days of truly free checking," she said. ATM fees, debit card fees, excess activity fees, money transfer fees, and overdraft charges are additional ways that financial institutions recoup expenses related to checking accounts.

There is no doubt that the years of "free checking" conditioned a segment of consumers to believe that any service related to checking accounts should always be free. "We trained people to think in terms of free service, thus devaluing the checking account," said Young.

[3] CenterState Bank, *Optimize Premium Checking Accounts,* December 16, 2013

"There are services that consumers value – like mobile banking, e-payment and e-presentment, rewards programs, and instant access," she said. "What we see, in a sense, is a re-education of consumers. "Financial institutions must demonstrate to account holders the value of the services that come with their checking accounts. That makes it easier for them to understand why banks have to charge for some of these services."

Understanding what fees consumers are willing to pay and what they are not willing to pay for will be key.

Financial institutions are testing the waters to see what fees consumers will accept. Some have started to charge for mobile, online banking and rewards programs on basic checking account types. They are also beginning to charge for funds availability, allowing customers to pay to have faster access to their money.

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"As innovation and sophistication in the digital channel continues, there will be more opportunities to educate consumers on the value of more advanced services, as well as opportunities to charge for those that they want," Young said.

Charging for a service or product at the time it is introduced is easier than introducing a fee after the consumer has received the service for free. "In mobile banking, for instance, there may be a base-level service that's free, but consumers will likely have to pay for voice-activated services," said Young.

Financial institutions are also becoming more involved in e-commerce, with leaders like U.S. Bank establishing themselves as innovators in this area.[4] "If financial institutions can harness the power of e-commerce, there's increased demand from consumers and money to be made for financial institutions. These types of ventures are what we are likely to see in the future."

Tina Young has more than 20 years of banking sales and marketing experience, including establishing sales strategies, product development, developing marketing campaigns and preparing and delivering sales training. She has managed more than 200 marketing programs and marketing spends of $140 million.

If you'd like to learn more about acquiring more profitable new checking account holders or how to tap into greater revenue potential of existing accounts, call 1.800.351.3843, email us at ContactHC@harlandclarke.com or visit harlandclarke.com/AcquisitionAccelerator.

[4] Bank Technology News, *Digital Banker of the Year: U.S. Banks, Niti Badarinath,* June 2, 2014