Best Intentions — Do Get Punished!

By Philip D. Armstrong

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New customer onboarding for checking accounts is a well-oiled machine at most financial institutions.

Communication strategies are carefully planned to ensure customers receive all required disclosures and account information. Being clear and transparent are the buzz words du jour. This is especially true for communicating how to avoid that pesky monthly maintenance fee!

And yet, at this critical “moment of truth,” most institutions fail to warn a customer of their pending first fee. Plus, many customers are not even told about a beneficial policy that allows them a “grace period” to bring over qualifying deposits or link accounts to avoid the monthly maintenance fee.

Many institutions place a waiver that expires after a certain period — usually two months. One major bank actually goes to the extent of disclosing their waiver — a cushion of 64 days. No doubt to avoid trying to match statement cycle times or accounting for the 30 days in September, April, June and November.

This is a good thing for the consumer, right? Well, yes and no.

The Disclosure Dilemma

No one reads disclosures except lawyers and product managers. Most customers tuck those papers in a drawer or, god forbid, throw them away. While most institutions make them readily available online you can be sure this is a lonely URL with rarely a click.

So, the first month arrives and no fee on the statement. Well, that’s good — the customer probably needs a little more time to set up automated Bill Pay and change those ACH’s. The second month goes by and, again, no fee on the statement. Surely, the customer remembers their sales conversation and that if they don’t raise their balance to $1,500 average daily balance, or set up a recurring and qualified direct deposit of $500, they’ll be hit with a $12 or $25 fee on next month’s statement. Right? You guessed it: Probably not.

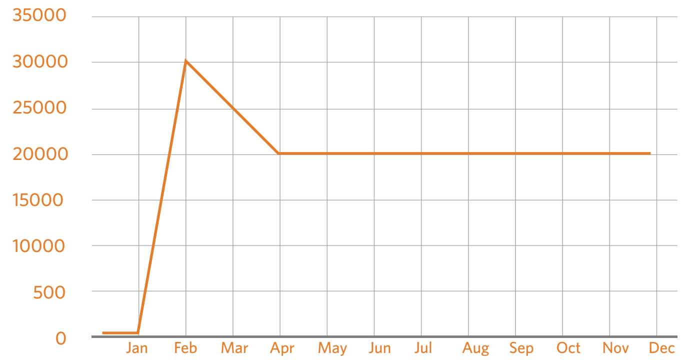
The Wakeup Call

From my 30 years of industry experience, roughly one-third of all **new** accounts will be hit with a monthly maintenance fee (MMF). The norm for these fees runs in the bottom 20 percent of the institution's portfolio. That means there's a 50 percent increase in monthly maintenance fees during the third or fourth month. But it doesn't last.

Assumptions: Based on 100K new accounts

- Portfolio Average MMF - 20%
- New accounts spike month 3 or 4 - 33%
- By month 5 MMF's mirror portfolio

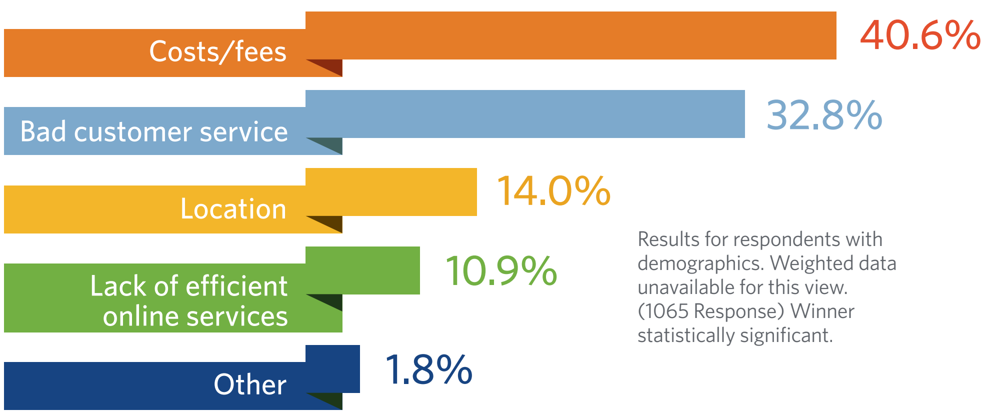
Number of Accounts charged MMF



What occurs next is the proverbial ruler on the knuckles that wakes up and jolts many account holders to take action and bring over those qualifying deposits or set up direct deposit. To bankers this is a good thing. The fee changes account holder behavior to move these accounts to profitability while providing income as a bonus. And yet, the number one reason for switching financial institutions is — you guessed it — the fee.

What would be the primary reason you would switch banks?

High cost/fees (40.6 percent) and bad customer service (32.8 percent) dwarf other factors that would lead customers to switch banks.



Results for respondents with demographics. Weighted data unavailable for this view. (1065 Response) Winner statistically significant.

Methodology: Conducted by Google Consumers Surveys, May 11, 2016-May 11, 2016 and based on 1065 online responses. Sample: National adult internet population.

The Punishments

The first punishment is often silent for the financial institution: quiet attrition and the closing of accounts in the first year. Attrition averages run as high as 30 percent of accounts in the first year.

The second punishment is the negative customer experience of the account holder having to go into the branch or call the customer service line to get the fee waived. Most institutions will waive the fee one time. Certainly, that appeases the account holder, who realizes the mistake and corrects it for the future. Right? Maybe, maybe not.

But ask yourself, was this the best customer experience for new account holders? Is this how you welcome them to your financial institution? The second or third experience with you has been negative. Do you think they might be reconsidering moving their accounts to you? Remember, this is your honeymoon period.

Do The Math

Do the math on the increased fee income you received for the third or fourth month and then calculate the increased attrition rate among those who were "jolted" by the fee.

Each financial institution will need to do its own analysis, but my hypothesis is that these jolted customers will attrite at a higher rate than the norm. It only takes a few percentage points of saved attrition to provide long-term profitability that far outweighs the short-term non-recurring fee revenue.

Now, factor in the costs of lost cross-sell opportunities, credit cards or home equity lines, and the revenue impact just got even more significant.

Hypothetical Cost of New Account Attrition

Cost of Attrition	
Assumptions:	
Value of DDA Account:	Annually
Regular Checking	**$125**
% of Accounts Regular Checking	**85%**
Interest Checking	**$300**
% of Accounts Interest Checking	**15%**
Year One Attrition Rate	**30%**
Annual New Accounts	**100,000**
Total Annual Checking Value	**15,125,000**

1% Attrition is 1,000 accounts or $151,250 annually.

MMF Fee Revenue from "jolted"
Assumptions:
10% of 100K new accounts charged a 1x MMF. Then meet qualifiers.
10,000 accounts pay on average $14.
Regular Checking - pays $12
Interest Checking - pays $25
Total MMF income $140,000

The MMF income on the jolted is $140,000.

Your true number is far less after all the fees get waived!

So just doing a back of the envelope math exercise, you actually are losing money and providing a poor customer experience!

Now ask yourself how are you doing on capturing direct deposit in the first 90 days? According to a BAI study your portfolio segment averages should look something like this:

Making Deposits by Generation

	Total	Millennials	Gen Xers	Baby Boomers
Direct Deposit	60%	55%	59%	**66%**

(Source: 2006, BAI Consumer Market Pulse (CMP) Survey.)

My guess is, after 90 days with new account holders, you're lucky to be in the low 30 percent range. After that, adoption rates for direct deposit plummet. They'll eventually grow over time to the institution's portfolio average, but at what cost? How many opportunities will have been lost in the meantime?

A Better Way: Alert Your Customer!

You'll be surprised of the multiple benefits and the relatively low cost of simply providing advance warning to your account holders that they're about to be hit with a fee.

Besides the positive customer experience you'll be providing, you'll benefit both your account holder and your financial institution by:

1. Jolting account holders to begin transferring their primary account to your financial institution with a "service message" that allows you to reach all account holders not meeting your requirements.
2. Allowing your institution to reconfirm qualifiers for the account and provide a direct deposit form. Remember, if you don't get direct deposit established in the first 90 days, your chances of driving primary status drop precipitously.
3. Affirming why they wanted to open their account in the first place.
4. Validating (compliance check) the account holder actually opened the account.
5. Improving account holder satisfaction, especially since you're likely measuring a false satisfaction metric during the first 60 days — not AFTER they receive the monthly maintenance fee in the third or fourth month.

The Harland Clarke Difference: A Programmed Alert After 30-45 Days

Best practices would include setting up an alert at account opening as the customer is introduced to online and mobile banking. Email works best since it's the preferred channel by most consumers. It's also the most efficient as it can be automated and measured. Open rates will be high since this is the first 45 days after account opening (expect open rates above 40 percent, in my experience). You may want to include a second email to remind account holders who failed to open the first one and who still meet requirements.

A multichannel approach would be most effective. This can be accomplished by adding:

- A one-time splash reminder when account holders sign into their online or mobile accounts
- Outbound telemarketing calls to reach those unavailable via digital channels

The result is a program that is:

- Measurable
- Drives improved profitability
- Drives account holder satisfaction
- Provides regulatory/compliance validation that your institution is taking every step to ensure account holders are aware of fees and account requirements while ensuring fraudulent accounts are not being opened

I don't think it takes a focus group to decide if your account holders would appreciate such a program. Just put yourself in their position and ask yourself: Is this something you'd like your financial institution to do for you?

To learn how to get started, contact Philip Armstrong,
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The views and opinions expressed in this article are those of the author and do not necessarily reflect those of Harland Clarke.