ACCOUNT DESIGN AND FEE WAIVING

by Steve Brown

One thing that banks have done a great job improving on in the last several years is increasing the discipline on fee waiving. It wasn't that long ago that banks waived an average of 45% of deposit fees on business accounts. For 2007, this number is now down to 14%. One item that has helped is the basic construction of business accounts to include provisions for waiving fees. These provisions effectively place control in the customer's hands and rewards them not for historical business, but for future business.

At present, approximately 80% of commercial community banks offer a business balance checking account. Of these, 15% allow for the waiving of maintenance fees if specific minimum daily balances are hit. In addition, 50% of community bank balance checking accounts allow for the customer to waive their maintenance fee if average monthly (instead of daily) balances are achieved. In our studies, both calculation methods appear to be equally effective. However, of the two, in our focus group discussions, business customers seem to understand the calculation of average daily balance better. This results in higher satisfaction.

That said, our research indicates that calculation to waive fees based off average monthly balance has the advantage of garnering slightly higher balances than the minimum (but only to the tune of 10%). Approximately 30% of commercial banks we studied allow customers to use either method to hit their minimum balances. Additionally, 40% of banks allow for the utilization of combined or multiple accounts to achieve daily or monthly average balance targets. The availability of utilizing multiple accounts also garners the highest customer satisfaction. To recap, the all-encompassing solution (if systems can handle it), is to allow monthly fees to be waived in a variety of ways, including daily balance, monthly or using combined balances (to achieve either one).

When talking about combined accounts, the subject that most often comes up is whether different types of accounts should have different minimum levels? The answer is yes, but this creates additional operational problems. If multiple business balance checking accounts are offered (such as a premium or mid-level checking), then minimum levels should be different (because of the different cost structures and marketing targets). However, combining these accounts for minimum fee waiving levels presents a host of difficulties. Oddly, only 35% of banks offer different types of business balance checking accounts. Of those, very few (less than 10%) offer the ability to combine balances to achieve the waiving of monthly fees. The question here is what minimum should be chosen when combining a premium checking account (that requires a $20k balance to waive fees) with a basic checking account (that has a $2k minimum). Is it more important to take the higher balance, lower, average or some other method? Unfortunately, we have yet to conduct research on the best method for combining accounts, setting minimums and waiving fees to garner the highest customer satisfaction and the most efficient usage. As you can see, designing a product set to include fees, monthly charges, per item costs, minimum balances and tiering is more complicated than many banks think. When you combine checking with savings, money market and other accounts, the picture gets fuzzier still. If you are interested in learning more, we encourage you to attend our annual Executive Management Conference coming up in March. At this conference, we will not only be discussing the optimal set up of business accounts, but will have workshops, simulations and even a customer focus group to drive home lessons learned. If you are interested in attending, please click the 'PCBB Conference Summary' link on the right.

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BANK NEWS

Ugly Situation

Citigroup said it will assume $58B in debt from various structured investment vehicles it manages in an effort to avoid being forced to sell assets at depressed prices. Moody's lowered Citi's credit rating from Aa2 to Aa3 as a result, saying Citi would likely need to take sizeable writedowns. Investors, meanwhile, breathed a sigh of relief, saying the news points to a near-term resolution to this piece of the credit crisis.

Consumer Weakness

A study of online holiday sales shows growth has fallen to its worst level in 5Ys, as shoppers either wait for bargains to appear or hold back on spending entirely.

Greenspan

The former FOMC Chair said the risk of recession in the country is increasing and that growth is getting close to a "stall speed."

Housing Hangover

As of the 3Q, there were 2.1mm homes nationwide on the market for sale, or roughly 1.6%. The level is a new record and shows the extent of the crisis.