

## COMPLEXITY IS CONFUSING

by [Steve Brown](#)

The older we get, it seems the more complicated our bed at home gets. We now have a dust ruffle, 4 "real" pillows, 6 decorative pillows, things called "shams," something called a duvet and an item that we have no idea what it is (a soutache?). The wife has fortified the bed with so many decorative objects that it takes a blueprint and an hour earlier on the alarm just to recreate the architected tower of pillows.

Sometimes things get too complicated. Case in point is a variety of banks that have complicated their deposit structure so much that it is confusing to the customer, the sales staff and even management. There are consultants out there that make a living by creating a new deposit account at every turn in order to micro-segment the customer base. While this occasionally works, more often than not, staff only ends up promoting 3 different accounts and ignores the rest (just too much to process). Over time, having a wide array of account options just serves to drive up costs, mask sensitivity analysis and confuse employees.

Here are a couple rules of thumb when it comes to new account design: 1) Make sure each account and each tier has a purpose. If you don't have quantitative evidence about how a particular market segment reacts, then combine products. A "Select" business checking account targeted at small business and a "Gold" account targeted at mid-sized businesses, often react the same way to changes in interest rates and overall balances. Why have both? In similar vein, if your \$10k tier and your \$25k tier react virtually the same, combine them to save expense. All too often, bankers assume needs among business categories are uniquely different. The reality is that business owners of all sizes may have usage and balances that are nearly identical. Like removing all those pillows each night, having the sales staff sift through all account options with each customer each time takes energy and increases cost. That is time better spent cross-selling other products and services.

2) Design in 3s. For most banks, having 3 different business accounts and 3 different personal accounts usually does the trick. Account studies consistently show that having 3 choices allows for quick decisions, lower overhead and a broad spectrum of sales coverage.

3) If you don't have any evidence, but you just have to create a different account, design an elite or platinum business product that has a rate structure set in the middle of the pricing spectrum. As we conduct profitability analysis at banks throughout the country, the service-heavy, larger balance premium package is consistently the most profitable. This is due to the rate paid, lower interest rate sensitivity and larger than average balances left by the customer.

4) On the other end of the spectrum, forget designing and branding special CDs. The CD account at many banks is just a little better than a breakeven proposition. Adding extra bells and whistles, like indexing, a fixed/floating rate option or anything else, usually serves to destroy profitability.

5) Offer preferred loan rates and discounted loan fees tied to using certain deposit accounts. Why more banks don't do this is beyond us. Having both a lending and deposit relationship usually results in greater retention, higher deposit balances and more profitability. If banks have a well-structured

program and consistently market the attribute to their commercial customer base, it almost always results in higher profitability.

A complicated account line-up is counterproductive. Like a bed with too many pillows, it may be nice to look at from afar, but it is also a hassle. That said, after this "pillow-bashing" column makes the rounds it also won't matter much because we will certainly be sleeping on the couch.

## **BANK NEWS**

### **Nasty Housing**

Things remain ugly in housing, with the latest data showing foreclosure filings climbed 65% in April, compared with the same period last year. All told, 1 in 519 homes were in some stage of foreclosure, the highest monthly total on record. NV reported the highest foreclosure rate for the 16th straight month, at 1 in every 146 homes.

### **Marketing**

The new JP Morgan Chase campaign is testing high with some focus groups. The campaign, dubbed "Chase What Matters" is driving home 5 key messages: provide easy access to financial products and technology; provide security through fraud protection and anti-ID theft tools; offer reward points and discounts; provide state of the art financial products; and provide unparalleled service.

### **Deposit Study**

A new Gallup poll indicates deposits may be difficult for banks to capture in upcoming months. The survey found 27% of people say the amount of money they have been able to put away in savings has fallen substantially over the past year.

### **Key ATMs**

KeyCorp has signed an agreement that will allow Navy Federal Credit Union's members surcharge free access to its 1,500 ATMs. Navy FCU's members will be able to use Key ATMs to make withdrawals, transfer funds and inquire about transactions.

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