

PHIL, FEE WAIVERS AND PROFITABILITY

by [Steve Brown](#)

As you have no doubt heard, Puxatony Phil popped his head out yesterday wearing a Steelers Jersey and Polamalu wig, missed his shadow and predicted an early spring. Actually, we made that last part up, as the famous groundhog sensed there was a foot of snow and a bunch of creepy top hat-wearing men and spent his time updating his profile picture on Facebook (see left). When Phil uses a stunt double on Groundhog Day, legend has it that it predicts one thing - less fee waivers for banks.

Less fee waiving comes at the perfect time, as banks can sure use some extra profitability. Statistics from our Profitability Group show that banks are as likely to waive fees for their least profitable customers, as they are for their best customers. In fact, at many banks, fee waiving is worse than random - it is adversely selected so the least profitable customers get the majority of waived fees. This makes an unprofitable customer even more unprofitable and extends the terminal life of the customer so the bank is almost guaranteed a nice healthy stream of future losses. By waiving fees, banks are unknowingly aiding in the retention of customers that they really don't want. The further irony here is that when we look at the reasons fees are being waived by bank staff we often hear comments like "Good Customer," "Long time account," "Non-profit," "Municipality" or "Multiple account holder." These comments are usually either not true or irrelevant to why the fee should be waived in the first place.

Fee waiving, if done right, should either be a retention tool for your top 20% of profitable customers or a marketing tool to promote further balances or drive account usage. This is just one reason banks above \$400mm in assets should be utilizing our BIGProfit relationship profitability system. It not only details account profitability, but gives lenders risk-adjusted loan pricing and generates strategies for increasing profitability. In addition, one of the things it does exceedingly well is to detail (and track) what profitability a proper fee waiving strategy would deliver.

For example, a \$500mm bank that instituted an average of an \$8 service charge per deposit account, then waived them for 100% of their top customers (but adhered to them so that 75% of the other customers paid fees), could generate more than \$100k in additional profit for 2011. That is more than enough to pay for the system all by itself. Almost equally important, however, is that the terminal value of customers goes up, as good accounts are better retained and unprofitable accounts are given an incentive to move to a competitor. For our sample \$500mm bank, this is an increase in shareholder value by more than \$5mm from this strategy alone (the net increase in terminal customer value). The end result is that by properly waiving fees not only makes you more profitable this year, but you now have a mechanism to positively impact future profitability (as customers will automatically self-select, aiding profitability).

As we travel around the country, bankers are focused on trying to generate loan growth, lower their cost of funds and cut expenses. While all of these are worthy endeavors, most bankers overlook some of the most basic strategies of enhancing profitability. If you are trying to produce over a 12% risk-adjusted ROE, you need a profitability system, preferably BIGProfit.

Contact us today to find out how you can get on the system this quarter to make 2011 a success. We think once you see this web-based application, you will be waiving fewer fees and breaking out of

that Groundhog Day-like profitability rut.

BANK NEWS

Successful Program

Fifth Third Bancorp fully repaid its \$3.4B in TARP funding yesterday, bringing total bank repayments to \$243B, very close to the total disbursement figure of \$245B. Treasury officials now estimate bank programs within TARP will eventually deliver a profit of \$20B.

Branch Closures

Banks weighed down by high overhead and cost loads are expected to shutter some portion of their branches this year. That, plus greater adoption of online and mobile banking channels is expected to drive reductions.

Customer Capture

The International Health, Racquet & Sportsclub Association reports fitness clubs are now a \$41.4B industry with more than 45.3mm members. Banks may want to consider developing a marketing plan to focus on this group in order to capture new loans or deposits.

Special Savings

About 37% of people are concerned that their family's main income earner will become unemployed in the next 6 months. Banks may want to consider offering a special savings account that attracts people interested in saving just in case.

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