CONSIDER BIZ INTEREST CHECKING AS AN ANCHOR

by Steve Brown

High-end home store retailer William Sonoma introduced the home bread maker for $279. After lackluster sales, the store convened a focus group and heard that the bread maker was a little small, didn't have a future starting feature that users could set and then wake up with hot fresh bread and was too heavy. After searching for a new manufacturer, William Sonoma introduced a new and improved bread maker for $429 that met all the criteria of the focus group. The funny thing was it didn't sell. The real funny thing was that sales of the $279 bread maker, the one that no one liked, took off. The case study illustrates two important points, one, that we have written about before, that focus group output should be taken in context and not solely relied on for a decision. The second point is what we want to talk about today and illustrates the psychological condition of anchoring that banks should consider to sell more checking accounts. The William Sonoma experience underscores a powerful effect that when they offered one bread maker, it was deemed too pricey. However, when a second bread maker was offered, the $279 appliance was deemed a value, as buyers used the higher priced one as an "anchor" in which to place other products. In similar fashion, for banks that are loath to introduce a business interest checking account for fear of driving up funding cost, consider an alternative strategy. While our first choice would be to introduce a fully competitive hybrid ECR/interest product to go on the offensive, introducing a high fee, low interest product can serve as an anchor for the rest of your product line up and increase overall performance. The tactic works like this - Introduce a high-end transaction bundle with high fees and assorted bells and whistles (debit, online banking, bill pay, ID protection, ATM usage, international, ACH, positive pay, etc.). A 5-tiered checking product with an average rate of 12bp and a high cost monthly, non-waivable fee (say $60+ / month) would attract only the highest balanced depositors that are not FDIC security sensitive. The rate still allows banks a slightly positive arbitrage in the near term in the worst case. However because of the structure, and the fact that economics really only work for accounts with more than $600k in average balances, the balance vs. fee trade off is such that the account would not likely get used for most community bank demographics. As such, there is not a large likelihood of smaller depositors rushing in to take advantage of the rate. While not designed to be attractive, the account accomplishes something very special in that it provides a high-end point of reference to frame the rest of your deposit account line up. This lack of a high-end anchor is a common problem among community banks as many banks place their monthly fee pricing strategy within a narrow band of between $5 and $15 per month. The pricing strategy often ends up muddling the relative value between each account making a clear deposit choice difficult to decipher. However, by creating a high-end, high-cost business bundle with more attributes than what is needed, it gives potential customers an easy way to say no to this account and move to a mid-tier product. Of course, one of the reasons we like this strategy is it forces community banks to redefine their product line up in light of disappearance of Reg Q. The introduction of a high cost business interest checking, at least gets banks thinking about what to do with their analysis accounts, sweep and FDIC insurance relative to pricing. Should the market heat up for interest business checking as we believe it will by the end of 2012, community banks will already be prepared to compete by simply adjusting fees and rate.

BANK NEWS

OD Extension

The OCC extended the comment period on the proposed guidance on practices for deposit-related consumer credit products (that includes OD programs) from 7/8 to 8/7.

OCC Head

The White House put forth Tim Curry as a nomination to head the OCC in succession of John Walsh. Mr. Curry is currently on the FDIC Board and a former MA state banking regulator.

Bank Pay

A Basel meeting of global banking regulators came out with guidance that banks should disclose the main criteria used to decide on bonuses; indicate how much they cut planned bonuses or clawed back money already paid out when individual bankers or the firms perform worse than expected; reveal the amount paid out each year in bonuses; indicate how many employees got a bonus; release data on the percent of bonus payments deferrals and indicate how much is paid out in equity vs. cash.

Settlement

Washington Mutual's officers, directors, underwriters and auditor have agreed to a $208.5mm settlement to end class-action securities fraud lawsuits. The settlement is one of the largest of the financial crisis behind a $624mm settlement by Countrywide and $475mm by Merrill Lynch. Lawsuits accused defendants of hiding poor loan underwriting and inflating appraisals.