
CHARGING FEES

by [Steve Brown](#)

These days, everyone is talking fees. The media is talking about how much banks are making on fees, banks are figuring out if they can charge more fees and a common refrain from consumers is that they are sick of paying fees. When working with banks to design service, loan or liability products, we often get push back from the bank that they don't want to charge a fee for fear of upsetting their customer or driving them to the competition. Ironically, after we rollout a new fee structure, we usually find that internal folks at the bank had more of an objection than the customer.

After conducting focus groups, talking with thousands of customers and being involved with hundreds of new product roll outs over the last 20Ys, our conclusion is that both retail and business customers don't mind paying fees. All things being equal, bank customers are far more interest sensitive than fee sensitive. What customers do mind paying are fees that are deemed "unfair." This is our point today, if you want to drive more fee income, your challenge is not what fees to charge, but how to charge them and more importantly, how to market them.

The best examples come from Apple and the airlines. We have never heard anyone complain that they are being nickled and dimed about purchasing apps for their iPhone. After spending \$500 on a phone or iPad, Apple users pay \$100 monthly cell phone bills plus get charged \$1 to \$24 for each downloaded app. No one minds, because a) fees are at the user's option, and, b) each app is judged to be a non-homogenous product. The same goes for airlines. Customers constantly complain about paying \$25 for a baggage fee, because this used to be a free service, but no one complains about paying \$25 for additional miles to get that free ticket faster. In other words, if you are a bank, and you want to charge fees, you need to design a product or product bundle that delivers clear value above the competition.

If you are trying to charge \$10 a month for a checking account and your account is perceived as the same as everyone else's, it will be no surprise what the response is going to be. However, if you take steps to package a checking account with e-statements, savings, online banking, bill pay, the ability to send free international wires, waived foreign ATM charges, a debit card and overdraft protection plus top it off with a cool name like "Master of the Universe Checking," only a very small fraction of the people will even bat an eyelash at the cost.

To get better acceptance of fees, try these simple steps that we have found can make a world of difference: 1) Package products in premium bundles to create value not directly found at competitors; 2) Give customers the ability to waive fees at commoditized products in order to give them a choice; 3) Create a menu of premium services that you can charge fees (if you need help, come to one of our Tactical Workshops or our annual EMC Conference); 4) For non-premium services (such as online banking, safe deposit boxes, etc.), consider packaging these together and charging a single, monthly all-inclusive fee (then you only have to explain it once); and, 5) Communicate clearly the exact nature of the fee and why it is being charged (no one appreciates hidden fees).

Banks offer a set of valuable services and products so we need to think twice before giving value away. Any bank can offer a free product or service. Chances are if you are not able to charge fees, the

problem isn't with your customer, but with the fact that you haven't put enough energy in product design or marketing.

BANK NEWS

We Feel Their Pain

At the 1-year anniversary of the landmark Dodd-Frank (DFA) legislation, we count about 115 studies, guidance, rules and laws that missed deadlines (out of approximately 205 that were due).

CFPB Credit Differences Report

Not only does the CFPB kick off this week (without a director), but it released a report as required under DFA that examines the differences between credit scores sold to consumers and scores used by lenders to make credit decisions. The education piece explains the use of credit scoring models and other ways how scores are utilized.

Crack Down

HSBC will stop its practice of serving US private clients from outside of the US, as the bank wants to help clamp down on tax evasion.

More Capital

The Basel Committee officially published its Systematically Important Financial Institution (Sifi) Proposal. The same 1-2.5% buffer range that we reported on 2 weeks ago still stands. Interestingly, we still don't know who will be deemed a "Sifi" (but we think it will be the top 25 banks). The comment period ends Aug 26.

Hedge funds

Global hedge-fund assets rose to a record \$2.04T by the end of 2Q.

Bank of America

While a Barron's article declares the stock has hit bottom and valuation is "cheap," analyst talk is that the Bank will be forced to sell Merrill (they won't in our opinion).

Mobile

PNC is the latest bank to introduce an app that allows for remote check deposit on an iPhone, iPod Touch or iPad2.

Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.