DRIVING FORWARD TO CAPTURE MORE FEES

by Steve Brown

Research by auto insurance companies and accident prevention organizations finds 90% of auto accidents are caused by human error. The research also finds most accidents are caused by excessive speed or aggressive driver behavior. Meanwhile, other studies on the subject find about 90% of all licensed drivers speed at some point in their driving career and 75% say they do so regularly. Strangely, 93% of people say their driving skills are better than average. In reality, studies find teens (invincible and lack of attention) and those above 75 years old (impaired vision, slower reflexes) are generally the worst drivers on the road. Be careful out there and as with banking, watch for upcoming forks in the road. For community bankers, whether you drive to see your customers or they drive to see you, once you come in contact it is critical to create a strong customer experience. Consider a recent Oracle survey that found 81% of people polled are willing to pay more for a superior customer experience and nearly 50% are willing to pay a premium of more than 5% for stellar service. Wait a minute - this runs counter to real life events that show customers can get angry when it comes to bank fees, no matter the service level. It would seem popular opinion suggests customers are a more frugal bunch. Consider this: A simple Google search for "consumers and bank fees" will bring back a host of articles on how banks are piling on the fees and scaring away customers. What's more, 72% of people say they would consider switching checking account providers if their bank raised its fees on such accounts, according to a Bankrate's survey. Higher-earning households are even more likely to switch at 82%. That means for banks, it is a balancing act. Sensitivity to fees and charges is the leading cause of attrition, according to many studies, but the low interest rate environment and effects of various regulations have led to a conundrum. Your performance requires more fee income, but customers don't want to pay. While there is no easy solution, we have an idea. Pick your battles. You don't have to make wholesale changes that raise fees on every customer. Instead, do an in-depth profitability analysis and then focus certain fees on unprofitable customers, while maintaining the status quo for profitable ones. Another thing you will need in order to raise fees is to have a segmented customer base. Studies show different types of customers are willing to pay different types of fees. To add fees, first segment customers according to demographics like age, asset size, income and banking needs. Once you do this and with a little experimentation, you will find some customers prefer per transaction fees, others will accept an annual fee, and still others prefer a flexible pricing structure that allows them to select services that suit their needs in exchange for certain fees. A third element in the chase for fees is to be sure you communicate to those impacted by telling them what is in it for them. Studies find people are much more likely to go along with a fee if they perceive they are getting something of value in return. Be careful no matter the path chosen because bad experiences increase the likelihood of customer attrition. Research by PwC finds 40% of bad banking experiences revolve around rates and fees. Lost customers aren't cheap to replace either. On average, this research found it costs at least $200 to acquire a new customer. Meanwhile, banks that respond to customer problems through an apology, a refund, compensation, etc. are more than 2x's more likely to keep their customers than if they did nothing. Competition is extreme and customers have more information at their fingertips than ever before, so any move to capture more fees should be carefully executed. Bad publicity can spread like wildfire and negative experiences can do significant damage. Upscale retailers have learned from experience that customers are willing to pay for better service, but they wouldn't dream of selling the same outfit to every customer who walked in the door. This is something for banks to ponder, as the industry struggles to let go of the long outdated, one-size-fits-all fee model. It is the very crossroads between more profit and a loss of customers.

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BANK NEWS

4Q Earnings

Bank of America reported 4Q net income of $732mm, 63% less than a year earlier. The bank absorbed multiple legal costs and paid fines, but also made significant progress to resolve issues. Citigroup reported 4Q net income climbed 25% from a year earlier to $1.2B. The bank continues to overhaul operations, which include 11,000 layoffs.

Mortgage Servicing

The Consumer Financial Protection Bureau (CFPB) has released a fact sheet of final rules for mortgage loan servicers that amend provisions of the Truth in Lending Act (TILA) and the Real Estate Settlement Procedures Act (RESPA). The rules require interest-rate adjustment notices; prompt payment crediting and payoff statements; error resolution and information requests; periodic billing statements; lender-placed insurance; early intervention with delinquent borrowers; loss mitigation procedures and information on how to access housing counselors. Servicers that handle 5,000 mortgage loans or less are exempt from some of the new rules.

Loan Competition

Bank of America says it is intent on growing the mortgage business and so will ramp up to sell more through its 5,000 branches. The bank also plans to increase its wallet share by selling more products to existing customers and offer lower rates to clients that do more business with them.