Fees are a Pesky Problem for Banks

by Steve Brown

More than 37,000 people in the US have reportedly contracted West Nile virus disease from mosquitoes since 1999. Of those, 16,000+ have become seriously ill and 1,500+ have died, CDC statistics show. An estimated 3mm people have been infected since West Nile virus first arrived some 14Ys ago.

There have, of course, been public efforts to curb the growth of the mosquito population as well as campaigns to teach

people how to avoid bites from these seasonal pests. As summer comes to an end, the battle against these blood-sucking bugs is sure to heat up again when warmer weather once again returns.

Just as mosquitoes present a pesky problem for people, fee revenue--or lack of it--continues to be a vexing issue for banks. According to a recent survey by the ABA, 65% of bank customers spend $3 or less in monthly fees for banking services such as checking account maintenance and ATM access. The majority of Americans, about 55%, continue to pay nothing at all. That's right. People pay more for a gallon of gas or for a Frappuccino at Starbucks than they do for banking services. Yet, any fee that shows up seem to draw the ire of the press, so what gives?

Americans willingly pay fees for a lot of things, such as to buy online concert tickets, to purchase airline tickets or make hotel reservations. Somehow, though, the perception has taken root that bank fees can never be legitimate and that banks shouldn't be in business to make money. As a consumer, we are not in favor of excessive fees or price-gouging, but $3 bucks is ridiculous. No one argues that doctors, lawyers and retailers should offer their products and services at cost and we don't see why banks should be held to a stricter standard.

What if in exchange for reasonable fees, bank customers were provided with service that goes above and beyond the basic level? Some people prefer to buy their clothes at discounters like Target and Wal-Mart, while others exclusively shop at high-end stores. This latter group pays more in part because they like the add-ons they're getting for their money. There's something to be said for personalized service and advice.

We're not advocating banks start charging customers for every small service offered, but there is a balance. We do think banks still need to do a better job of undoing the perception that all fees are evil. There is a time and a place for charging customers reasonable fees and if the service has a cost to deliver, fees should quickly and unabashedly follow. Finding the right balance between fee-income and interest income is especially important in the present climate given that interest rate risk is so great, loan opportunities are so low and costs are sticky. Making changes to your bank now can have lasting effects, so don't be shy about it as you continually experiment with your product offerings.

It is somewhat encouraging that industry noninterest income increased in the 2Q by $6.7B, or 11.1%, from a year earlier but this is skewed heavily to the very largest banks. After all, community bankers still typically make about 90% of their profit from the difference between what they pay for a deposit and where they can make a loan. To be sure, banks still have a long way to go in terms of bringing in fee revenue, especially community banks and the options aren't easy ones.

As with mosquitoes, spraying doesn't get rid of all the pests, but it's a step in the right direction. Community bankers have to ake steps as well and keep trying and tinkering with fees on services to eventually find some that work.

BANK NEWS

Negative Recovery

Research by Customers That Stick finds 92% of people say they would go back to a company after a negative experience if they received an apology or correction from a supervisor or head office (63%), were offered a discount (52%) or were offered proof of enhanced customer service (49%).

Branches

Accenture reports banks that have an efficient hub and spoke model can reduce their overall number of branches by 15% to 20%, while reducing average branch staff by 25%.

Mobile Advertising

Bloomberg reports mobile ad sales reached $8.8B in 2012 vs. $4B in 2011. eMarketer further estimates global mobile ads will rise 80% this year.

Social

Comscore reports the average percent increase in dime users spend on Facebook jumped 400% from 2009 to 2011.

CFOs

A Deloitte survey of CFOs at major companies finds the top three areas for improvement they are targeting right now are strategic planning (27%), budgeting/financial planning (20%) and risk management (15%0.

Driverless

Google's driverless cars operating in CA, NV and FL have reportedly logged 500,000 miles now.

Google

Google was searched 1.2T times last year.

Marketing

Research finds 75% of people who do an internet search do not click beyond the first page of search results.

YouTube

Bankers should note that YouTube is actually the world's 2nd most frequently used search engine.

Not Human

Entrepreneur magazine reports that by 2020 (just 7Ys), 85% of customer relationships will happen without talking to a human. We ponder what impact such high adoption of technology will have on jobs.

Marketing

A survey of chief marketing officers by Columbia Business School finds an astonishing 57% don't base their budgets on ROI measures, but rather use historical spending.