

Lose the Baggage Around Charging Fees

by [Steve Brown](#)

The CEO of Southwest Airlines hinted recently that a future charge for luggage on their flights is no longer out of the question. In our travels to see bankers around the country, we fly on Southwest quite a bit and have always appreciated the free bag policy. Not that we check a bag very frequently, but it's nice to not have to pay when we do. Even more, we appreciate how much faster the boarding process goes because people bring less stuff into the cabin. We always assumed that less luggage in the cabin plus the open seating policy creates sufficient time savings for quicker turnarounds at the airport - more than making up for a few bucks per bag. It seems maybe not. The first mention of the possible change came back in Jan, when the CEO indicated there would be no change in 2013 but left an opening for the future. Southwest's CEO is talking about it again, this time framing the idea from the customer's point of view, indicating they may prefer an a la carte approach. It's a little difficult to imagine customers wanting to pay fees, but most customers have already resigned themselves to paying bag fees because it is prevalent in the industry.

Bankers can learn something here perhaps. Consider that US airlines collected \$3.5B in luggage fees in 2012 vs. \$464mm in 2007. Also important, JD Power asked 12,000 travelers their opinion and 37% found the fees reasonable vs. 18% in 2011. It seems people are willing to pay fees despite the grumbling and we would say airline bag fees are about as much a focal point as fees charged by banks so perhaps there is some room. Certainly, SW has seen its business grow as a result of competitors' fees and some of those customers most committed to that difference may walk, but honestly where will they go? The only other airline that doesn't charge is Jet Blue and we wonder how far behind they will be. We are certain SW has done the math and found the breakeven point. The key lesson here perhaps is that SW chose to wait until fees of this sort were everywhere and consumers were begrudgingly willing to pay them before doing so.

That process is interesting and can be used by community bankers. Determining when and how to charge fees is never easy, but it is less difficult if many banks are already doing so as customers sort of expect it. Figuring out how to implement and charge fees in order to increase non-interest income is of critical importance in most community banks, so there could be something here worthy of emulating. We wonder if SW makes the change, whether there will be any fanfare or just a quiet rollout. Community banks have been dependent primarily upon interest income even more than large banks, due to having fewer fee-generating services and lower fees in general.

How should community banks approach this idea? Our suggestion is to troll the web sites of your competitors and read the fine print. See what products have charges and note at what level. If the going rate for a service is \$5.00, surely your bank can charge \$3.50 to \$4.50. This isn't as much, but it is still better than giving services away for free perhaps. Find the areas where customers are already desensitized to the idea of paying a fee and follow along to lessen the impact.

Adding fees is never easy, as there are always challenges in explaining new fees to long-standing bank customers. Bundled packages can combine services to reduce fees and to make one to one comparisons more difficult so that can be a tactic. At some point, however, there comes a time when you may have to ask a complaining customer if they want your bank to remain in business. If the

answer is yes, then they surely must understand you have to make a living. Likewise, if SW adds a charge for bags, we won't love it, but we will pay it and keep on flying.

BANK NEWS

M&A

Eastern Bank (\$8.6B, MA) has acquired insurance agency Westover Insurance for an undisclosed sum. Westover specializes in selling commercial and personal insurance policies. This is the 16th insurance company acquisition by Eastern in the past 7Ys.

M&A

Choice Financial Group (\$662mm, ND) will buy Great Plains National Bank (\$182mm, ND) for an undisclosed sum.

Branch Closures

SNL reports the top 3 banks that had the most branch closures in the past 12 months were Bank of America (183), SunTrust (127) and PNC (105).

Branch Consolidation

Key Bank reports it has reduced the size of its branch network by 8% over the past 18 months.

Vet Lending

The SBA has launched a new zero upfront fee loan program for Veterans. Beginning Jan. 1, veterans taking out SBA loans of up to \$350k will not pay any upfront fees until the end of the fiscal year under its SBA Express loan program.

Regulatory Focus

The CFPB has released an advance notice of proposed rulemaking (ANPR) seeking information on debt collection practices. The ANPR follows bulletins released in July alerting banks and other regulated entities to CFPB concerns about debt collection practices that are unfair, deceptive, or abusive acts or practices (UDAAPs). The CFPB has been targeting debt settlement firms through enforcement actions since earlier this year.

Jobs Needed

The latest employment report finds 720,000 people are no longer included among the workforce, pushing the labor force participation rate down to 62.8%. That is the lowest level in the past 35Ys (since 1978). If this pace continues, the number of people out of the labor force will surpass the number of people working in about 4Ys, according to analysis by Zero Hedge.

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.