Modifying Customer Behavior

by Steve Brown

We were in Washington DC not long ago and toured around the city using the Capital Bikeshare program. The weather was decent and motorists seemed pretty patient, as we trundled along on our beefy red bicycle. It's a well run program that has achieved wide acceptance in its 22 months with more than 2mm annual trips. As bankers work to come up with fee structures and service arrangements that fit their business models, we found some unique ideas in this bike program that may help, so let's take them out for a spin.

The bikeshare fee structure has annual and monthly memberships or day use, all with a base fee plus additional fees based on trip length. The only way a bike share program can function is if there are bikes in the stations, so the fees are structured so that the longer you ride, the more expensive it is. The first 30 minutes are free, and the second 30 minutes cost $2. If you run over the first 60 minutes, then add another $6, and if you go over 90 minutes add another $14 and so on. You can ride free for 30 minutes but it will cost you $22 if you keep the bike for two hours. This steep curve provides expensive encouragement to get the bike back in a rack ready for the next person to use.

This is counterintuitive to most bank fee structures because most of the time we think in terms of higher volume having a greater discount per unit. In this case the objective is a little different, and this approach may make sense for some kinds of bank accounts as well. Bank fees should be based on what it costs to provide customer service, so a base rate makes a lot of sense. But many banks use large account balances as the only means to determine whether to waive that base fee and other transactional fees. What about looking at activity, as it is a very important factor in determining the cost of providing service to any given customer? Do those balances really offset the costs? This will depend on the customer and their level/type of activity.

Fees can be used to encourage customer behavior that is profitable for your bank like debit card use, efficient like eStatements and mobile deposit, or to discourage activities that cost your bank money like paper statements and paper checks. You don't want to get too complicated in offsetting good behavior with bad, but make it a part of a fee structure - unlimited mobile deposits, costs for paper checks.

A big part of the success of Capital Bikeshare is because the infrastructure, both physical and technological, works really well (like an app on your phone that tells you which stations have bikes). However, this is not a no-brainer--a far less successful rollout took place recently in New York City, and in this case the technology was unreliable and the physical infrastructure of the bike racks has been harder to use.

As your bank reviews its technology, products and different account types, consider all of your fee structures and the customer interaction. Think in terms of encouraging certain customer behaviors, discouraging others and charging fees in such a way that is fair to customers but also covers your costs. Above all, be sure your technology works well, because no one wants to wrestle with a cranky bike rack in the rain and likewise will have little patience for a cranky teller in the branch.

If you are still not quite there, consider Citibank's sponsorship of the Citi Bike program in NYC as seen in the picture above. Their brand is plastered all over these bikes and credit cards are leveraged for payment--time to go for a bike ride.

BANK NEWS

M&A

Mascoma Savings Bank ($1.1B, NH) will acquire Connecticut River Bank ($285mm, VT) for $26.7mm in cash.

M&A

Apollo Bank ($257mm, FL) will acquire First Bank of Miami ($198mm, FL) for an undisclosed sum.

Muni Market

The Fed reports the US municipal bond market shrank to $3.69T in Q3, the smallest since 2009. Meanwhile, individual investor holdings in municipal mutual funds fell to $81.9B, the lowest level since 1976. Fear around the Detroit bankruptcy and issues in Puerto Rico and other municipalities are all likely drivers for the drop.

Done

The Treasury sold its final ownership in General Motors, losing 21% on its investment (about $10.5B), but likely saving thousands of jobs. No matter which side of this you are on, you are probably glad to see the government exit ownership of a major US company.

Investing

Accenture research finds consumers think their primary bank should be investing money into online banking (43%), branches (38%), ATMs (21%), mobile (20%), call centers (12%) and social (7%).

Small Biz

The latest National Association of Business Economics quarterly survey finds an upbeat tone of 2.8% GDP growth projected for 2014.

Fees & Consumers

Banks should take note of the regulatory focus on fees banks charge consumers on various products that might be deemed unsafe and unsound. Consider a recent speech by Curry of the OCC who said certain products fall under safety and soundness because they could impact the reputation of the bank. Curry pointed to the recent regulatory guidance on deposit advances as an example.

Growth

A Business Roundtable survey of CEOs finds expectations for 2014 GDP growth of 2.2%.

More Fines

The Justice Department said it plans to file more mortgage fraud cases against financial companies in 2014 and use the recent $13B settlement with JPMorgan as a template.