Tackling Fees In A Calculated Way

by Steve Brown

We recently read an online Fortune article that suggested Twitter revamp its business model by charging users a penny per tweet. The rationale, according to the thought piece, was to discourage users from clogging up others' timelines with extraneous thoughts about what they ate for breakfast and so on. If users have to pay even a nominal fee for the tweets, they'll tweet information of greater substance, or so the thinking goes.

While this might bring about the desired result, we wonder whether the cost to Twitter would ultimately be too high to pay. Would the majority of users be willing to pay even a penny a tweet? Or would the mere suggestion by the company lead to broad public outcry and do great reputational damage to Twitter's image, paving the way for yet another new crop of social media alternatives.

We pose this question after decades of seeing banks stymied in their efforts to levy additional fees on customers. Even when the rational seems to make perfect sense, many a bank has had its hand forced by a public relations problem only to roll back planned fee hikes.

When it comes to fees, banks have to contend with the prevailing us-against-them mentality. It doesn't mean bankers should never raise fees, but it does mean you have to be smart about how it is done.

Transparency about fees, charges and guidance on how to avoid them are consistently one of the biggest issues banks face, according to the 2014 EY Global Consumer Banking Survey. Fees represent 15% of all problems reported and rank second as a source of dissatisfaction behind denials of credit/loan requests and charges when making a purchase.

Also notable is that nearly 33% of customers polled cited rates and fees as a reason to shut down an account in the past year. Nearly the same percentage cited rates and fees as a reason to open an account, according to EY.

There's no cookie-cutter solution to fees, but at the very least, you shouldn't levy charges without clearly letting customers know what you're up to. It will avoid other issues at the very least. Of note, there are a number of services customers may not mind paying for however.

When you are considering fee hikes it would also be wise to begin by paying careful attention to what's happening in the competitive world. For instance, recent MoneyRates.com research shows that at banks with more than $20B in deposits, average monthly maintenance fees are $14.49, or nearly $2 more per month than the average of all banks.

It's also noteworthy that 63% of the online checking accounts included in the MoneyRates.com survey have no monthly maintenance fee. Overdraft fees on online checking accounts are also a good deal less costly, at $24.39 per incidence, or $8 less than the average overdraft fee on traditional checking accounts. Also, most of the online accounts surveyed do not charge customers for out-of-network ATM use.

Banks shouldn't make changes to their fee structures in a vacuum. Rather consider the customer base, the competition and the possible ramifications of the changes you are contemplating. You may have valid reasons to raise fees, but even a few pennies can make the difference between a happy customer and a disgruntled Tweeter.

BANK NEWS

M&A

An ICBA survey finds about 91% of community banks surveyed are not interested in selling right now.

Mobile

Experts project 50% of all signature payment transactions will happen on a mobile device in the next 6Ys.

Rate Hike

JPMorgan reports market investors mostly seem to think any Fed rate hike would occur in May or Jun of 2015.

Rate Hikes

As everyone tries to figure out when rate hikes will begin, it is interesting to note that short term rates have not increased since the period 2004 to 2006. During that cycle, rates jumped from 1.00% to 5.25%.

Authentication

A survey by the Fed of community banks finds the following customer authentication methods are used: PIN (91%), signature (84%), customer authentication for online transactions (81%), verify customer identification codes on payment card (72%), magnetic stripe (66%), real time decision support during account application (65%), positive ID of purchaser for in-person transaction (60%), verify customer ID using magnetic stripe (21%), biometrics authentication (6%) and card chip authentication (2%).

Expensive Regulation

A study by the OCC finds it will cost national banks up to $4.3B to implement the Volcker Rule.

Credit Cards

JPMorgan reports the top 5 credit card lenders in the U.S. in order and their market share percentage are: American Express (25%), JPMorgan Chase (21%), Bank of America (12%), Capital One (9%) and Citibank (8%).

Stress Test

All but 1 (Zions) of the 30 large banks required to take the Fed's stress test have passed.

Payment Fraud

The Fed reports 96% of bank survey respondents experienced both fraud attempts and losses in 2011 (most recent year available).

Small Biz

Entrepreneur reports 70% of mobile searches for local businesses will result in a telephone call.

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