

Communicating Quality

by [Steve Brown](#)

The Consumer Federation of America recently came out with a survey showing that a large majority of Americans believe safe drivers should be charged less than \$500 a year for required car insurance. While most of us would undoubtedly love to pay less for coverage such as this, our cynical side wonders what we'd be sacrificing in exchange for cheaper rates.

We strongly believe you get what you pay for, but history shows that people need a reminder from time to time. Banks especially need to do a better job communicating to customers that cheaper isn't necessarily better.

Community banks have long offered our customers reasonably priced services, but with more and more low-cost competitors entering the banking fray, there may be some customers tempted by seemingly greener pastures. It's in your best interest to show customers why doing business with you is a better deal for them - even if the cost may be somewhat higher.

For most banks, finding a fee structure that's profitable and doesn't chase away customers is a delicate balance. Study after study affirms that cost matters to customers so banks have to be careful. In fact, rates and fees were the second most common reason for customers to open or close an account in the previous 12 months, according to the Ernst & Young 2014 Global Consumer Banking Survey.

Even so, banks must be careful not to leave significant revenue opportunities on the table, given higher costs due to increased regulation and increased customer demands. Customers should be charged for premium services. In fact, instead of feeling imposed upon, customers in the past have shown a willingness to pay for services like identity theft alerts, credit score reporting, overdraft transfer services and mobile to name a few.

The trick is to help customers understand what they're getting for their money. In conversations with them, banks should show customers how the product or service is high quality, what it does for them and how it improves their life. Doing that allows you to switch from a cost focus to one all about relationship and benefits for them. The simple fact is, if customers know what they're paying for and why it's worth it, you'll have more wiggle room to charge for your services and customers will be more accepting.

Consider also that many customers want more than just free checking, so be sure to drive home to customers the breadth of services your bank has to offer. Keep in mind that 73% of customers polled by Ernst & Young said they'd be willing to either pay a little more, add more accounts and services or increase deposits or investments if their primary financial services provider invested in their financial well-being. A full 72% percent said they would take one of those actions if the bank helped them with a plan to reach their financial goals. Further, 71% said they would take one of those actions if the bank helped them find new ways to improve how they conduct business.

We know the competition is fierce, but shifting your focus away from cost and toward the significant benefits customers are getting in return for banking with you can increase profits. Doing so can be an effective insurance policy against customer attrition as it drives additional business to your bank.

Good luck and keep communicating to employees and customers to enhance the value of your bank over time.

BANK NEWS

M&A

Chemical Bank (\$6.2B, MI) will acquire Monarch Community Bank (\$187mm, MI) for \$26mm in stock.

M&A Cancelled

MVB Bank (\$1.1B, WV) announced it has terminated its agreement to acquire CFG Community Bank (\$532mm, MD). The transaction was announced about 1Y ago and both banks agreed it made sense for them to move on independently.

Branch Purchase

Community Trust Bank (\$3.5B, LA) will acquire 4 branches in Houston, TX with \$15mm in loans and \$135mm in deposits from Whitney Bank (\$19.2B, MS) for an undisclosed sum.

Booming Biz

The latest PayNet Small Business Lending Index finds that small business borrowing has soared to its highest level in 7.5Ys.

Regulation Update

The latest update on Dodd Frank rulemaking by Davis Polk indicates that of the 398 rulemaking requirements, 58% now have finalized rules and 19% have had rules proposed that may see some modifications in coming months. That leaves about 24% of rules yet to be touched.

Regulatory Change

The OCC announced it will more closely document and track issues flagged as matters requiring attention (MRAs). To do so, the OCC revised guidance, set new standards and increased its focus on timeline tracking to ensure remediation occurs.

Regulatory Capital

Community banks should note that Basel III kicks in for everyone starting Jan 1 of next year. The new rules are designed to improve the level and quality of bank capital and better reflect the bank's risk profile.

Flood Rule

Regulators have proposed an amendment to flood insurance rules that would require banks to escrow premiums and fees for flood insurance for loans secured by residential improved real estate or mobile homes after Jan 1, 2016 unless the bank or loan qualifies for a statutory exception. The proposal also eliminates the requirement to purchase flood insurance for a structure that is part of a residential property located in a special flood hazard area if that structure is detached from the primary residential structure and does not also serve as a residence.

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