



Subscription Banking – Is It Time For Your Institution?

profitability customer experience customer retention

Summary: Subscription banking is still not widespread. However, there are many customers who subscribe to other services, such as Netflix, and are familiar with this business model. Subscription banking may make sense for some community financial institutions to increase fees in a way that many customers could accept. We discuss how customers view fees, how this model could promote loyalty, and provide a few examples of financial institutions that are doing it.

You may be seeing roses emerge again as the blooming season starts. There are over 150 species and thousands of hybrids, ensuring that roses come in almost every color. The fragrance is heavenly, but watch out for those thorns!

For community financial institutions (CFIs), fees can be a thorny issue, and the pressure to obtain fees makes things even thornier. To help with this dynamic, CFIs might want to consider subscription banking.

While [we have covered subscription banking](#) in the past, we thought it was time to revisit this business model. This model bundles together banking services — and associated fees — so customers don't feel they are being nicked and dined. This also allows financial institutions to count on regular fees to cover costs and grow their bottom line.

Navigating customers' relationships with fees

It's well-documented that consumers dislike paying bank fees and a Magnify Money/Lending Tree study offers insights into those they loathe the most. The most detested fees include bank ATM fees, overdraft fees, and bank account maintenance fees. What if there was a way to avoid these piecemeal costs, while still being net positive for your institution?

That's where subscription banking comes in.

Here's how: Banks can charge a flat monthly fee instead of multiple, per-use charges, which makes things easier for customers to predict their expenses, while lowering operational costs in the process. What's more, offering a monthly fee could give customers with multiple banking relationships a more compelling reason to consolidate their accounts with you.

Many of your [customers already subscribe to services](#) like Netflix and Spotify and many are more willing than ever to try other subscription-based services such as Home Chef, Dollar Shave Club, or Barkbox. It makes sense that subscription services for financial institutions could be equally compelling.

Another way to promote loyalty

Because subscription models are relatively new, financial institutions have a lot of wiggle room to experiment. Consider a 2019 study out of the UK that polled 1,000 consumers about what they want from their bank.

Conducted by CitizenMe with Zuora, the report found that 52% of UK respondents would be enticed to switch banks if the subscription with the other bank included an entertainment bundle. This was followed by smartphone insurance (33%) and utility services (31%). Pretty interesting results, considering that UK customers are known for their bank loyalty. US customers also tend to be loyal and this type of forward-thinking strategy could be a way for CFIs to continue serving their customers and keep them from straying.

How financial institutions are responding

Some financial institutions around the world have started warming up to this model. About one year ago, [a challenger bank in Brussels announced its membership model](#), which costs about \$23 a month. A German fintech has also recently launched a subscription-based digital banking suite. The trend is also happening closer to home, with one Baltimore community bank recently rolling out new accounts, for a fee, that offer a wide range of benefits that would be pricier if cobbled together individually.

Furthermore, it's expected to be the wave of the future. Consider a Gartner prediction that [by 2023, 75% of organizations selling direct to consumers will offer subscription services](#). As consumers become more familiar with this business model and find value in its offerings, more financial institutions will likely notice and follow suit.

Time will tell how long it will take to get to that point, of course. Still, we think this is worthwhile to keep an eye on. Things can change rapidly, so it never hurts to be informed and ready, if it does.

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ECONOMY & RATES

Rates As Of: 04/30/2021 05:22AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.01	-0.02	-0.08
6M	0.04	-0.01	-0.05
1Y	0.05	-0.01	-0.06
2Y	0.17	0.00	0.04
5Y	0.87	-0.07	0.51
10Y	1.65	-0.09	0.73
30Y	2.31	-0.11	0.66
FF Market	FF Disc	IORR	
0.07	0.25	0.10	
SOFR	Prime	OBER	
0.01	3.25	0.05	

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