

BankThink Banks Can Offer Free Checking — It's Called E-Checking

By Lynn A. David

Mark Twain is often quoted as having said "the reports of my death have been greatly exaggerated." So it is with the rumor of the death of free checking.

Most banks are attempting to increase or maintain profitability. One way is to attract new customers with the opportunity to develop them into low-cost, but profitable relationships.

All banks want to attract the 20% most profitable segment of all customers. However, I have yet to find a bank that has the solution to attracting new customers that exclusively meet the criteria.

As such, in order to increase profitability, banks must assure most new customers are low-cost relationships. Low cost provides more opportunity for higher profitability.

To achieve this goal, in 2014, free checking must be e-checking. The customer must be willing to accept all statements and notices electronically. This includes, for instance, electronic loan payment due and past due notices, safe-deposit box billing notices, certificate of deposit maturity notices, overdraft notices, etc.

Mailed paper statements should be available to free checking customers for \$3 per month and mailed paper statements with check images should be available for \$5 per month. Free checking customers should be permitted to write checks and encouraged to use their debit cards.

A bank's new accounts staff should be incented to identify and cross-sell additional deposit and loan services to new free checking customers and all new and existing customers to help enhance the profitability of the relationship. This approach will help place new customers on the low-cost delivery path.

The next step is to lower the bank's cost for its existing checking account customers. It is always better to start with the carrot, not a stick, to change a customer's behavior. Identify all existing checking customers, especially those with free checking accounts, not currently receiving both e-statements and e-notices.

Banks can encourage these customers to sign up for both services by entering enrollees in a drawing for a "free 50-inch flat screen color TV." Offer one free TV per branch and place the TV on display at each location. Consider promoting the contest for approximately 60-days prior to the drawing. This will permit most customers to receive at least one electronic statement prior to the drawing.

When the customer enters the contest, ask them to sign a form acknowledging that if they convert back to receiving paper statements after the drawing, they will pay \$3 per month for a paper statement and \$5 per month for a paper statement with check images.

For customers age 65 and over, consider providing paper statements for \$2 per month and paper statements with check image for \$3 per month. As a consultant, I have found that some banks using this technique recoup the costs of the TVs within 60 days of the contest based on the postage savings from its entrants.

Many current and potential customers are happy with a free checking account. Banks should provide this service, but begin to charge for paper statements and notices.

To quote another popular adage: "Whoever is happy will make others happy, too."