



Making Good from Bad: Winning Options for Redesigning Your Bank's Retail Strategies



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Industry Update

- Average customer profitability down at most financial institutions following crisis
 - ✓ Globally, average customer profitability declined 5% to 15% since the crisis
- Efforts by financial institutions to restore customer profitability face hurdles
 - ✓ 59% reported decreased customer loyalty
 - ✓ 63% say customers more price sensitive
 - ✓ 63% say customers are 'shopping around' more frequently
 - ✓ Greater willingness to move away from 'poor' service
- Traditional profit recovery strategies – rate and fee increases, conventional cross-selling and organic growth – will not readily fix the problem. Many will struggle
 - ✓ Customers have broader expectations
 - ✓ Service demands have increased

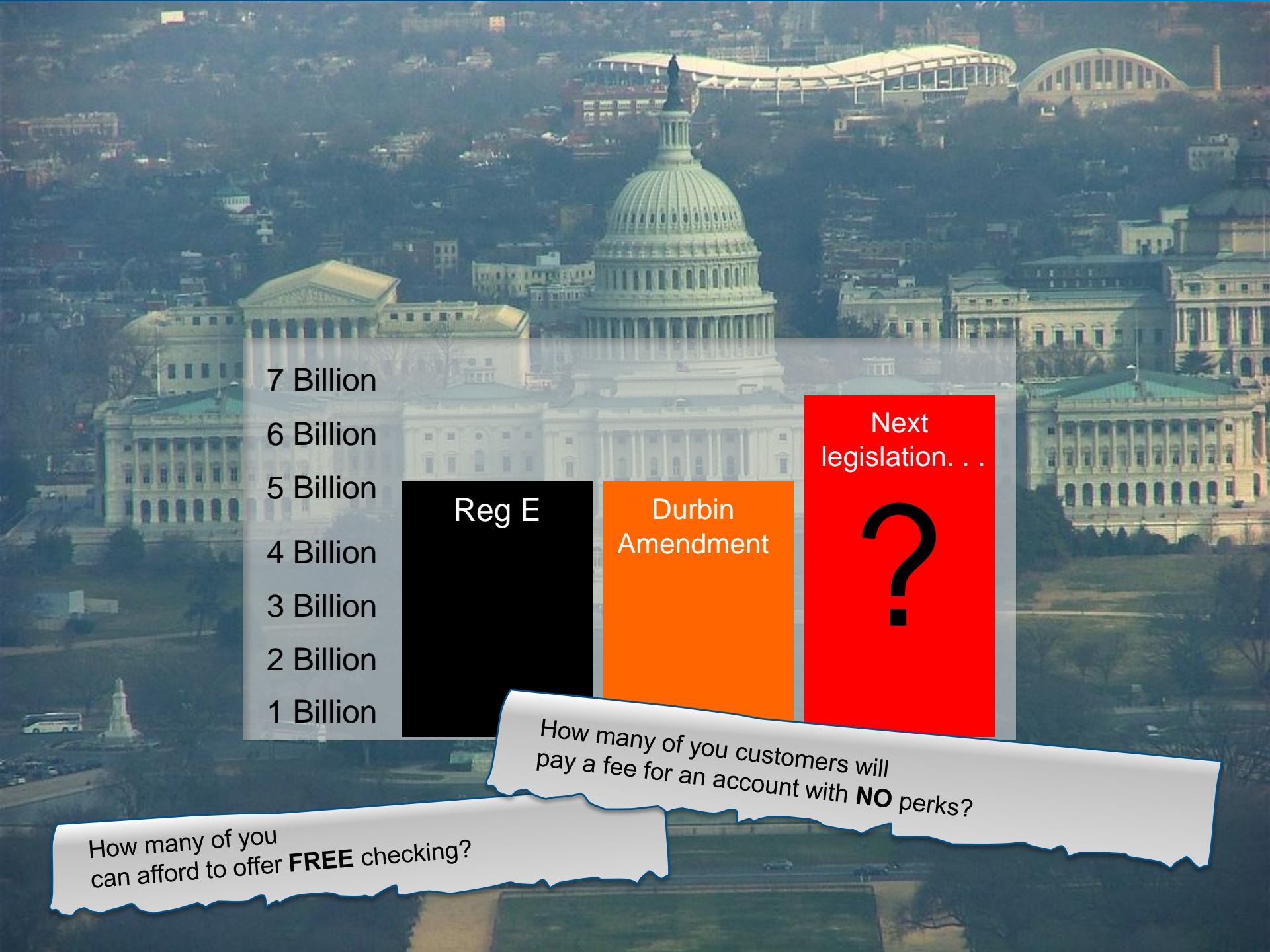
June 2010 Accenture study across 35 retail banking institutions



Legislation and regulation continue to be game-changing.

We expect more regulation in the financial services sector in the near future.





7 Billion
6 Billion
5 Billion
4 Billion
3 Billion
2 Billion
1 Billion

Reg E

Durbin Amendment

Next legislation...
?

How many of you can afford to offer **FREE** checking?

How many of you customers will pay a fee for an account with **NO** perks?

Legal and regulatory developments promise to have a significant impact on financial services

CARD Act: 'Reasonable' penalty fees defined

- Fee limit set at \$25 (cannot exceed dollar amount of violation)
 - Average penalty fee is \$39¹
- Bans inactivity fees, multiple penalty fees for single violation
- Issuers must reevaluate interest rate increases since Jan. 2009 and reduce rate if appropriate

Regulation E: NSF/Overdraft fees

- Financial institutions must obtain consumers' affirmative consent in order to assess overdraft fees for one-time debit and ATM transactions
- Banks made preparations to comply

Durbin Amendment (part of Dodd-Frank Act): Interchange

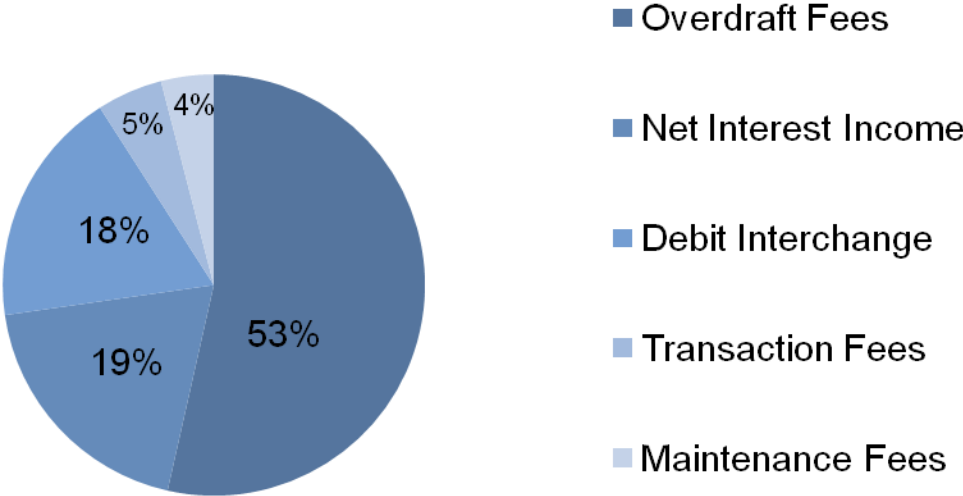
- Introduced in May; Passed into law in July
- Requires debit interchange fees be proportional to cost; Prohibits debit exclusivity arrangements and routing restrictions; Limits restrictions on offering discounts for forms of payment; Limits restrictions on transaction minimums and maximums (credit only)

¹Pew Safe Credit Cards Project, qtd. in 6/15/10, "Fed limits card fees to \$25, *CNNMoney.com*



The new regulatory environment threatens significant revenue sources in banking portfolios.

Checking Account Revenues 2008*: \$68.1B



*2009 total and breakdown expected to show little change.

Source: Novantas, qtd. in 12/23/09, "Consumer Fees: The Hits Keep Coming," *American Banker*



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AVERAGE ANNUAL ACCOUNT PROFITABILITY

Income Source	Amount
Overdraft Income	\$150
Debit Interchange	\$36
Interest Spread	\$25
Other Income (Checks/Add Ons)	\$7
Total	\$218

**Subtract
Expenses:**

Statements
Checks
Branch Networks
Systems

Free Checking Profits are Dropping

\$218

-\$30

Opt-In

\$188

-\$20

Interchange

\$168

-\$18

Future Regs

\$150

How do
you
replace
\$68
of annual
revenue?
(\$5.66/mo)

Revenue pressures from legal and regulatory developments were exacerbated by ongoing consumer behavior trends.



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With consumer confidence shaken, customers expect more from their financial institutions.

39%

Don't want all of their accounts in one place because they **don't trust** financial companies.*

94%

Believe **trust** is somewhat or very important in choosing a FI.

80%

Plan to permanently increase the amount of money they **save**.*

64%

Want to **learn** more about managing their finances.**

*Customers with \$100K+ household income

**Customers age 18-24

Source: 5/10, "Seven Predictions for the Future of Banking," Mintel Comperemedia (webinar)



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Community banks rank notably better in the eyes of consumers

<i>Category</i>	<i>Large banks</i>	<i>Community banks</i>
Easy to do business	53%	81%
A bank I trust	48%	78%
Friendly	51%	80%
Responsive staff	46%	74%
Quick problem resolution	41%	70%

Source: BAI research report—"Navigating in Turbulent Times—Competing for Deposits and Relationships" (1Q 2010)



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Things that FIs do to lose trust

- **Poor service in call centers and branches**
- **Lack of helpfulness**
- **High or sneaky fees**
- **Confusing policies**
- **Uninformed front-line employees**
- **“Rewards” with little value or fine print exceptions**
- **Teaser rates and non-free, free accounts**
- **Poor “PR” resulting in government and reporter bashing**



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Things that FIs do to build trust

- **Put customers in the right product**
- **Deliver incremental value in accounts with fees**
- **Be committed to solving a problem**
- **Be informed**
- **Fee waivers**
- **In business: know my business**
- **Simple, Easy, Fast, Friendly**



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Large institutions introduced initiatives to engage customers and rebuild trust.



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Fifth Third re-launches debit rewards program with stronger value proposition

The screenshot displays the Fifth Third Bank website's homepage. At the top, there is a navigation bar with links for Contact Us, Careers, Branch & ATM Locator, Privacy & Security, FAQs, Site Map, and Español. A search bar is located on the right. Below the navigation bar, the main menu includes PERSONAL, BUSINESS BANKING, COMMERCIAL, and ABOUT FIFTH THIRD. The central banner features the Fifth Third logo with a red arrow pointing to it, and the text 'real life rewards' in a stylized font. To the right of the banner, a text block reads: 'Fifth Third Rewards has a new look and a new name - and a focus on you that's stronger than ever.' Below this text is a 'Learn more' link. On the left side, there is a 'Log In' section for Internet Banking and Commercial Banking. On the right side, there are promotional tiles for 'Overdraft Coverage', 'Real Life Rewards', and 'Fifth Third CD'. At the bottom, there are four main service categories: 'Manage & Access', 'Borrow & Fund', 'Invest & Plan', and 'Explore', each with a list of services.

Contact Us | Careers | Branch & ATM Locator | Privacy & Security | FAQs | Site Map | Español

Search

FIFTH THIRD BANK

PERSONAL | BUSINESS BANKING | COMMERCIAL | ABOUT FIFTH THIRD

INTERNET BANKING

User ID

Password

Log In

Forgot your User ID or Password?

Commercial Banking

Log In to Fifth Third DirectSM

Log In

BRANCH & ATM LOCATOR

Branch ATM

ZIP Code

Find

Advanced Search

real life rewards

Fifth Third Rewards has a new look and a new name - and a focus on you that's stronger than ever.

Learn more

Overdraft Coverage

Real Life Rewards

Fifth Third CD

Manage & Access

- Checking Accounts
- Savings Accounts
- Credit & Debit Cards
- Internet & Mobile Banking
- Account Management Services

Borrow & Fund

- Mortgages
- Equity Lines & Loans
- Vehicle Financing
- Student Loans

Invest & Plan

- CDs
- IRAs
- Investment & Wealth Management
- Planning Center

Explore

- Financial Tools
- Real Life Rewards
- Student Banking



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Bank of America continued to introduce resources to help their customers manage their finances and clarify terms.



Facts About Fees

Facts About Business Fees • Locations • Contact Us • Help • Sign In

Manage Banking Fees Manage Credit Cards Fees Understand Bank Practices Learn to Avoid Fees

Stephanie from RI asked:
What is changing about Overdraft Services?

Janet answered:
Overdraft Services are changing this summer. These new changes will help you reduce the chance of inadvertently overdrawing your personal checking account, and unexpected overdraft fees on certain transactions. That way, if you make an ATM withdrawal or everyday debit card purchase and your available balance or linked Overdraft


Overdraft & NSF Fees

SUMMARY

Bank of America is changing the way Overdraft Services work. Learn more about these changes.

What it Costs:

the fee is for	>
the fee is for	
Overdraft less than \$10	you
Overdraft more than \$10	
Extended Overdrawn Balance	
NSF: Returned Item	



TONY NEEDS TO KEEP HIS EXPENSES IN CHECK

We've made changes to help you avoid overdrawing your accounts

You wanted more control over your spending, and we've made changes to help you. With these new changes, you'll be able to reduce your chance of inadvertently overdrawing your personal checking account, which can help you reduce unexpected overdraft fees.



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What All of This Means

- Many national “brands” have disappeared – a few more could also falter.
- The winners will be those employing distinctive strategies and tactics that cost-effectively target, attract, and capture profitable deposit customers.
- New products and differentiated acquisition strategies and tactics are essential.



How are you handling...

A person in a dark suit is shown from the chest down, holding a blue pen in their right hand and looking at several documents on a desk. The background is blurred, showing what appears to be a window with a view of a city or office building. The overall scene suggests a professional or financial setting.

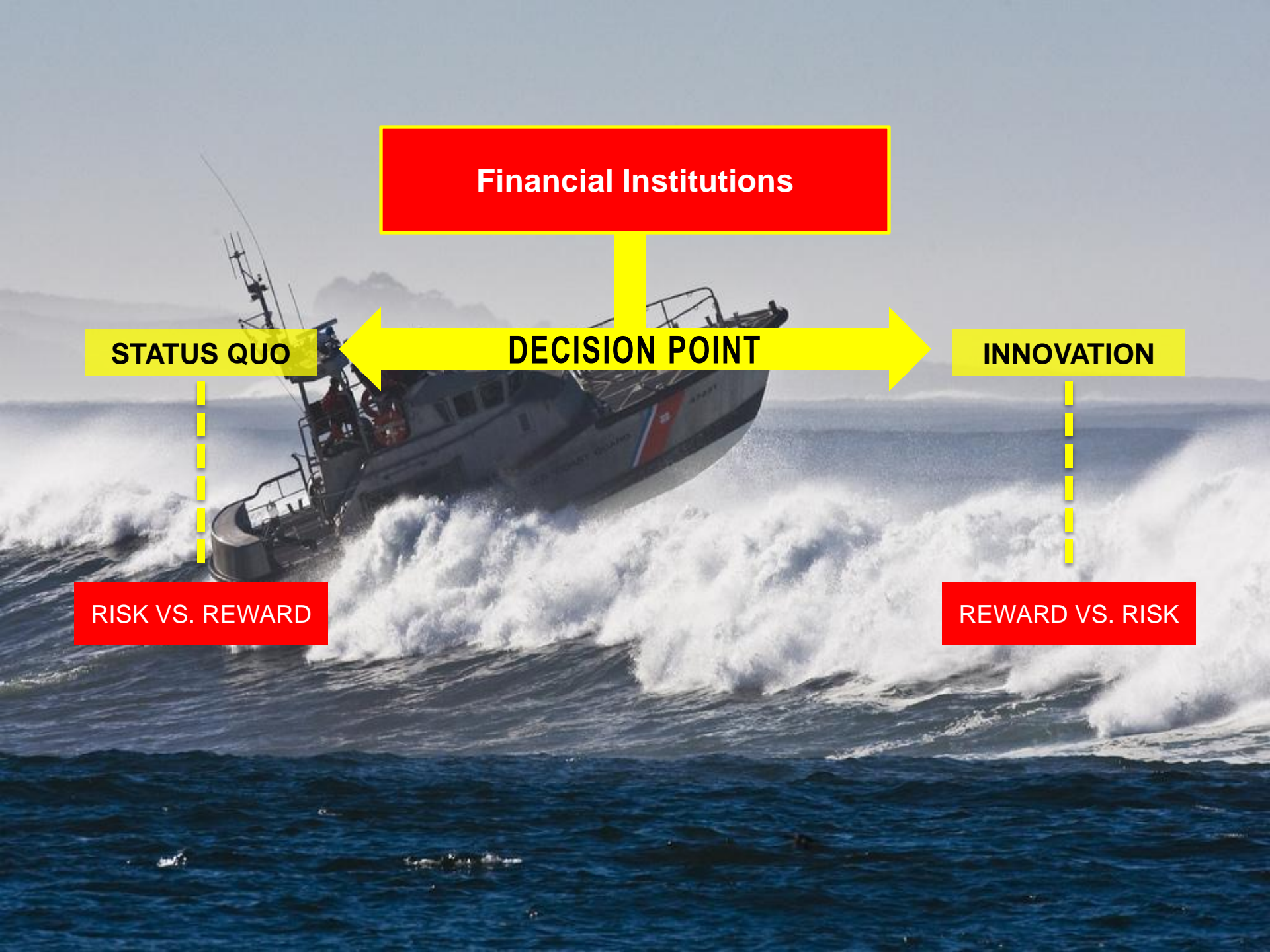
Current account structure?

The cost of free checking?

Number of customers who opted-in?

Increased branch operation costs?

Personal performance pressures?



Financial Institutions

STATUS QUO

DECISION POINT

INNOVATION

RISK VS. REWARD

REWARD VS. RISK

Back to Basics

- Embedded accounts that marry financial and non-financial products and services
- Fee checking accounts that are behavior based with the ability to “buy down” the monthly fee
- Development of overlay strategies to compliment core account



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The Decision

Whether **your choice** is:

1. To keep Free Checking, or...
2. To eliminate/grandfather Free Checking,

*A customer engaging account design that allows FIs to provide **increased value** within their DDA accounts, **enhance the customer relationship**, drive **profitable behaviors** and deliver **incremental fee income**.*



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Behavior Change

Customers have the opportunity to earn down their monthly fee by exhibiting these behaviors that are *convenient for them and cost effective for you:*

Maintaining a minimum daily balance of \$X

Going paperless with electronic statements

Having “X” signature-based transactions

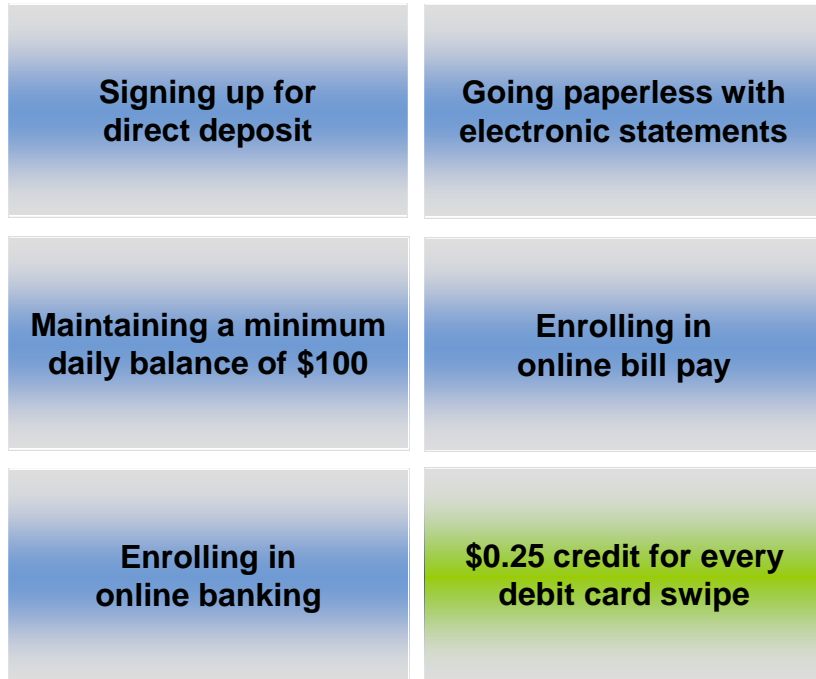
Enrolling in online bill pay

Enrolling in online banking

Signing up for direct deposit

Sample Account Behavior Scenarios

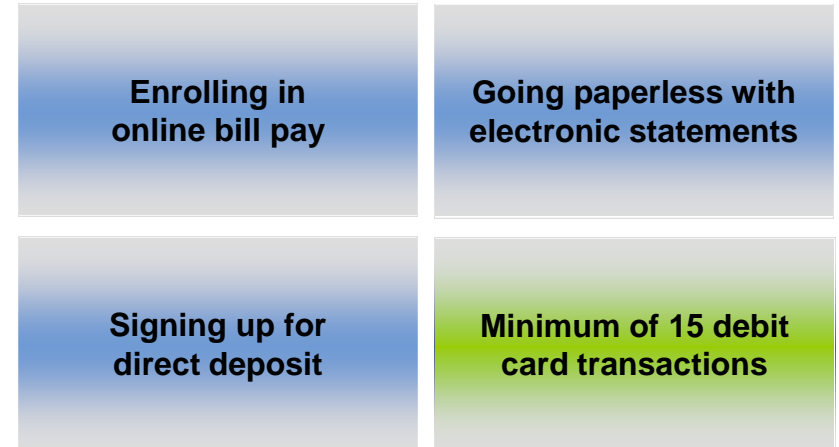
Scenario A: \$6.00 monthly account fee, must meet all 5 account qualifiers, *then* all debit transactions are rewarded with a \$0.25/swipe credit



Example Outcomes

- 24 debit transactions = Full \$6.00 credit to account (customer paid nothing!)
- 15 debit transactions = \$3.75 credit to account

Scenario B: \$8.00 monthly account fee, must meet all 4 account qualifiers and entire monthly fee is credited



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= qualifier behaviors



= buy down behaviors

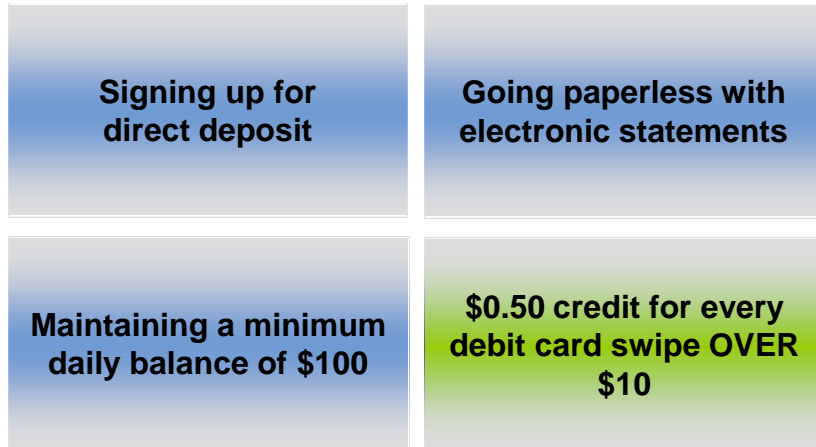
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More Sample Scenarios

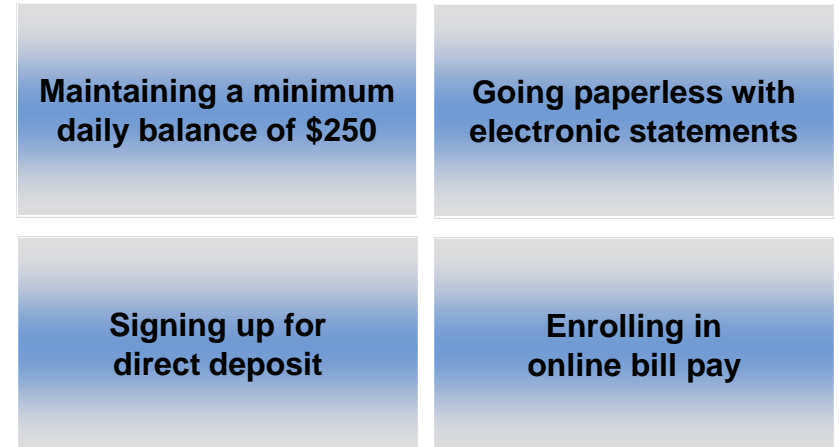
Scenario C: \$8.00 monthly account fee, must meet all 3 account qualifiers, *then* all debit transactions OVER \$10 are rewarded with a \$0.50/swipe credit



Example Outcomes

- 17 total debit transactions for the month, but only 8 of those were over \$10 = \$4.00 credit to account
- 15 total debit transactions for the month, but only 3 of those were over \$10 = \$1.50 credit to account

Scenario D: \$7.00 monthly account fee, must meet all 4 account qualifiers and fee is reduced to \$3.95 (partial reward vs. full fee waiver)



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= qualifier behaviors



= buy down behaviors

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Consumer Insights



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Background / Objectives

- Determine the optimal checking account product designs and product construction (both financial and non-financial benefits and services).
- Identify benefits (e.g. identify theft protection, savings on everyday purchases, etc.) and the financial benefits (e.g. free checks, no foreign ATM fees, etc.) most effective in driving checking acquisition.
- 30 benefits (both financial and non-financial) evaluated for a nominal monthly fee as part of a checking account.
- Two main categories of benefits/services continue to offer best potential for generating high appeal and increased customer retention/loyalty:
 - ***Savings programs***
 - ***Protection services***




Benefits

The opportunity to provide services and features customers want while also meeting FI needs

Provides better value in the checking account

Customers are looking for “free” checking and are willing to change their behaviors to keep it!



Recent consumer research study shows consumers want **security services** from their financial provider as well as **peace-of-mind** knowing they are protected from potential fraud.

Acquisition

Customers are a 1/3 more likely to open an account if money saving and fraud protection were offered with their account

Customer Retention & Referral

Consumers are 60% more likely to refer/recommend their FI if they were offered money-saving benefits such as *Everywhere Cash Savings* or *Everyday Rebate Rewards*

Top Benefits Driving Acquisitions

Likelihood to Open Account - Top 2 Box Ratings -



Responses Based on a 5 Point Scale –

Top2 Box = Definitely Would Switch and Probably Would Switch

Color Key

■ Blue Shading Indicates Affinion Benefits

■ Black Shading Indicates Financial Institution Benefits



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Top Benefits Driving Retention

Likely to Refer/Recommend - Top 2 Box Ratings -



Responses Based on a 5 Point Scale –
Top 2 Box = Definitely Would Recommend and Probably Would Recommend
Scores based on TURF Analysis



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Case Studies



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Checking Account Case Study

Moving From Free Checking to Fee Checking

FI

Regional bank with 1,300 locations in the Midwest

Need

Initial need was to deliver an identity theft solution to protect consumers and drive retention and non-interest income while positioning the bank as a market leader

Evolved into a more holistic strategy of addressing moving from “free to fee” checking account strategies – the bank was no longer going to offer free checking accounts

Solution

Design an identity theft product solution which could be embedded into the core checking account for a nominal monthly fee

Position bank as an industry leader and provide a value-based fee message to customers

Business Results

- Bank has **over 210,000 active customers** in the identity theft program
- Bank **cross sells over 38%** of all new accounts into the identity theft program
- Bank will generate **\$10.0 Million** in net new revenue this year

Check Your Credit Regularly With Triple-Bureau Credit Reports!

- Incorrect credit information can cost you money, or even a new job. Ensure your information is accurate with credit reports and scores from all three major credit reporting agencies.
- Understanding your report can help you enhance your financial buying power. Your credit report and credit score provide a valuable picture of your overall credit standing.

24-Hour Daily Credit Monitoring With Credit Alerts!

- Automatic alerts sent via email or mail when certain changes to your credit occur.
- Helps identify a potential problem before it happens.
- Quarterly notification sent when there are no changes to your credit file.

Help Protect Your Credit & Debit Cards

- Receive notification if your information is found in the wrong hands. Real-time early warning technology monitors underground chat rooms with Card Monitoring, where thieves buy and sell stolen card data.

Personal Caseworker

- You receive access to the experts to walk you through the process of restoring your good name. In the event of identity theft, save time with a personal caseworker that takes you through the resolution process.

Lost and Stolen Card Assistance*

- Save time when you lose or misplace your cards. One call can notify all of your card issuers, cancel your cards and request replacements to be issued promptly.

Identity Theft Insurance with Fraud Assistance!

- Insurance. Up to \$10,000 in financial compensation for qualified expenses incurred in the recovery of your stolen identity.
- Fraud Assistance. Expert help with organizing paperwork, advising you about notifying creditors and more.

Identity Alert from provides comprehensive protection against the major types of identity theft and fraud, including the "Top Three" listed below:

- 1** 55% of identity theft cases reported result from the misuse of your credit or debit card information.
Identity Alert offers you protection with:
 - Lost & Stolen Card Assistance
 - Credit/Debit Card Monitoring
 - Triple-Bureau Credit Reports
- 2** 28% of identity theft cases reported result from accounts fraudulently opened in your name and other fraudulent activity.
Identity Alert offers you protection with:
 - 24-hour Daily Credit Monitoring With Credit Alerts!
 - Triple-Bureau Credit Reports
- 3** 14% of identity theft cases reported result from the misuse of your accounts or account numbers.
Identity Alert offers you protection with:
 - 24-hour Daily Credit Monitoring With Credit Alerts!
 - Triple-Bureau Credit Reports

You'll also receive Identity Theft Insurance with Fraud Assistance in the unlikely event that any other form of fraud occurs.

*You'll also receive 24-hour Daily Credit Monitoring With Credit Alerts!

To enroll in Identity Alert, simply visit AffinityBank.com or call 1-800-368-3688.



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Profitable Segmentation Strategy: Second Chance Checking

Background: Central National Bank

- Founded in 1884 in Junction City, KS
- 38 branches in 23 Kansas & Nebraska communities
- Situation in 2007:
 - 28,000 consumer DDAs
 - 69% are free accounts
 - Open/close ratio of less than 1.0
 - Stagnant fee income growth



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Goal: Grow DDA base to drive value and earnings

- **Challenges...**

- Commoditized products with little differentiation
- Increasing competition in urban markets
- Shrinking population in rural markets
- Aging customer base
- Increasing DDA acquisition costs

- **Opportunity...**

- 18% of potential customers declined for new account due to ChexSystems/QualiFile score



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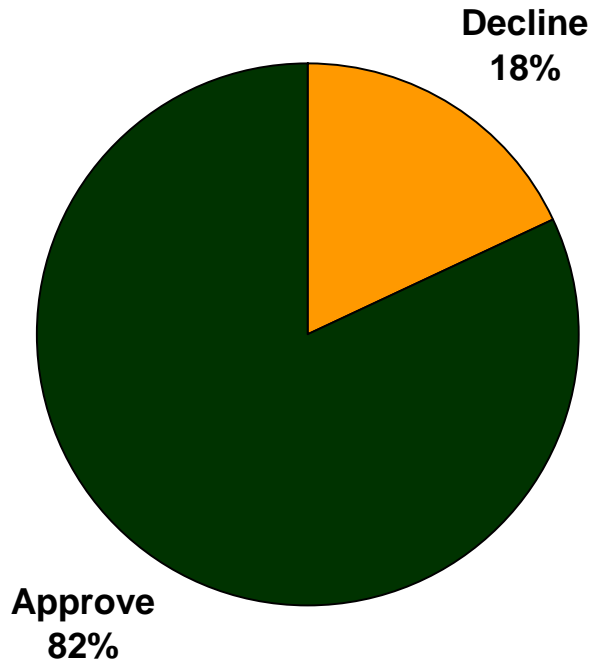
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Goal: Grow DDA base to drive value and earnings

Solution: Second Chance Checking

- Expand our universe of potential customers with a new product offered to those “unbankable” customers who would have previously been declined



900 applicants per year turned away due to disqualifying factors on ChexSystems/QualiFile

Significant Missed Opportunity among customers already in our bank branches!



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Second Chance Checking: Overview

Place appropriate customers (16% of the 18% we would have previously denied accounts) in second chance checking

- **Employ effective Risk Management**
 - Control who gets the account, utilizing QualiFile criteria selections based on database of national statistics/predictors to assign risk score
- **Engineer Product Features**
 - Account structured to increase customer's success rate and lessen their likelihood of failure
 - Allow debit card usage
 - Introduce a monthly fee



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Second Chance Checking: Overview

Place appropriate customers (16% of the 18% we would have previously denied accounts) in second chance checking

- Educate staff effectively
 - Initial explanation of the program and operational training are critical
 - May require changing the culture of the organization
- Efficiently analyze and manage customer follow-up
 - Software package monitors customer pool daily and anticipates “trouble” accounts based on activity trends



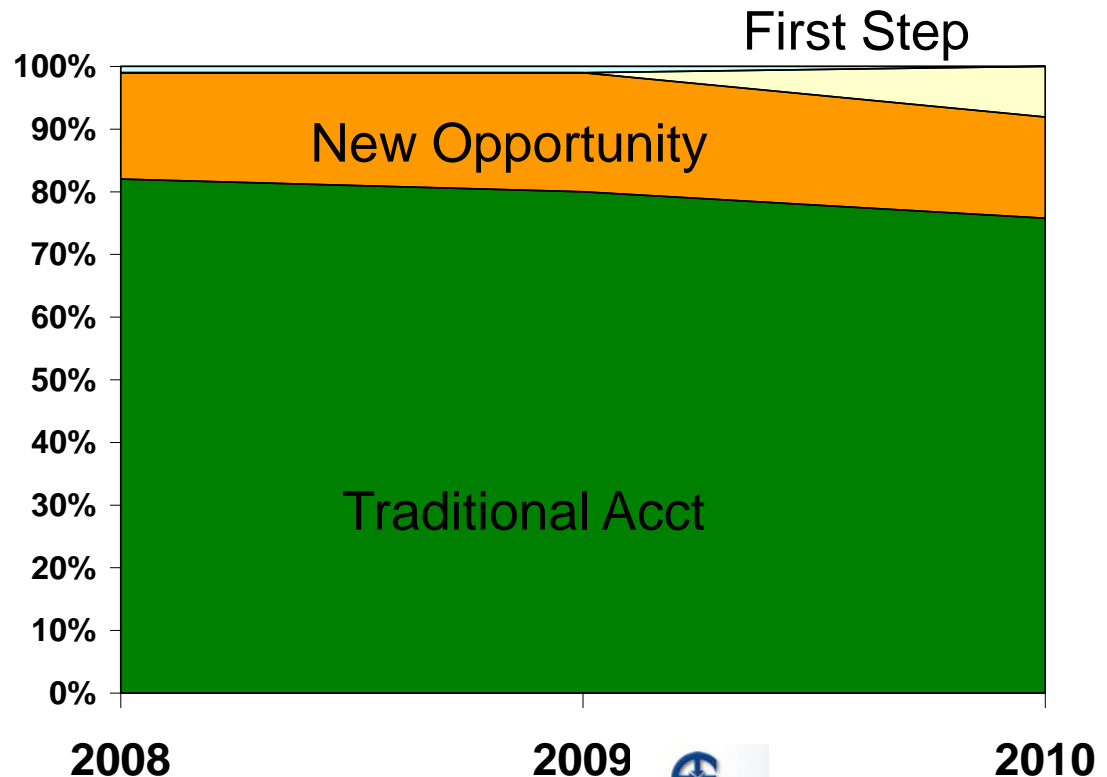
Second Chance Checking: Keys to Success

Customer Segmentation

- Based on their QualiFile score, applicants who would have been previously denied will be offered either a New Opportunity or First Step account

- New Opportunity Account
 - 8-10% of applicants offered the New Opportunity Acct

- First Step Account
 - 4-6% of applicants offered the First Step Acct



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Second Chance Checking: Keys to Success

Product Design

- **New Opportunity Checking**
 - Non-interest checking
 - Unlimited check writing
 - Debit card access
 - Monthly account fee of \$9.99 (\$7.99 with direct deposit)
 - \$0 overdraft limit (no overdraft protection offered)
 - All NSF items are returned and charged by default
 - Reduced ATM and POS daily “stand in” limits (\$150 and \$500 respectively)
 - Product-specific Reg CC guidelines
 - Put holds on all deposited checks not from known or trusted source (rather than immediate posting)
 - After 12 months customers in good standing may qualify for a conventional checking account at Central National Bank
- **First Step Checking**
 - Same features and pricing as New Opportunity Checking, but no checks issued
- *Help people recover financially and mitigate loss risk*



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Second Chance Checking: Keys to Success

Thorough & Effective Staff Education

- Cultural shifts may be necessary
 - Bad things happen to good people
 - The second chance group is a class of customers we want to serve
- No need to apologize for charging a fee
 - We are offering a service and should be compensated for doing so
- Procedural Training
 - Opening accounts, placing deposit holds, customer monitoring and communication



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Second Chance Checking: Keys to Success

Risk Management

- Daily Account Monitoring

- Utilizes “New Opportunity Manager Software”
- Monitors and evaluates deposit activity and trends
- Monitors level of debit card use
- Guards against excessive NSF activity
- Monitors returned deposit activity
- Employs a follow-up matrix and specific protocol for overdrawn clients
- Tracking for program “graduates” to be upgraded to a more traditional account
 - *Maintain account for one year with no more than 2 overdrafts to be eligible to graduate to a traditional checking account*



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Second Chance Checking: Keys to Success

Improved Profitability vs. Traditional Free Accounts

- Second Chance customers overdraw 8.7 times per year
- Monthly service charge of \$9.99 or \$7.99 (\$2 less w/ direct deposit enrollment)
- Interchange income from debit card usage

	Traditional Acct	Second Chance Acct
NSF Income	\$ 162.00	\$ 217.35
Svc Charge	\$ -	\$ 77.89
Debit Interchange	\$ 48.00	\$ 65.34
Total/Year	\$ 210.00	\$ 360.58



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Second Chance Checking: Keys to Success

- **Differentiation & Marketing**
 - First to market in most of our communities
 - Utilized radio, print, and billboard advertising
 - Networked with credit counseling agencies
 - Some competitor banks even refer customers to us
- **Value Proposition**
 - “A second chance at a first-class bank account”



Billboard Sample

Get a *fresh* start

**SECOND CHANCE CHECKING
AT CENTRAL NATIONAL BANK**

MEMBER FDIC



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Results

- **Able to meet a customer need we were not previously meeting**
 - CRA credit for serving a previously underserved demographic segment in a fair yet profitable manner
- **Our Second Chance Checking Customers...**
 - 36 years old on average
 - 49% female; 51% male
 - 48% opened their account at a Walmart in-store branch (5/38 branches are in-store branches)
 - Express loyalty since we gave them an account when other banks refused



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Results

- **Growth in DDA base**
 - 76 second chance accounts opened per month
 - 1,124 active accounts
 - Average account balance of \$475
 - 259 program graduates now in traditional account types at our bank
 - Annual attrition rate (minus graduates) of 37%
- **Able to take advantage of customers already in our branches (reduced acquisition costs)**



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Results

- **Incremental Fee Income (3 years)**
 - NSF Income = \$661,850
 - Service Charge Income = \$181,064
 - Debit Interchange Income = \$183,606
 - Monthly per account average income = \$30

- **Out-of-pocket losses are minimal due to program structure (less than 5%)**



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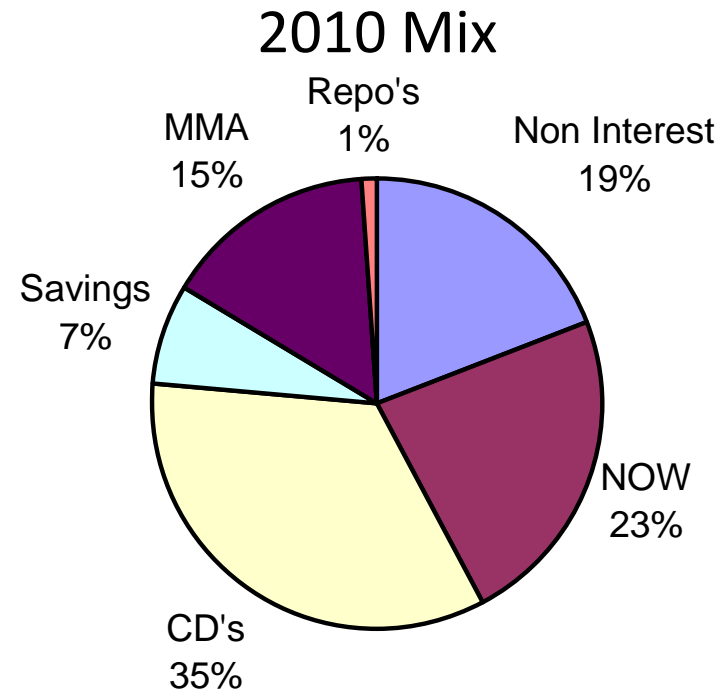
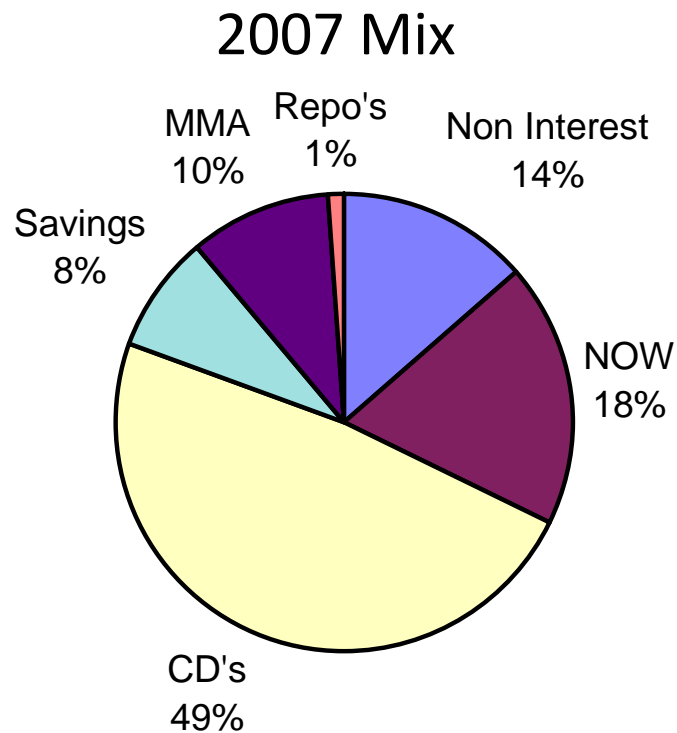
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Results

- **Deposit Mix Change = Cost of Funds Improvement**
 - 202 basis pt improvement in cost of funds due to growth in DDAs, reduction in CDs, and market rate changes



Re-designing accounts and acquiring profitable customers can...

- Deeper and more profitable customer relationships (Increased ROI and LTV)
- Improved customer satisfaction
- Greater tenured customer relationships
- Heightened frequency of customer interaction
- Reduced operating expenses
- Generate incremental fee income
- Increased customer acquisition



Thank You

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