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BANKS REVAMP CHECKING BY WATCHING CABLE TV

Bankers trying to solve their checking account woes are spending more time staring at their televisions.

Financial institutions of all sizes are increasingly tiering and bundling their services together in an effort to attract new customers and increase profits. That strategy emulates the business models of [cable companies](#), which offer tiered channel plans ranging from basic to premium, as well as bundled phone, TV, and internet packages.

The bundling strategy "is based on usage," Lani Hayward, executive vice president of creative strategies at Umpqua Holdings Corp., told *American Banker* in an interview last week.

The Portland, Ore., bank's different checking accounts are "based on what you use, and if you buy those five things, I will give you this for the overall package," she says.

Efforts to tier and bundle banking services are not new. But such efforts are expected to ramp up next year as banks seek to raise revenue lost under new regulations. Restrictions on overdraft fees coupled with a new rule capping the money banks earn on debit card transactions have forced banks to think more strategically about how to [maximize profitability](#).

"Banks are going to have to find revenue somewhere," says Ky Tran-Trong, of counsel with law firm Paul Hastings. "We're still relatively early on ... and I think banks are continuing to experiment to see how their different strategies are responded to by consumers."

Hayward says that while banks have bundled and sold services to their customers for years, "you're probably going to see more of that" now.

Analysts see the trend picking up at banks of all sizes.

"Now we have a lot more banks, from the community banks and credit unions all the way up to the top ten banks, looking at tiering and bundling as required strategies," says Campbell Edlund, president of consulting firm EMI Strategic Marketing Inc.

Umpqua has offered tiered checking for many years, but it switched strategies earlier this year and rolled out a new line of checking accounts based on what services the bank sees customers using. The old system had been based on customers' ages and life circumstances, and after a series of acquisitions the bank found itself offering as many as 18 different types of checking accounts.

"There was a lot of inefficiency," Hayward says.

Umpqua now offers five checking accounts, with a sixth on the way designed for seniors. Monthly prices range from free to \$20, with each account also offering ways for customers to avoid paying the fees by maintaining a certain balance or having other accounts at the bank.

Hayward says new and current customers are responding positively to the changes.

"For us it was really about getting people in the right accounts," she says, adding that there's also "profitability potentially there ... and we expect we'll see some of that," by clarifying and reducing the number of accounts and having customers sign up for accounts that fit their needs.

To establish its new tiered system, Umpqua looked at how competitors were pricing similar products and considered what services customers valued. The bank "cross-referenced [what accounts customers used] today and mapped that to the new products. Who are these people and where do they break down?" Hayward says. "By looking at that, weighing who actually landed in [each account], and what the competitive landscape looks like, we came to this fee structure."

Umpqua's strategy ties back to the economic theory on which bundling is based: price discrimination, says Thomas Hazlett, a professor of law and economics at George Mason University and former chief economist for the Federal Communications Commission.

"Everybody's going to take a different range of products, in a sense letting customers sort themselves out," says Hazlett.

Banks provide free or low-fee checking to price-sensitive consumers who want a basic array of services, while offering premium products with additional perks, like discounted mortgage originations or free non-network ATM use, to those consumers seeking more [bells and whistles](#).

Because premium accounts tend to include at least several perks, banks also don't need to worry about which perk specifically is attracting each consumer. Some customers might choose a higher-fee account because they want free cashiers' checks, while others might want free access to non-network ATMs.

Similarly, some people buy cable for ESPN2 while others want the Food Network. Both pay the same price for access to the TV shows they want, but may end up with additional stations [they will never watch](#).

Of course, one key difference in banking is that consumers can often waive account fees by keeping higher amounts of money in their checking accounts or by buying additional products and services from their banks. And when consumers deepen their relationship with a bank, they are likely bringing in enough money to offset the monthly fee the bank was charging for the checking account.

Once you have that checking relationship, you can "expand the relationship at a very low cost to the bank to pick up additional lines of service" Hazlett says.

But the increased focus on bundled checking accounts also has its downsides.

"The banks realize that the creation of this more comprehensive array of product options creates a challenge in communicating to their customers and prospects," EMI's Edlund says. "It's much easier to say 'free checking, come on down!'"

As banks work to squeeze more revenue out of customers through cross-selling, each customer the bank loses translates into a bigger financial hit.

"If banks are leveraging an existing relationship and trying to get more services and revenue because it's so efficient, the flipside of that is, if they do something that doesn't sit well with a customer," the banks stand to lose a lot more money with each lost consumer, says Hazlett.

Similarly, "when you get kickback from customers in cable or mobile, they have to change what they're doing. They have to be very protective of the customer relationships they do enjoy," he says.

Banks may have to be particularly wary of alienating their customers as some try to recoup revenues by replacing incentives with new fees or other "penalties." For example, instead of giving existing customers discounts on mortgage originations, some banks are now requiring customers to have a mortgage or another relationship with the bank in order to qualify for free checking.

"In the past banks were using these other products as a discount," says Guggenheim Partners analyst Marty Mosby.

Until recently, customers who had active [checking accounts](#) might "not pay an origination fee on a mortgage or have a fee waived on [their] credit cards," says Mosby. Such additional features were "always more an addendum to the primary checking account."

But in leaner times, banks are now "taking off the positive and turning it into a negative, saying, 'If you don't do this, we'll charge you for checking,'" he says.