How To Design A Win-Win Checking Account

The Harland Report March 2002

A Report of Consumer Checking Account Preferences Throughout the U.S.

By Tony Ward-Smith and Fred Ringenburg

About this Report

Experience shows that, in matters of personal banking, it is the checking account that is key to winning the coveted role of "Primary Financial Institution" with consumers. "PFI" status typically leads to an improved share-of-wallet and, ultimately, to higher profitability.

This reality, along with the precept that helping clients offer more effective and attractive checking account services is one of the best ways to grow their own business, prompted the John H. Harland Company to undertake a study of factors that influence consumer choices regarding checking account services and sources.

To this end, they commissioned the Seattle-based consulting team of Ward-Smith & Ringenburg to conduct a comprehensive, nationwide study of consumer checking account preferences. Scantron Surveys, a full-service research division owned by Harland, provided survey design, production, fulfillment and tabulation services.

The project was developed and implemented in the latter part of 2001. It involved the direct participation of 16 credit unions and two thrift institutions—not all of them Harland customers—from all corners of the U.S. A number of community banks were also invited to participate, but none were able to provide the sample of customers and related MCIF data required.

Altogether the participating institutions supplied names and addresses of 16,900 randomly selected consumers. A two-page (front-and-back) questionnaire was mailed to this list. A total of 2,326 responses were returned by the cut-off date of November 30, 2001. The overall response rate was 13.7%. Unfortunately, the mailing took place during the time of the post-September 11 anthrax-related scare. This may have reduced the response rate since many consumers were willing to handle only the most familiar mail.

The key goal in undertaking this survey was to help financial institutions gain a greater understanding of consumer needs relative to their primary transaction account. By applying this knowledge, financial institutions have the opportunity to achieve higher performance. If you have questions about this survey report or would like a PDF copy, including extensive cross-tabulated details of all data, please email marketing@harland.net or call 866-281-5788.

About the Authors

Tony Ward-Smith is a Seattle-based management consultant who works to link state-of-the-art marketing concepts with strategic planning processes and performance improvement techniques to help credit unions sharpen their market effectiveness. He has worked with CUNA, CUES, state leagues and with individual credit unions throughout the U.S.

As Vice President of Transaction Services for CUNA Services Group, Fred Ringenburg played a leading role in the initial development of checking, credit card, ATM, traveler's check and money order services for the credit union industry. Later, as Harland's Credit Union Marketing Manager, Fred helped establish Harland's Scantron Survey Services.

The two of them met when Fred was developing the original CUNA share draft program. He hired Tony's firm to do the nationwide promotion of the new service... a pivotal move for the national credit union community. They now work together on membership surveys and market studies specifically for credit unions.

They publish the annual list of "High Performing Credit Unions," which has become a measure of performance excellence among credit unions throughout the country. Fred is a member of the board of directors of a $200 million credit union. They both have written numerous articles for credit union publications and have addressed credit union gatherings in all 50 states. Visit their web site: www.ward-smith.com.

So What's a Win-Win Checking Account?

That's easy. It's a transaction account with the "winningest" set of features and benefits designed to attract customers…but also one that delivers relationship payoffs to the consumer's banking source. Offering a win-win checking account must be a central objective for any serious player in today's consumer banking game! This report provides financial institution management with insight into the issues to be considered when developing a win-win checking product.

On the source side of the equation, checking accounts are key to winning and holding other types of consumer banking business—the parts that generate the revenue needed to sustain modern banking operations. The central "fact" around which most of today's consumer banking operates is this: where people have their "main" checking account is most likely where they will look first for auto loans or IRAs, CDs or MMAs, equity lines of credit or other mortgage-based loans…and most other kinds of banking services.

There's really no such thing as a "plain vanilla" checking account anymore. Rather, there are choices. So many choices. All kinds of choices. The reason for this is clear enough. Today, consumer banking is what marketers call a "mature" business. Growth has leveled off. Almost every adult in the U.S. has a checking account, and in many cases, they have more than one. Yet, for all the above-mentioned reasons, providers must still strive to increase their number of "core account" relationships.

So, designing and promoting the "right" package—that is, the one with the combination of features, benefits and appeals that might either pull people over from other sources, or lock them more securely into present relationships—is the greatest competitive challenge for anyone who plans to stay in the consumer banking business.

In the face of all this, the central question is: are there certain features or factors that will make a real difference from a competitive viewpoint? To find out, in the latter part of 2001 we undertook a nationwide study of checking account uses and preferences. The study was fully funded by Harland, a leading supplier to the financial services industry. This report summarizes that study.

The People We Studied

This study is based on findings drawn from a unique group of consumers—unique in the sense that they do some or all of their banking at either credit unions or savings banks. It's a market segment that differs from the general banking population in several ways.

First, this group represents only a portion of the total U.S. consumer banking market. Just one out of three U.S. adults are members of the nation's 10,000 credit unions; the share-of-market among thrift institutions is considerably less than that. Individuals attracted to credit unions appear to be more "value oriented" due to credit unions' historical positioning as more price-friendly, pro-consumer organizations.

Second, they've chosen to utilize sources for checking services that are relatively new to the long-standing demand-deposit business. It's only been two decades since the Depository Deregulation Act authorized credit unions and thrifts to offer full-service checking nationally. Also, these sources do not, for the most part, maintain the widespread branching networks so essential to mass-market success.

Two points in particular speak well for this study.

First is the fact that, in terms of the number of active checking accounts nationally, this audience does indeed represent a significant portion of the total market. Over 30 million checking accounts have been issued by credit unions in just the past two decades, and that amount represents one quarter of the entire personal demand deposit business throughout the United States.

The second is that the average age of respondents—at 48.6 years—reflects a relatively stable and mature life stage. And yet this group was likely to have opened checking accounts in the relatively recent past. Of the accounts represented in the study, 10% were opened within the last 12 months, one-third of them were opened in the last three years, and half (53%) had opened within the past six years. The average account has been open for 7.9 years.

So throughout this report we're looking at behaviors and opinions of people with a propensity to respond to new product offerings and marketing appeals. This also means the group is representative of people who financial service providers are most likely to attract as new accounts.

The sample provided for the mailing consisted primarily of individuals with checking accounts at the participating financial institution. Their average age is 48.6 years and their median household income is $59,490. When it's time to wrestle with strategic considerations of structuring or revising products or services, we look to age, (annual household) income and the general household situation as key factors that, in combination, most strongly influence consumers' financial needs and resources. And what we find is this:

According to national sources, our respondents are about four years older and report incomes approximately $2,000 higher than credit union members as a whole.

Age / Income Demographics		Couples %	Couples Average Income	Singles %	Singles Average Income
18 to 29	LT $50k	2%	$37,500	6%	$25,505
18 to 29	Over $50k	6%	$88,951	2%	$86,607
30 to 44	LT $50k	6%	$34,198	7%	$26,365
30 to 44	Over $50k	12%	$90,135	2%	$80,233
45 to 64	LT $50k	9%	$35,126	8%	$27,714
45 to 64	Over $50k	17%	$90,968	3%	$75,694
Over 65	LT $50k	6%	$33,714	5%	$27,056
Over 65	Over $50k	7%	$87,030	1%	$69,853
Total		66%	$70,553	34%	$38,483

The annual income for couples is, in all cases, higher than for singles in the same age range. We readily attribute this to the high number of two-income situations that are now very much the norm. Households with children at home report a higher income than those without, after controlling for marital status. Over one third (34%) of the respondents are in their "high productivity" years (age 30 through 64), with household incomes of over $50,000.

Forty-four percent of all households have loans with a participating financial institution with a median balance of $4,492. Median household deposits were $2,656. Average profit per household is $279; but according to the MCIF data provided, well over half of these households (57%) were unprofitable. (See page 6 for a discussion of profitability issues.)

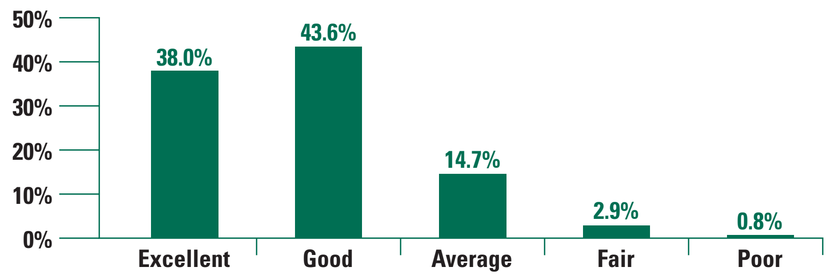
How Satisfied Are People With Their Present Banking Services?

Let's restate the challenge of today's market circumstance for financial institutions: Almost every adult has at least one checking account, and for the market as a whole, growth—in terms of new accounts—has leveled off considerably. So those who want additional growth can no longer expect it to come from meeting unmet needs, but rather must see it as pulling business away from the competition…by getting consumers to switch "brands" or sources.

So while questions regarding satisfaction were positioned near the end of the study questionnaire, we choose to start our report with a mention of these findings because of the revelations of these particular responses.

Data suggests that consumers feel their financial institution is doing an excellent job of delivering an ordinary product.

Satisfaction with Product Features



Over the past decade financial institutions have made substantial investments in enhancing service quality. And it has paid off. **In this study,** a reassuring majority of consumers (60%) consistently rated their main financial source as "excellent" in terms of being "easy to do business with" and the general quality of "customer service." But when it comes to "product features," the rating is *considerably lower!* Thus we conclude financial institutions are doing a great job of delivering an ordinary product.

In particular, we find that customers located within a mile of their nearest branch are less likely to rate the source as "excellent" with regard to product features than are the more remotely located users. Could it be that checking accounts opened merely on the typical close-to-home convenience basis are more likely to be seen as falling short on other key counts?

While it is important to maintain high levels of service and convenience satisfaction, these will henceforth be seen by consumers as minimal performance requirements, and future competition must focus more on hard features that distinguish one product offering from another, one source from another. Thus, a win-win checking product has to go well beyond the now-expected friendly smile at an easy-to-get-to branch. Too many competitors are already providing this level of service to most of their accounts.

The most practical measure of customer satisfaction, of course, is "share-of-wallet." If consumers love the service they get from one source, but deposit the bulk of their funds elsewhere, "customer satisfaction" is a moot point. Therefore, satisfaction with product features is the more important measure…and enhancing *product features* is the primary focus of this report.

Peoples' Use of Checking Accounts

Over 90% of those in the study group have checking accounts at one of the financial institutions participating in this study. The median balance of these accounts is $801. But the study also tells us that, while 58% of consumers have checking accounts at just one source, 36% have them at two places, and 4% have them at three or more sources. Also, 7% of this audience has checking connected to brokerage accounts or mutual funds, while 1% report having checking at one of the relatively new Internet banks.

There are, for classification purposes, four basic types of checking accounts. The “Relationship” category includes accounts with minimum balance requirements, accounts exclusively for seniors (generally with a number of extra and/or free features included), club accounts and other accounts that link checking fees with other deposit or credit activity.

We observe substantial differences in usage of the financial institution depending on the type of checking account.

- No-fee-with-interest accounts had by far the highest average checking and loan balances.
- Relationship accounts were next in level of checking balances. We believe this is due to the fact seven out of 10 of these accounts paid interest. Relationship holders were older and had higher deposits but lower loan usage.
- Free-with-no-interest were the largest single group. They show relatively low checking and deposit balances.
- Finally, accounts that charged service fees had lowest deposit and loan balances. Holders of these accounts were also shown as substantially younger.

Type of Checking	No-Fee with Interest	Free Checking No Interest	Relationship Checking	Fee Checking
% of checking accounts	22%	46%	16%	7%
Average Checking Balance	$6,769	$1,583	$3,3248	$1,320
Median Checking Balance	$2,312	$732	$1,709	$332
% of these accts Paying Interest	100.0%	0.0%	70.0%	4.5%
Total Loan $ at FI (average)	$20,785	$15,390	$13,135	$10,662
Loans (median)	$12,347	$4,855	$1,919	$4,953
Percent with loans	49.6%	51.2%	44.2%	53.2%
Total Deposit $ at FI (average)	$18,860	$10,457	$28,884	$8,208
Deposits (median)	$3,160	$2,475	$5,296	$1,061
Average age of accountholder	48.0	46.4	53.3	39.1
Median Years Account Open	9.2	5.9	4.0	3.2

We also found that 58% of all checking accounts are jointly owned. Among married couples this number jumps to 80%. Even among single respondents we find from 10% (those with kids) to 20% (no kids) hold joint checking accounts.

A trend to measure in the years ahead is whether an increasing number of married individuals are establishing separate checking accounts to reflect their personal earning power. There is strong indication of this in the market as more women establish themselves as primary income producers. Such a trend would carry definite implications for the packaging and positioning of transaction account services. One spouse may desire to maintain an individual checking account and not appear to do much business with the financial institution. However, he/she may have a great deal of influence on choice of lending and investment / savings services. Therefore, a household relationship package needs to incorporate the possibility of multiple checking accounts with different options.

Relationship and Fee accounts tend to have been opened more recently (half under four years), evidence that these account types have generally been given stronger promotional support in recent years. Ironically, the fee checking account was found to be least profitable.

Not surprisingly, this study found 41% of all checking accounts (no matter what type) to be interest-earning accounts. It did, after all, focus on credit union and thrift sources that initially entered the game by offering accounts that paid interest on deposit balances. While this number might seem high now, we do see a strong and continuing trend away from interest-earning accounts. Earlier studies in which we’ve participated show that in 1996, 68% of checking accounts paid interest, and in 1999, that number had dropped to 51%.

It appears, however, that this is a misguided trend! The point of greatest interest to emerge from the study is the significant difference between the use of these interest-paying accounts and the others. Median balances for these accounts are three times higher than those that do not pay interest—a factor that impacts the profitability of the collective (household) banking relationship in a very positive way!

Checking Accounts and Profitability

As it turns out, checking accounts, while they are indeed key to profitability for financial institutions, are not necessarily profitable in and of themselves. In fact, we find that while the average annual profit was $7 (median -$15) for all checking accounts, 57% of them were actually unprofitable on a stand-alone basis.

Let us warn that the absolute value of profit estimates throughout this report should be taken with caution. They are based on data supplied by the participating institutions and drawn from a variety of MCIF "systems," each using its own formulas for measuring profitability. For example, in many cases income from penalty fees such as NSFs frequently is not allocated to the profit model. However, the MCIF data presented is clearly useful in showing relative profitability of different types of checking products.

Type of Checking	No-Fee with Interest	Free Checking No Interest	Relationship Checking	Fee Checking
Average HH income	$64,744	$58,446	$59,762	$63,359
Average Checking Balance	$6,967	$1,583	$3,348	$1,320
Average checking profit	$3	-$7	$32	-$30
% accounts unprofitable	69%	62%	59%	67%
Average Loan + Deposit Balances	$29,165	$18,335	$34,694	$13,875
Average HH profit	$413	$2	$372	-$5
% households unprofitable	49%	70%	50%	73%

And what about interest-bearing accounts? Intuitively, the supposition might be that paying interest on checking deposits would quickly eliminate profitability. But the pattern of profitability indicates otherwise—the two categories with a significant portion of interest-earning accounts are more profitable. On a stand-alone basis, relationship accounts are most profitable ($32) followed by no-fee, interest-paying accounts ($3). The free-without-interest accounts earn -$7, and the least profitable (although again, NSF income may not be included in the assessment data we received) are the accounts that always charge monthly fees (-$30).

This profitability pattern appears to be due to the much higher balances attracted to the interest-earning accounts.

Thinking strategically, an important objective of a checking relationship with a consumer is the connection to and locking-in of a household banking relationship. Therefore, we look to overall household profit to measure the true payoff **differences** between the four types of accounts. Here again we see the advantage of the interest-paying account over the other. Household profitability of free-pays-interest accounts is $413, with just 49% of households being unprofitable. Relationship accounts exhibit a similar pattern. Free-without-interest accounts barely break even at the household level. Fee-checking households actually lose money on average, with 73% of them showing negative profitability.

We note, however, that household income—which is similar for holders of the four types of checking accounts—does not appear to be directly related to average account balances and account profitability. The evidence indicates that getting individuals to switch from non-earning to interest-paying accounts will, in itself, attract higher deposit balances. **The survey findings suggest that behavior, more than income, determines household profitability.**

We examined average household profit by household income category and found the following: earn less than $25,000 - average profit of $197; earn $25,000 to $50,000 - profit $217; earn $50,000 to $100,000 – profit $242; earn over $100,000 – profit $176. **Thus, individuals in the highest income categories are actually less profitable.** This appears to be due to the higher income respondents keeping the lowest average total household deposit balances. We speculate this is because they are more likely to invest surplus funds rather than to save them in a financial institution.

One more caution here. Changes in interest rates can, of course, quickly reverse the profitability factor for any account. For example, two years ago a 5%, 36-month CD was profitable. Today it may be unprofitable. Similarly, as loans are paid down, previously profitable households can appear, on paper, to be unprofitable. More work needs to be done on establishing the annual and lifetime value of accounts. The fact that half of the accounts are unprofitable at a given point does not mean they always have been, or always will be so.

Why Do Some Have Checking Elsewhere?

"So if we don't have the business, what will it take to win it over?"

When we ask people who do some banking at one place but have their checking elsewhere why they do—"more convenient elsewhere," as expected, is the response given 66% of the time. But the second most frequently mentioned reason (33%) is "No benefits seen in changing to yours." And in today's market circumstance, this latter point is the more significant one.

All aspects of convenience such as adding branches, expanding hours and providing remote access services are only likely to close the gap in terms of matching the convenience level of the competition.

"Inertia" is not an often-used term in marketing discussions, but is, perhaps, the right one to apply here. The collective "trouble and fuss" of closing an account at one place and opening it again at another, reordering checks and adjusting long-standing habits and routines is certainly not to be taken lightly. For consumers, the obvious question is "Why should I?" And the correct response is definitely not "Because we deserve it!"

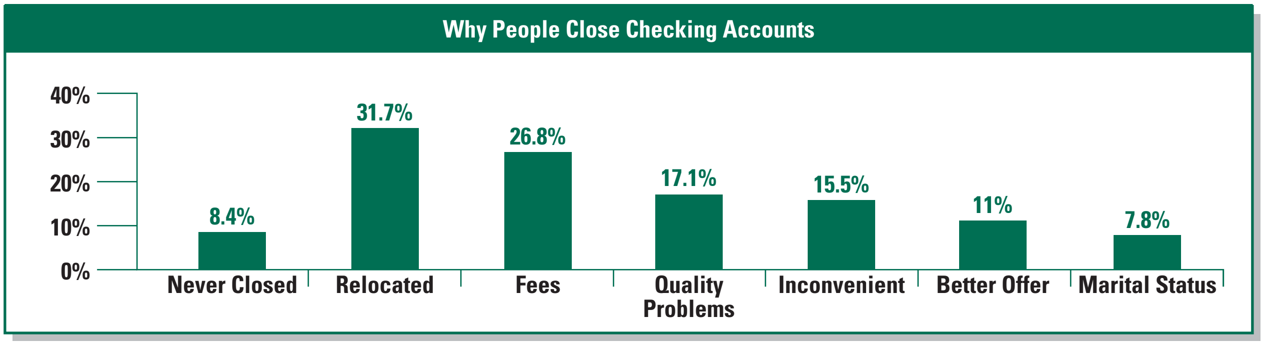
While it's true that close-in customers are much more likely to cite fees and minimum balance requirements as reasons for maintaining their account elsewhere, 44% of those who live or work within one mile of the nearest branch but still do their checking elsewhere say the other place is more convenient.

Why Do People Close Checking Accounts?

Our collective market group reflects a significant turnover rate—24% have closed checking accounts in the last three years. The more affluent among them are more likely to have done so—the highest rate of closing (31%) is among those under 30, earning over $50,000. On the other hand, the older the respondents, the less likely they are to have done so—the lowest rate of closing (19%) is among the less affluent, over-65 segment.

And when asked why they closed the account(s), "relocation" is the most frequently stated reason; it was highest (40%) among under-30, affluent respondents.

Although relocation is outside the control of the financial institution, we note written comments from respondents who "…live 1,000 miles from the nearest office…" or "…have not visited a branch in 10 years…" yet still maintain active checking accounts at a particular source. Thus, distance does not have to stop a customer from retaining a checking account… if the benefits of the account are compelling, if remote access mechanisms have been thoughtfully established, and if the mental picture of ease-of-banking-from-a-distance has been firmly implanted in the consumer's mind over time.



"High fees" is the second most common reason for having closed a checking account. Fee-avoidance respondents (see page 9) were most likely (33%) to report having done so due to high fees at another location. Higher-income people were more likely than those with lower incomes to say that high fees motivated them to close an account. Couples with children (the highest average income group) are more likely to have closed checking accounts because of fees.

It may be that accounts won over as a result of a "low-fee promotion" may also be more easily lost to competitors with better offers. Consider that 27% of fee-avoidance consumers closed accounts in the past three years, while only 20% of convenience-driven (see page 10) respondents had done so. "Quality problems" as a source of dissatisfaction are more often reported by the less affluent in each age group.

"Inconvenience" of the former financial institution (could be hours of operation as well as location) was reported by 16% of respondents, with a peak of 23% among convenience-driven (page 10) consumers. Singles with children are most likely (25%) to have closed an account due to a change in marital status. Another financial institution's "better offer" triggered a response among 11% of consumers. Furthermore, there was no discernable pattern in the responses to identify who—demographically speaking—was more likely to be attracted to a "better offer."

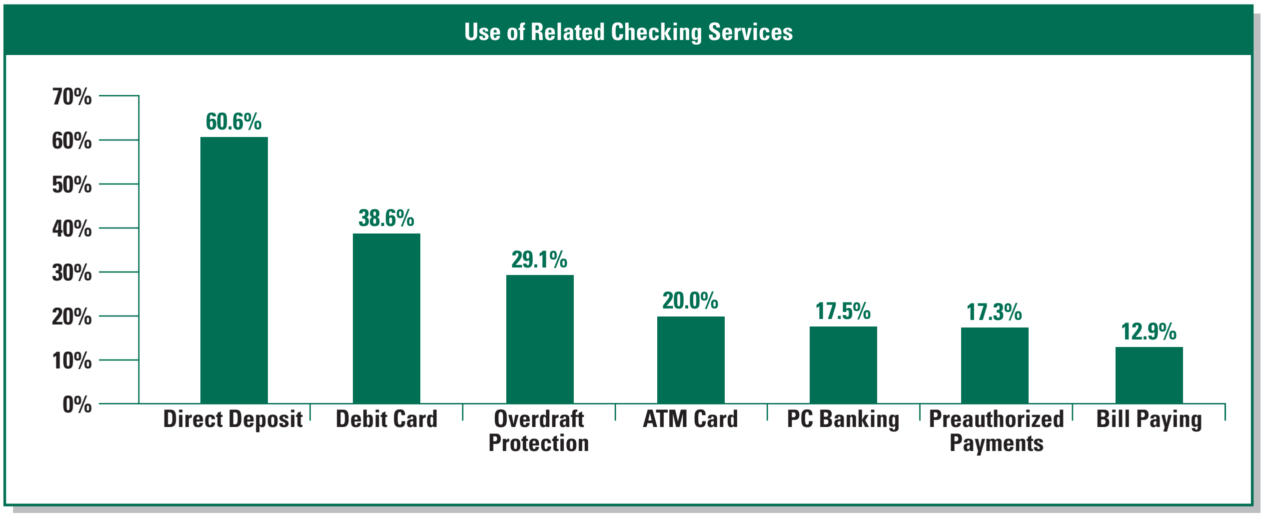
All in all, it appears that the "pull" factor of a great product operating in isolation is not a particularly effective method of building market share. **Consumers must first be "put in play" as a result of either a change in situation or dissatisfaction with the established source before product features become effective.**

The strategic implication of this becomes clear. It is impossible to predict which consumers are going to be affected by external circumstances and thereby predisposed for a change of checking locations. Therefore, one key to promotion effectiveness is frequently reminding potential customers of the benefits of your products. Promote your checking service on a continuing basis. Promote features. Promote benefits. And also—promote your particular source distinction (some marketers call it the "value proposition"). And then repeat, repeat, repeat!

What Related Services Do People Use?

Checking accounts are referred to as "core accounts" with good reason. They are central to all of what consumers do in terms of managing personal finances. But over the past 10 years, with the push of competition and the pull of new technology, the dimensions of transaction processing have evolved significantly. There are now, for instance, a number of ways for consumers to move money electronically, and most have been incorporated as added features to existing checking services. The difficulty of evaluating them in terms of their appeal is that there is a "newness" factor at play. They are, all of them, emerging features that are catching on gradually as more sources promote them and more people try them. We expect the response rates for all of these options to only go up in future surveys.

While most ancillary services still hold a "minority" position in terms of utilization and consumer enthusiasm, we suspect that they all—with the possible exception of one—will become universally utilized factors in the future.



As of now, direct deposit is the "out-front" feature by a rather wide margin. In addition to those who use it at the participating source, 14% report having/using direct deposit elsewhere. This high rate of indicated utilization is explained, in part, by the fact that most persons in our study population are checking users at their respective sources (so the portion using direct deposit would naturally show higher than it would for all banking customers). Strong utilization is also likely due to aggressive promotion of this particular service feature. Still, this strong level of participation reflects the fact that this feature is definitely catching on with consumers as they discover, after the fact, how much convenience it adds to their daily routines.

Up to age 65, direct deposit is more commonly used by the more affluent. The longer a checking account has been open, the more likely the account holder reports using direct deposit. Couples with no kids at home are the most likely users (68%), singles with kids were least likely (50%). Users of free checking are slightly more likely to use direct deposit. People who use direct deposit are more likely to use the other checking related services.

Debit card usage has grown faster in a shorter time than any of the other features tested. It rates higher among those under age 45, over $50,000 (average 47%). Direct deposit users are twice as likely to also have a debit card. Individuals with deposits of less than $1,000 are more likely to be users (we believe this is age-associated), and nearly 63% of PC banking customers use them.

The ATM-only card is the product likely to fade from the scene over time, as its function is superceded by the more useful and more appealing debit card. ATM cards are most commonly held by less affluent, under-age-30 customers (30%), by individuals who opened checking accounts within three years (26%), and by singles with children (30%).

Overdraft protection is a service that should definitely be given more thoughtful attention. The appeal for this service is high among those who have/use it, yet is not promoted aggressively by many financial institutions. It is held by nearly 40% of affluent customers between 30 and 65. Those under 65 and using direct deposit are twice as likely to have overdraft protection (41% to 19%). Couples are more likely to have it than are singles. The average income of users is $10,000 higher than non-users. Users are more likely to rate their FI as "excellent" in ease of doing business with (66% vs. 56%), customer service (66% vs. 57%) and product features (45% vs. 35%).

We are quite aware that NSF fees frequently are equal to half or more of net earnings for credit unions and thus, at first glance, it appears that providing overdraft protection would have potentially a seriously negative impact on earnings. However, returned checks are such a hassle to consumers that an amount equivalent to the typical NSF fee can still be charged for the benefit to the customer of not having to go to the merchant and pay their additional fees. Furthermore, as a condition of overdraft protection, the customer should be required to have direct deposit to protect the financial institution from some of the risk of holding the “bad” check for payment.

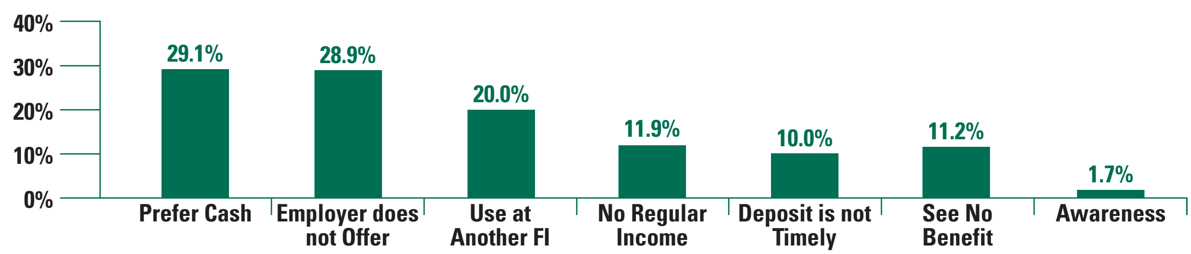
Electronic bill paying is still in the early stages of customer acceptance/utilization, but is definitely on its way up. This service garners an overall usage of 16% to 18% among affluent, under-65 respondents. Under-age-65 direct depositors use it more (19% vs. 6% for non-direct deposit users).

Direct deposit, preauthorized payments and bill-paying services involve numerous setup requirements and peripheral connections and, therefore, help to “lock” account holders into the existing relationship. Some financial institutions have developed “switch kits” to handle the paperwork of notifying employers and preauthorized debit issuers of an account change.

What About the Appeal of Direct Deposit?

The recurring deposit of paychecks (or Social Security checks) into a checking account makes a positive contribution to checking account profitability.

Why People Do Not Use Direct Deposit



Average checking balances of direct deposit users were $361 higher; these balances represent some of the least expensive cost of funds. Their total deposits were $3,279 higher, but their average loan balances were $823 lower in spite of a slightly higher utilization of loan services. We attribute this latter fact to the higher age (and therefore lower debt) of direct deposit users (average of 49 years/DD vs. 41.1 years/non-DD). Finally, direct deposit users show an average checking profit of $8 in contrast to a loss of -$6 on average for those not utilizing this service. **Thus, direct deposit customers are important to the success of the financial institution.**

So if some consumers are inclined not to want it or use it, management should want to know why. The challenge to financial institutions is reach out to employers (29% don’t offer) to ensure they are offering direct deposit to their employees. Financial institutions must also work to sell consumers on the benefits (11% see no benefit) of not having to wait in line to make a deposit or trust the uncertainties of mail. An innovative approach might be to develop strategies such as email confirmation of direct deposits to reassure customers that deposits will be timely (10%). Concern about the timeliness of crediting directly deposited funds to one’s account is higher among those earning less than $50,000 per year.

How Do People Rate Specific Product Features and Factors?

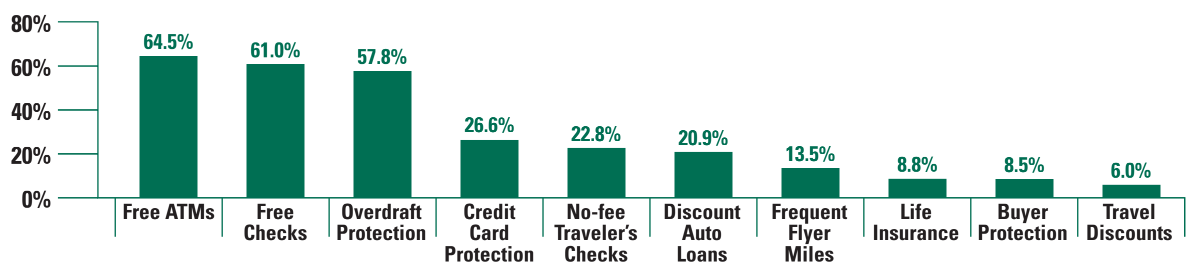
To find out how people rate various account-related features, we asked people to choose between 28 pairs of options…and then ranked their responses in relative relationship to one another. One-fifth of respondents always selected "no monthly service charge" over all other options; these we labeled fee-avoidance consumers. One-eighth (12%) of the respondents always choose the "branch close to home" response. These are the most strongly convenience-driven customers.

"No monthly service charge" is the top choice, followed by "no minimum balance requirements" and the ability to "earn interest on checking account balances." Locations "near home," a large network of "no-fee ATMs" and "overdraft protection" were each slightly below average in the number of wins, but significantly above extended hours and PC Banking.

However, we know that consumer preferences and consumer behavior are often at variance. "Branch near home" continues to be important for many customers even if they have to pay a fee.

Perception of fair pricing may not be a competitive advantage; instead, it appears to be a requirement for attracting new business, although current customers will not necessarily leave just for a better price.

Checking Package Preferences



We found considerable differences in the relative importance of some of the checking account features based on the interaction of age and income of the respondents.

The no-minimum-balance-required preference was most important to singles with children and less affluent respondents over the age of 30. Balance requirements were less likely to be selected relative to other features by under-age-30, affluent respondents, PC banking users, users of service fee or minimum-balance checking and individuals who only have a borrowing relationship with the FI.

The opportunity to earn interest on checking balances preferences was high among couples without children (tend to be older) and the over-age-65 respondents (especially those with incomes above $50,000). Lowest interest in "interest" was reported by PC banking users, families with children and under-age-30 respondents (especially the more affluent).

Highest scores for a large network of no-fee ATMs were found among loans-only users, PC banking users and affluent customers within each age group (peaks under age 30).

The importance of locations near the respondent's home was highest among non-home banking customers. Lower interest is also reported by the affluent in each age segment.

The relatively low branch location convenience score is at odds with the responses to another question on the survey that asked which three factors would be most important in selecting a new checking account provider. Over half (50%) the respondents said branch locations… second only to monthly fees (54%).

Interest in NSF protection is highest among households with children, those with direct deposit, and the less affluent under-age-45 consumers. However, over half (58%) of all respondents would include overdraft protection in a "package of services" type account.

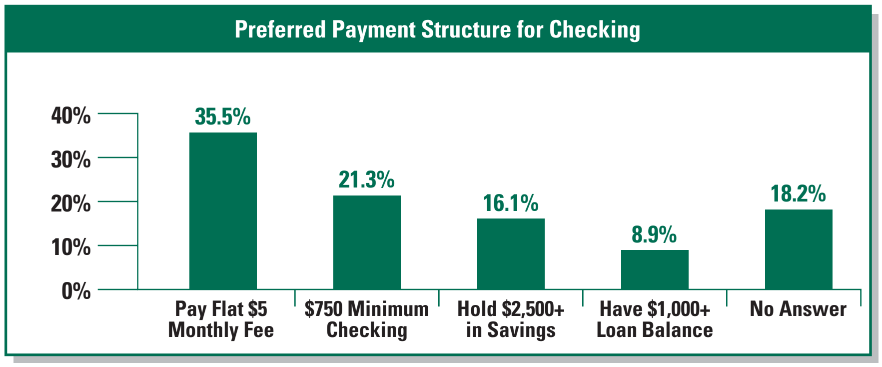
Extended hours mattered least to users of PC banking. Highest preference scores for this are from singles with children. The less affluent within each age group are more interested in longer hours.

Interest in home banking services was higher among the affluents in each age group than among those earning less than $50,000, but still relatively low overall. This pattern indicates that offering home banking services will not attract many new accounts and that the primary sales effort needs to be focused at converting current non-users to users. Once they have used the service, it should be a factor in their choice of a continuing checking account relationship.

How Do People Prefer to Pay for Checking?

First, consumers today prefer not to pay! Free checking continues to be a vociferously expressed, high-priority desire in this and other banking-related surveys. Many respondents, in fact, wrote in comments such as "None of the above!" or "I'll move my account before paying for checking."

*Members prefer **not** to pay for their checking. But if forced to pay, members clearly favor a flat monthly fee over minimum balance requirements.*



The group to show the strongest favor for the $5 flat fee (50%) was the less affluent, under-30 segment. Customers with accounts open less than 10 years are more open to a fee. Even fee-avoidance respondents select a flat fee at a 31% rate over maintaining some form of balances. Thrift customers were more likely than credit union members (41% to 34%) to select the flat fee option.

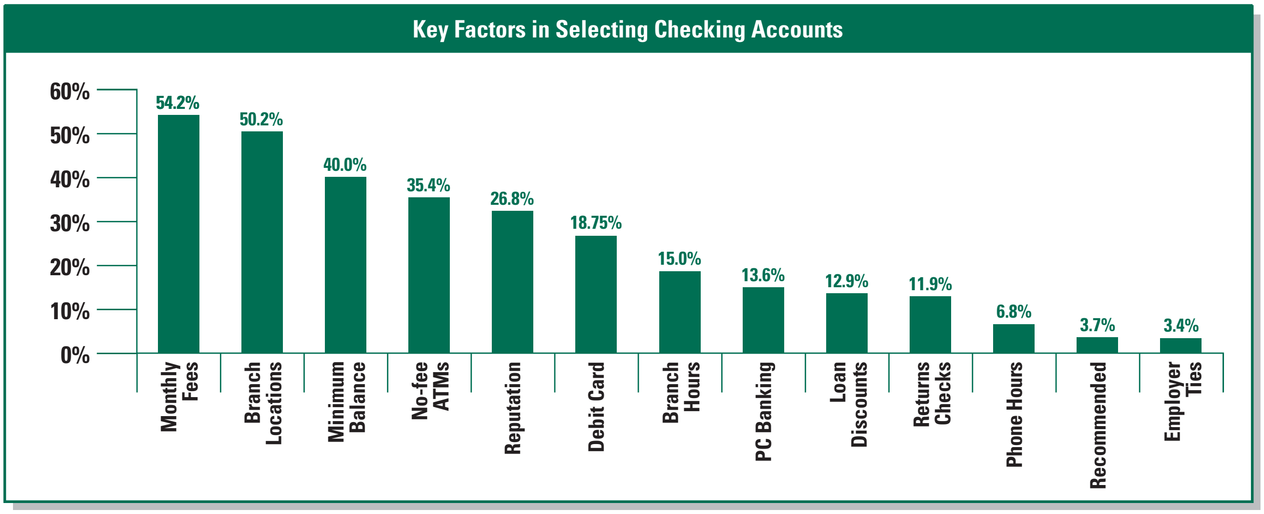
The requirement of maintaining a ($750) minimum checking balance was most acceptable to seniors (25%), couples with no kids (27%) and affluent customers over age 45. Preference for this option increased as combined loan-deposit balances increased. Individuals without overdraft protection were much more likely to prefer the minimum balance requirement. Perhaps consumers see the requirement of maintaining a minimum balance acting as a self-imposed guard against overdrafts.

Keeping deposits of at least $2,500 tended to be favored more by affluent seniors (26%) and long-term users (21%). Maintaining an active loan account (over $1,000) has more appeal to PC banking users, couples with kids and affluents under-45. Overall preference for the loan balance requirement was low.

What Do People Look For in A New Account?

The point generally assumed, when talking of opening a new checking account, is that the new account would be at a new banking source. This is, according to our data, a relatively safe assumption. It also brings to light the point that, in addition to attaching the "right" features to a checking account package, it is just as important…if not more so…to consider factors relating directly to the source institution itself.

No surprise, the number and location of available branches is an important requirement. But while consumers quite naturally would check out sources that are close and convenient to their daily routines, they tell us that what they look for first are the pricing policies associated with the account. Level of monthly fees is the starting point, followed by requirements regarding minimum balances and the availability of no-fee ATMs.



But the feature on the list that caught our eye was most specifically source-related. “Reputation” of the particular financial institution ranked #5 out of 13 factors listed. As the amount of competition for checking business continues to accelerate and distinctions between product offerings continue to fade, we see that the source distinction becomes all the more relevant. For consumers, the essential question evolves from “Why should I choose your checking account?”…into…“Why should I do my banking with you?”

PC banking was selected by 25% of 30-to-44-year-olds over $50,000 and by 22% of customers with service charge checking. Among current users of PC banking, 47% said the service would influence their next checking account decision. Convenience of location was least mentioned by current users of PC banking, and more often mentioned by singles with children, by less affluent people under age 65, and by all seniors. Monthly fees were most often mentioned by PC banking users, seniors club account holders, loan-only customers and the affluent in each of the over-30 age segments.

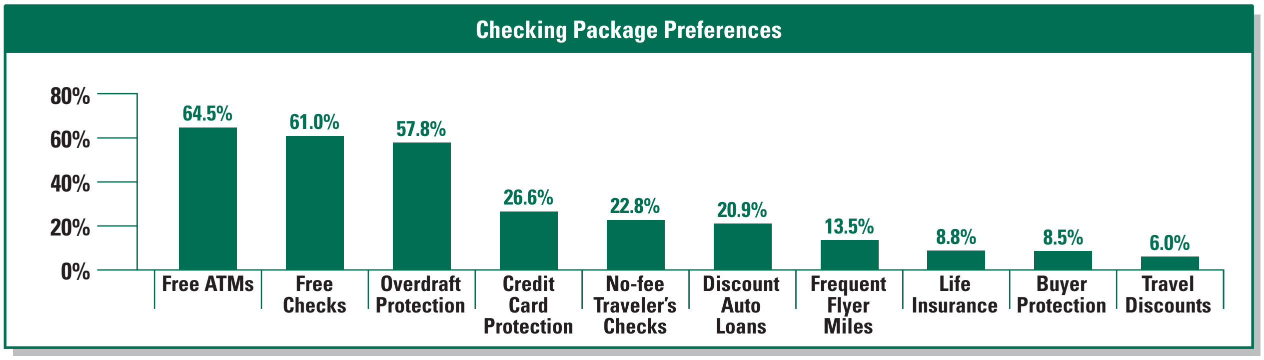
Let us consider, for a moment, the great paradox often seen in banking-related market studies. Consumers are consistently quick to state that fees are so very important, and will frequently point to other institutions as having better checking (and other) fees, yet they continue to bank with an institution that charges fees (or charges higher fees) but is “more convenient” to their circumstance. This demonstrates again the very strong influence of geographically-based convenience…or perhaps it speaks to what they see as the considerable inconvenience of making changes to long-established banking routines…or both.

What Do People Want in a “Package” of Checking Services?

When we ask consumers what items from a given list they would specifically like to see included in a (new) checking account, we find several reassuring consistencies. As indicated elsewhere in the study, free ATM withdrawals lead the list of desired account features, followed by free checks and, again, overdraft protection.

We have already discussed the dilemma this presents for financial institutions that generate as much as half their net profit from overdraft fees. So overdraft protection services might seriously impact account profitability, which is already marginal unless it is built into a package of services with a revenue plan that compensates for lost NSF fees.

Desire for access to no-fee ATMs is highest among fee-avoidance customers, PC banking users and higher-income, under age-45 account-holders. An annual order of free checks has a consistently high level of desirability across all segments.



Overdraft protection gets its highest votes from PC banking users, holders of minimum balance checking, singles or couples with kids, people with less than $1,000 on deposit and affluents age 30-44. No-fee traveler's checks have the greatest of appeal among seniors club and over-65, under $50,000 users. Within each age group, those with lower incomes are more apt to want this feature in a package of services.

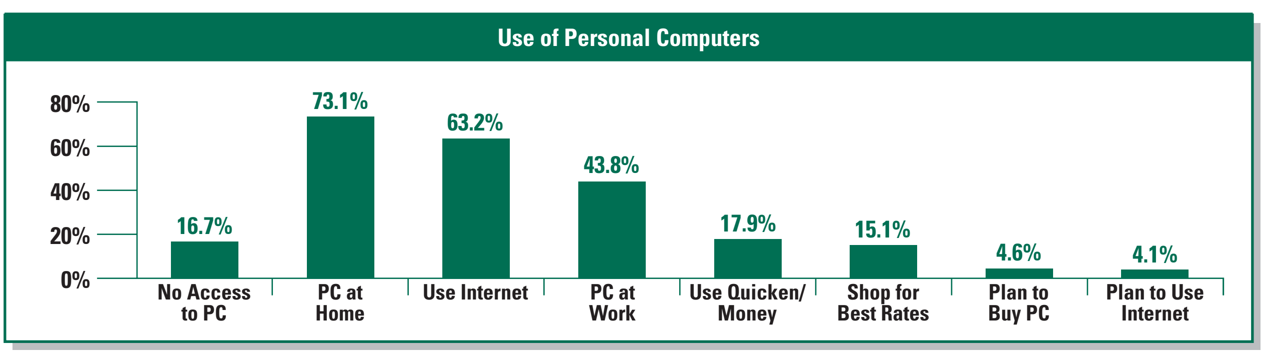
Discounts on auto loans have the greatest appeal to singles with children. The interest in buyer protection plans is low, but strongest among the affluent under-30 group—a very desirable demographic segment. Highest interest in frequent flyer miles is among seniors checking and service-charge checking users. Interest in this is also higher among the affluent within each age bracket

Life insurance benefits appeal most to those over 65 earning less than $50,000, although insurance premiums for this segment would be high. Travel discounts generate slight interest.

Credit card protection appeals most to the 30-to-44/under $50,000 segment and to lower-income customers in each age group.

The Growing Use of e-Checking Services

The future of consumer banking, we're convinced, will be influenced more by the use of computers and the Internet as a means of accessing accounts, directing transactions and managing personal finances than by any other single factor. Today, 73% of consumers have computers at home; another 5% plan to acquire them in the near future.

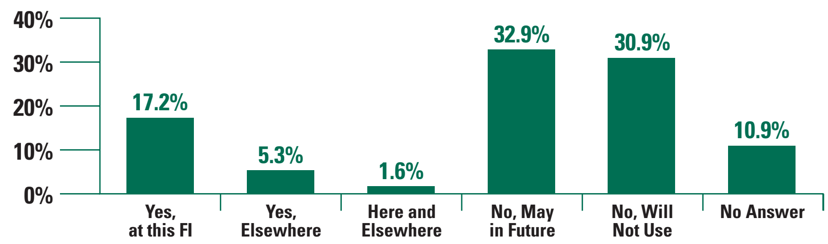


Almost all middle- and higher-income people with children at home have them. Currently 18% of consumers use some sort of money management software such as Quicken® or MS Money®. Couples are twice as likely as singles to use money management software. If one's household income is less than $50,000, there is only a 10% to 15% probability of using one of these programs. But when annual household income is over $50,000, the probability jumps to 20% to 25%. Individuals with free checking are less likely to use money management software. When deposits-plus-loans exceeds $100,000, use of one of these software packages rises from 17% to 24%.

Usage of PC Banking is 50% to 100% higher among the affluent individuals within each age group. Usage is 30% for affluents under 30, and 25% among the over-$50,000 income respondents between 30 and 65. Average income of PC banking customers ($69,567) is $12,000 higher than for non-users. They are only 1.3 years younger on average. New customers (less than three years) are only slightly more likely to have signed up for PC banking, which suggests that perhaps this service is not being effectively cross-sold to new accounts.

Overall, 75% of affluent customers intend to conduct some of their banking business over the Internet in the future.

Use of PC Banking



Half the respondents use home banking now or plan to in the future. Among respondents under age 45 and earning above $50,000, three in eight already use home banking and an equal number plan to begin in the future. Even over the age of 45, one in four customers are users and three-in-eight plan to use home banking.

Related e-Commerce Considerations

Eighteen percent of respondents said they would definitely sign up for email confirmation of direct deposit postings; an additional 20% may be interested in the service. This may be an example of the kind of service that the first provider can use to capture some market share and, after that, all other financial institutions will need to provide direct deposit confirmation just to stay competitive.

Debit card users sometimes report problems keeping track of their purchases and reconciling their accounts. An electronic reminder to enter debit card transactions in their checking account register, therefore, would be a useful service. We found that 15% of respondents would sign up for this service, and an additional 21% might be interested. Already, 5% report they already receive such notification. Interest is highest among those age 30-64 earning over $50,000, and especially among current PC banking customers.

Just 9% of respondents would definitely sign up for bill-paying services; an additional 25% might be interested. Written comments indicate some concern over the pricing of such a service and the timing of payments. Major billers such as credit card companies are already offering electronic statements and encouraging customers to initiate an ACH debit to pay the bill. It is a free service that allows customers to specify the exact date of payment rather than hoping their FI gets the payment handled on a timely basis.

Account aggregation (ability to go to one web site and look at data relating to all of accounts one might have at a number of different banking sources and brokers) has strong appeal for 11% of respondents. Another 20% might be interested and 12% claim to already have this service. We suspect there may be some confusion about whether account aggregation is just for accounts at one FI or across numerous FI relationships since we have not otherwise seen reports of usage at this high a level.

Account aggregation services can be extremely valuable for consumers who are working with financial plans maintained by/at their primary financial source. Each month they would see their progress toward personal financial goals. And the sponsoring FI would benefit from advance knowledge of plans to finance a car or a child's college education or to begin funding a retirement account.

Electronic bill presentment (wherein a consumer would forward to his/her financial institution an email bill from a utility, for instance, along with authorization for payment against a credit card) is of definite interest to 8% of respondents, and may be of interest to another 22%. Nearly 20% of current PC banking customers would be interested in electronic bill presentment. Definite interest in bill payment is in the 12% to 16% range among affluent under age 65 respondents.

So, Bottom Line—What's the Best "Win-Win" Checking Account?

Time, now, to draw some conclusions. First, it appears that new checking accounts are more likely than not to be unprofitable! But without opening new accounts and developing them into long-term, full-service relationships, financial institutions will not be so viable in the future.

So developing a powerful checking package is the start, not the end, of the process of developing profitable, win-win consumer relationships. Is there a single structure or formula for the "right" checking account? Absolutely not. In the emerging world of one-to-one marketing, checking account products must be flexible yet easy for frontline staff to describe. Successful financial institutions will offer customers the opportunity to select the particular features that particularly appeal to them, including how they want their statement laid out and the various types of electronic notifications they wish to receive.

In our opinion the implications for building a long-term relationship on a product for which profitability is based on having customers misuse it (i.e., collection of NSF fees) are not promising. New checking products will require a paradigm shift in how profitability is earned and measured.

So taking into account all the many factors, the many options and even the many apparent contradictions regarding consumer preferences, **we believe the "win-win" checking account offering of the future should be a single account that comes in two easy-to-explain versions.** Rather than having to choose between a variety of subtly different (and often quite confusing) account packages, consumers instead should be offered choice and flexibility within the context of an "includes everything," "build-as-you-wish" offering.

- **The basic difference between the two versions is simply the yes/no option of signing up for direct deposit.** (Note: Self-employed who commit to using the account as their primary depository should qualify as direct depositors). This choice determines whether or not the account owner earns interest…and what additional features and benefits are also included at no cost.
- The direct-deposit-earns-interest version should definitely include an attached debit card, overdraft protection, free ATM use… and perhaps free bill-paying, optional email statements, email transaction notification and free checks…all for nothing more than the direct deposit connection (no minimum balance required).
- Consider including any of the other attachable features: buyer protection, discounted loans, free Travelers' checks, life insurance, account aggregation, etc. as inducements to broaden the relationship through use of more services.
- With no direct deposit commitment, the account is free—no requirements, no strings attached, but none of the extra benefits.
- Any of the extra features—debit card, overdraft protection, free bill-paying, free ATM use and free checks—can be offered in conjunction with the non-direct-deposit account, but at a monthly fee (either individually or on a "package" basis).
- The Direct Deposit choice should be promoted aggressively as a highly-beneficial, highly-desirable banking service, and one that "…no one should be without."

- The key advantages of this approach are that: 1) It does not force anything or require commitments of any sort that are not ready to be given. Both source and customer are free to initiate discussions about adding to, or adjusting the account at any point in the future. The need to see the account relationship as rigid-as-written…or one that must be closed and restarted if adjustments are called for, is nil. And 2) It pre-sells an array of benefits and additional services
- When it comes to promoting your checking package, we suggest you keep it simple. Don't go for fancy names like "Premium" or "Rewards Club," "Infinity Checking" or "Power-Pak." How about something like—since we're talking about a single checking account here, but one that represents several key options—"Your Choice Checking." That type of name/description says it all, is bound to elicit some curiosity, emphasizes the multiple dimensions and implies all kinds of choice—all in one account!
- Finally, consider again how important the "reputation" factor is in developing or expanding banking relationships with existing or new people. No matter how good your checking service is, no matter how many features and benefits you're able to include, your "brand" is still critical. The success you have in attracting new people and opening more accounts in the future definitely depends on the particular advantage people see in doing their banking with you rather than with any other financial service source.

Survey Findings: All Respondents

Age

18-24	5.0%
25-34	10.1%
35-44	18.4%
45-54	22.9%
55-64	19.2%
Age 65+	24.4%

Household Situation

Couple with children	28.4%
Couple / no kids at home	38.7%
Single with children	5.7%
Single / no kids at home	27.0%

Annual Income

Under $15K	6.3%
$15K to $24K	10.4%
$25K to $34.9K	14.1%
$35K to $49.9K	18.8%
$50K to $74.9K	24.8%
$75K to $99.9K	12.8%
$100K to $149.9K	8.8%
Over $150K	3.7%
Average	$59,490

Distance From Branch

Under 1 mile	9.9%
1-5 miles	35.4%
5-10 miles	16.0%
10-20 miles	11.8%
20 miles+	26.6%

Use of PCs

PC at home	73.1%
Plan to buy	4.6%
PC at work	43.8%
No PC access	16.7%
Use Internet	63.2%
Plan to use Internet	4.1%
Use Quicken/MSMoney	17.9%
Shop rates on Internet	15.1%

Use Home Banking

Yes, this FI	17.2%
Yes, elsewhere	5.3%
No, May in future	32.9%
No, will not use	30.9%
Multiple answers	1.6%
No Response	10.9%

You Have Checking Where?

This FI	91.3%
Other bank / CU	43.8%
Broker / Mutual Fund	6.7%
Not have checking	1.3%
Elsewhere	1.3%
Internet Bank	0.9%

Type Of Checking?

Joint	58.4%
Individual Personal	38.5%
Business	3.3%

Which Related Services Used?

Direct Deposit	60.6%
Debit Card	38.6%
Overdraft protection	29.1%
ATM card	20.0%
PC Banking	17.5%
Preauthorized payments	17.3%
Bill paying	12.9%
No Response	20.1%

Use Direct Deposit?

Yes, this FI	55.3%
Yes , elsewhere	14.3%
DD multiple locations	4.1%
No	17.7%
No Response	8.6%

If Not Using Direct Deposit—Why?

Prefer cash	29.1%
Employer not offer	28.9%
Into another FI	20.0%
No regular income	11.9%
No benefits	11.2%
Deposit not timely	10.0%
Awareness	1.7%

Why Not Checking This FI

Convenience	65.8%
No benefits for changing	32.6%
Free off-site ATMs	14.2%
Lower fees elsewhere	13.9%
Lower minimums elsewhere	10.1%
Earn interest elsewhere	9.5%
No checking anywhere	5.7%
Awareness	4.1%
No Response	86.4%

Had Checking How Long?	
No checking here	4.4%
LT 6 months	1.9%
6-12 months	2.7%
1 to 3 years	9.8%
3 to 5 years	9.3%
5 to 10 years	17.0%
Over 10 years	54.3%

If You Closed Acct/When?

Last 12 months	7.4%
1 to 3 years	16.2%
4 to 8 years	19.6%
More than 8 years	42.8%
Never	13.8%

Why Did You Close?

Never closed	8.4%
Moved	31.7%
Fees	26.8%
Quality problems	17.1%
Inconvenient	15.5%
Better offer	11.0%
Marital status	7.8%
FI closed it	1.0%

Rating of Feature Preferences

No service charge	84%
No minimum balances	66%
Earn Interest	52%
Free ATMs	46%
NSF protection	46%
Near home	45%
Extended hours	29%
PC Banking	25%

Selecting New Checking Source

Level of monthly fees	54.2%
Branch Locations	50.2%
Minimum Balances	40.0%
No fee ATMs	35.4%
Service reputation	26.8%
Debit card	18.7%
Hours	15.0%

PC Banking	13.6%
Loan discounts	12.9%
Returns cancelled checks	11.9%
Phone hours	6.8%
Recommendations	3.7%
Employer ties	3.4%

Payment Preferences

Pay a flat $5 fee	35.5%
$750 minimum balance	21.3%
$2,500 in savings	16.1%
$1,000 loan balance	8.9%
No Response	18.2%

Ideal "Package of Services"

Free ATMs	64.5%
Free checks	61.0%
Overdraft protection	57.8%
Credit card protection	26.6%
No-fee TCs	22.8%
Discount auto loans	20.9%
Frequent Flyer miles	13.5%
Life insurance	8.8%
Buyer protection	8.5%
Travel discounts	6.0%

FI's Ease Of Doing Business With

Excellent	59.1%
Good	31.4%
Average	6.8%
Fair	1.9%
Poor	0.8%

FI's Customer Service

Excellent	60.1%
Good	30.3%
Average	6.5%
Fair	2.0%
Poor	1.0%

FI's Product Features

Excellent	38.0%
Good	43.6%
Average	14.7%
Fair	2.9%
Poor	0.8%

Direct Deposit Notification

Already use	6.6%
Definitely would use	18.1%
Maybe	20.2%
Probably not	13.8%
Definitely not	24.8%
No Response	16.4%

Debit Card Activity Notification

Already use	4.8%
Definitely will	15.0%
Maybe	20.5%
Probably not	14.4%
Definitely not	27.9%
No Response	17.4%

Bill Paying Services

Already use	5.6%
Definitely would use	8.9%
Maybe	25.3%
Probably not	17.0%
Definitely not	27.1%
No Response	16.0%

Account Aggregation

Already use	12.3%
Definitely would use	11.4%
Maybe	20.0%
Probably not	12.4%
Definitely not	24.9%
No Response	19.0%

Bill Presentment Service

Already use	2.4%
Definitely would use	7.6%
Maybe	21.9%
Probably not	18.4%
Definitely not	29.3%
No Response	20.0%

Note: Contact marketing@harland.net to request a PDF copy of the actual survey findings including extensive cross-tabulated details of all data.

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