

Fix the Checking Problem by Solving Household Cash Management

BY SHERIEF MELEIS AND HANK ISRAEL

To successfully reposition checking and household financial services, banks should look beyond products and fees to solve the customer cash management challenge.



Confronted with potentially dramatic reductions in checking overdraft fee revenues, banks are intensely studying new laws and regulations and searching for quick ways to correct broken product economics and re-engage with customers.

Often overlooked in the stampede, however, is the fact that the primary industry challenge stems from a fatigued business model and significant unmet customer needs — not from the changing rules of the road.

In fact, evidence that overdraft fee income was unsustainable began surfacing five years ago, when some banks began noticing high turnover among overdraft-prone customers. A groundswell of customer resistance has been building, and course corrections would have been needed even without the Fed's Reg E.

From the customer perspective, checking overdrafts are just one symptom of a much larger problem, which is household cash management. The typical family has double the transaction volume from a few decades ago; uses multiple accounts; and uses not only checks but also debit cards, credit cards, automated teller machines and automated clearinghouse transactions.

Especially in the current economic climate, such complexity has made it that much more difficult for people to meet basic household goals such as paying bills on time, controlling expenses, and building balances to meet future goals and contingencies. Our research suggests that many U.S. consumers feel that their financial affairs are simply out of control.

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In the race to reposition checking and restore family financial control, winning banks will develop household cash management solutions that link information, transaction execution, short-term savings and credit in a seamless and intuitive way. This effort is especially important given that the primary checking account is the single most important relationship between the customer and the bank.

As highlighted by recent Novantas research, consumers are overflowing with stories about fractured household finances and a sense of helplessness. For example:

- It is difficult to control spending when multiple household members write checks and make debit purchases against the same account, increasing the risk of overdrafts.
- All households have financial goals, yet many do not have any sort of goal-oriented dialogue with their banks. People wind up using products in a vacuum.
- So great is the concern about juggling monthly payments and avoiding overdrafts that many U.S. households are trapped in a compulsive daily routine of electronically verifying their account balances, often 30 to 50 times per month.

Despite all of the ostensible advances permitted by electronic financial services, households have a great need for assistance in managing their monthly finances. That is why long term, innovation in household cash management is the mother lode of opportunity for banks, not incremental improvements to various disconnected products.

As they awaken to this reality, leading banks are responding with a level of systematic research previously unseen in the industry. The goal is to develop needs-based innovations that offer custom blends of features for major customer groups.

A recent national survey of checking customers by Novantas and Informa Research Services makes a powerful case for segment-tailored approaches. Some people maintain high checking balances and simply seek rewards and recognition, for example, while others have a keen appetite for information and account management tools. Still others are prone to overdrafts and want a safety net.

As they formulate distinctive responses for these and other checking customer groups, innovative banks are fleshing out five different aspects of value.

Information & Control. At Mint.com, customers can build a summary of balances and transactions across all accounts, for example, and use the information to analyze spending, income, balances and net worth. And in traditional banking, Bank of America Corp. has made a major push on budgeting tools and mobile alerts.

Security. A prevalent example is protection from identity theft.

Liquidity & Payment. One example of online account management tools in credit card is Chase Blueprint, offered by J.P. Morgan Chase & Co, and many banks are exploring new overdraft offerings and pricing structures. Novantas expects to see further convergence between the transaction account and credit offerings.

Rewards. Looking internationally, the “Axess” service offered by Akbank T.A.S, based in Turkey, provides real-time rewards at the point of sale, based on criteria set by banks and merchants.

Convenience & Access. While branch service remains important, banks such as San Antonio-based USAA (United Service Automobile Association) are building mobile banking capabilities that allow customers to bank from home using iPhone apps.

Disciplined product innovation starts with uncovering customers’ unmet needs for cash management services. It is followed by ideation on potential solutions; research-based testing of features and price points; and financial modeling of the expected impact.

The payoff from this sort of systematic outreach will be an accelerated renewal of the checking business as consumers are better equipped to meet the monthly household cash management challenge and take control of their finances.

Winning banks will keep sight of this priority and anticipate their customers’ household financial needs — not just react to regulatory changes.

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In the wake of the Great Recession, millions of U.S. households are in financial disarray and a harsh light is being turned on bank service practices, particularly overdraft coverage on checking accounts. There’s a Washington-mandated rush to correct service and fee arrangements, accompanied by widespread banking concern about how to rebuild the economics of the checking business.

It is within this context that a great turning point has been reached in retail banking. There’s a potential for long-lasting competitive cleavage between institutions that mostly react to the crisis, versus those that look to the larger picture

of customer needs and behaviors, particularly variations among major customer groups.

In the realm of financial services, the most pressing concern for the typical U.S. household is managing monthly finances. There is a deep and widespread need for checking-centered innovations that will help consumers to meet what in many cases is a daunting monthly household cash management challenge.

Winning banks will keep sight of this overarching priority and anticipate their customers’ household financial needs — not just react to regulatory changes.

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