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CONSUMERS REACT TO NEW DEBIT CARD FEES
RESULTS FROM OCTOBER 2011 TRIG US
OMNIBUS SURVEY

CONSUMERS REACT TO NEW DEBIT CARD FEES

Changes in regulations and continued pressure on Financial Institution's income statements have many rethinking their business models. At the heart of the most recent activity, several of the largest Financial Institutions (FIs) are undertaking changes in the form of fees-for-use to consumers, removing incentives and stripping rewards programs to recoup non-interest income that fattened their balance sheets in the form of debit card overdraft fees and debit card interchange income.

Business Issues

If there has been a clear success in the world of financial products designed to provide convenience to the consumer while simultaneously serving as a solid income source to the FI's, it has to be the debit card. With its promises of access to money anywhere, anytime, budget minded consumers have become hooked on the convenience a debit card can offer. The average active consumer debit card generates 16.3 point-of-sales purchases per month.¹

From the FI side, the product has been a success. Penetration rates have been high (73%). The average active consumer debit card is estimated to generate \$87 of interchange revenue per year for FIs² (estimated Pre-Durban figure).

With all of that activity generating income, it is estimated that the post-Durban amendment environment will decrease interchange income (for institutions above the 10 Billion in assets threshold) by \$52 annually, per debit card holder.³ It is no wonder that the FI's immediate response is to make up revenues by passing those anticipated losses on to the debit card holder for services. However, that decision for the FIs is not without consequence given the current environment of the consumer's perception of bank bail-outs, press around fraudulent mortgage lending practices and a poorly performing economy.

CATALYST FOR CHANGE

Regulation E and the Durban amendment have created demands on the way Financial Institutions make up for estimated losses in non-interest income generated by debit interchange and overdraft protection fees. Issuers expect to lose as much as 79% of their current debit interchange revenue. But, is charging a fee to the consumer for use of their debit card the right move?

¹ Pulse 2011 Debit Issuer Study Executive Summary

² " "

³ Radon Financial Group report, *The Debit Card Debacle* Jan 4 2011

TRiG undertook a study of the question in October 2011 using its monthly omnibus⁴ to gauge consumer reaction to 3 issues:

1. What the consumer would do if they are charged a fee for using their debit card (fee-for-use).
2. Consumers' willingness to pay checking account fees.
3. Understand the value of the checking account to the consumer who is willing to pay the fees.



Consumer reaction to being charged a fee-for-use of their debit card

Banks mobilizing on the monthly debit card fee should expect to take a hit in the hearts and minds of the marketplace –as well, they should expect higher than normal attrition rates in accounts connected to the debit card.

About three-quarters of those surveyed report that adding a debit card fee would result in a change in their behavior:

- **30% report they would leave their institution**
 - Switching institutions would likely be highest in the West (37%), among consumers 18-54 (+/- 35%) and among households earning \$100k+ (37%)
- **43% would change their method of payment, migrating to either cash (28%) or credit cards (15%).**
 - Switching to cash would be higher among those 45-64 years of age and those whose household income is lower (e.g., under \$50k).
 - An increase in credit card usage appears most likely among residents of the Northeast, consumers 65+, and upper-middle class with households earning \$50k<\$100k in income (19%)
- **13% would pay the fee, as long as it's "reasonable".**

Clearly, the majority of consumers intend on doing something other than "just paying the fee." Although we do not anticipate a full 30% leaving their FI, it should be expected that attrition rates in checking accounts will be impacted. Our findings coincide with other consumer studies which also found about a third of consumers would be motivated to leave the FI if fees are levied in their checking accounts⁵.

The current trend in charging a pay-for-use fee on debit cards means that consumers will look for other ways to make that payment, or leave their institution for other FI's who will not charge. Expect consumers to be more responsive to alternative strategies (alternative payment methods, no fee debit

⁴ Survey conducted by The Research Intelligence Group between October 7, 2011 and October 12 2011. Online survey among a representative sample of 1,000 adults in the U.S

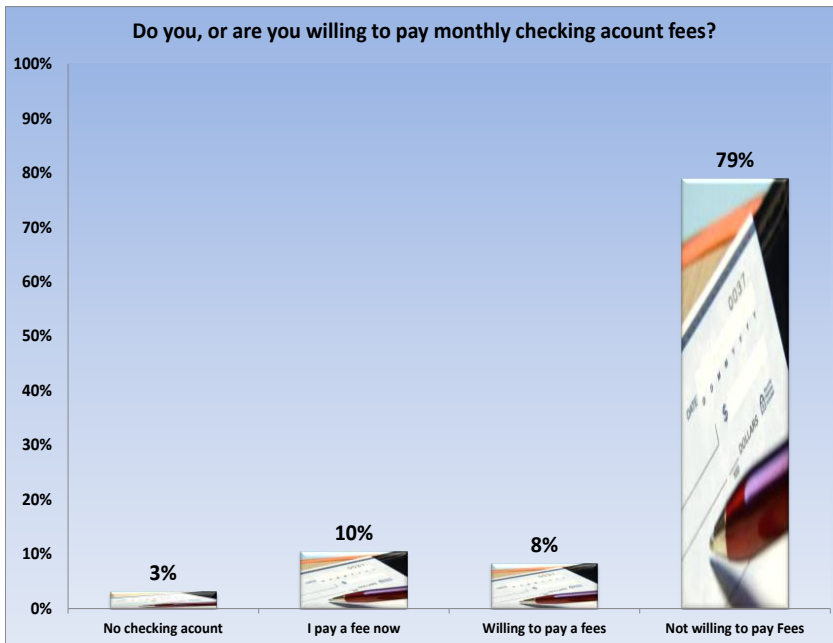
⁵ Radon Financial Group's Spring 2011 National Consumer Research

use, etc.) from traditional FI sources, and non-traditional sources (i.e. large retailers) that will continue to put pressure on non-interest revenue.

Consumer Reaction to fee-based checking accounts

The vast majority of consumers continue to resist the idea of paying checking account fees, although it's likely more are paying fees than actually say they are.

Typically, FIs can expect its checking account portfolio to attrite at 12% to 15% per year due to service problems, relocation and fee changes.⁶ Our study did not ask consumers what they would do if they incurred a checking account fee, but if a fee were to be imposed (without some sort of option to avoid) by their FI, we expect that attrition will be impacted.



With most of the major FIs moving away from the “free checking” option it is important to know what value checking accounts have in the mind of the consumer. Are there opportunities to unbundle some of the features to gain an understanding of what the consumer is willing to pay for?

There are consumers willing to pay checking account fees for one reason or the other. The study shows that 18% of the market either already is, or is willing to pay a checking account fee, while the vast majority (79%) is not.

There are marked difference between those who are not willing to pay fees, and those who are paying, or are willing to pay fees.

Not Willing to Pay Fees		Paying, or Willing to Pay Fees	
Older - 65 years +	91%	Younger - 18 to 34 years old	26%
Female	84%	Male	24%
More Affluent - 100K+ income	86%	Low to middle income - 35K - 49K	22%

The data clearly shows that there is an opportunity to grow younger, albeit, less affluent mass market consumers in a “no-more-free” checking account environment.

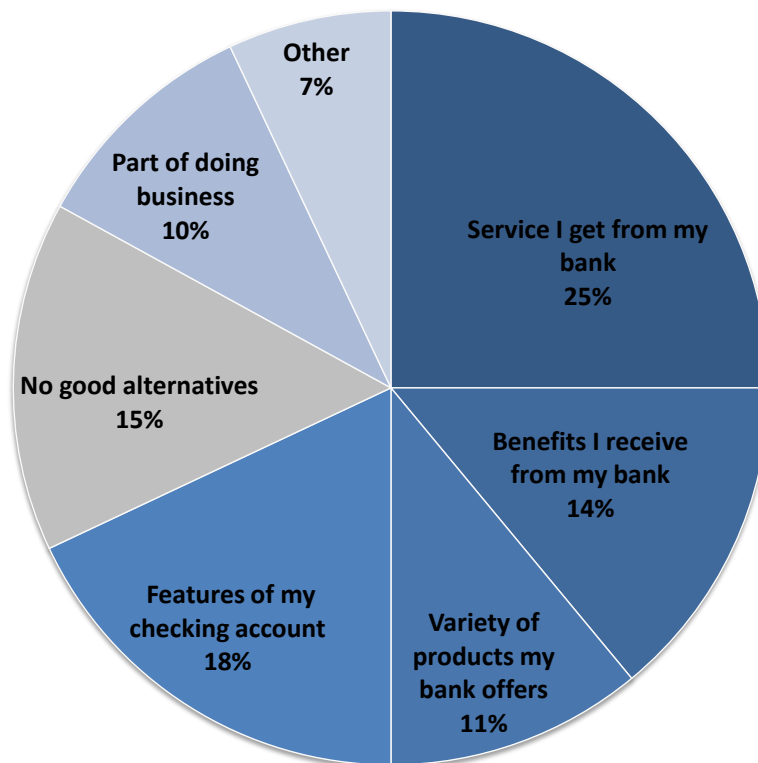
⁶ *The Big Checking Churn: Myth or Reality?* June 17, 2011 Online Blog Posted by Pat Bator of Radon Financial Group

Why consumers pay, or are willing to pay checking account fees

Opportunities to charge fees exists within the feature set of the checking account as well as the value placed on service levels consumers are getting from their Financial Institution.

So, why are these consumers willing to pay for their checking? What opportunities do FIs have to make the fee for checking experience more palatable?

Why Consumers are Willing To Pay Checking Account Fees



Consumers appear to fall into three primary categories when it comes saying that paying checking account fees are worth the charge:

1. Those that see specific benefits (68%)
 - a. Service (25%)
 - b. Product features of the checking account (18%)
 - c. Broader products and benefits (25%)
2. The Practical - Just part of doing business (10%)
3. The Captive – No place to go (15%)

There are clear opportunities to leverage the broader services and products the FIs offer with checking accounts. FIs will need to make a concerted effort to gain insight into which services, or products best

appeal (and provide the best profit opportunity) among specific customer segments to take advantage of these opportunities.

Several FIs have been able to minimize checking account fees by taking a relationship approach. However, the relationship clearly has value and may point to an opportunity to get some premium for that perceived value. Likewise, specific features within the checking account need to be explored in an unbundled state to understand what their market value is among the segments willing to pay for them.

In reviewing these results, it is important to keep the following in mind:

Stated actions are typically overstated compared to actual behavior.

- Implicitly, switching banks would require the customer to switch to a bank not offering such a fee. Thus, if the introduction of these fees is largely universal, then the likelihood that customers switch institutions decreases dramatically (although it may certainly drive them to migrate their form of payment to cash, credit card or other alternatives). Conversely, an option worth considering (and possibly exploiting) is not introducing fees (and being very public about such a decision).
- Another barrier to switching is the amount of time and energy it takes to switch. Setting up new accounts, informing and linking payees, setting up new passwords etc., take time and effort that some consumers are just not willing to expend. However, it is not that hard to set up a new account and start slowly migrating those associations to another service provider, which can lead to a slow-bleed form of attrition.

Actions are predicated upon customers having awareness of their fee structure.

- While there is, no doubt, heightened sensitivity to this topic, the fact of the matter is that customers, historically, do not have a strong sense of their fees. As an example, only 10% of those surveyed believe they currently pay a monthly checking account fee – a level that falls far below the 55% ⁷industry average. Given this, there may also be certain benefits to delaying a move to debit card fees until such a time when the topic falls outside the attention span of the marketplace.

Research Background and Approach

The TRiG US Omnibus poll was conducted online in all regions of the United States with a representative sample of 1,000 adults, between October 7 and October 10, 2011. Results are weighted by age, gender, and region in order to US census estimates. The margin is error of 3.1% at 95% confidence.

⁷ Bankrate's 2011 Checking Account Survey. (Refers to non-interest bearing checking accounts)

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