



The End of ‘Free Checking’ and New Ways to Boost Profitability

by **Alan Jackson**, October 22, 2014

Let’s be brutally honest: entirely free checking for all bank customers was never a sustainable tactic for acquiring and retaining account holders. Sure, it worked for quite a while in pre-recession days, when quantity trumped quality in the minds of consumers and bankers alike. But the recession significantly changed consumer behaviors and their expectations.

If your financial institution is still holding onto this limited-shelf-life strategy, you’re probably already seeing significant losses because of it. We know that the average “free” checking account costs a bank between \$250 and \$400 a year to maintain. As regulatory changes continue to re-sculpt the industry landscape, the costs are bound to increase.

Time for a new approach

The majority of FIs have apparently realized on their own that a different approach is needed.

Slightly more than 59 percent of FIs offered free checking in 2013, down from 81.5 percent in 2009, according to a survey by Moebs Services, an economic research firm. Interestingly, Moebs found that larger institutions – those with revenues in excess of \$25 billion – have backed away from free checking in greater numbers than have smaller institutions. Among players with revenues less than \$100 million, 51 percent still offered free checking, and 65 percent of those with revenues of \$100 million to \$500 million still did.

We could argue that those smaller institutions – comprised of community banks and credit unions – can least afford to continue the costly practice of free checking for all.

The direct cost to your bank, however, is not your only consideration. Right now, free checking unfairly skews in favor of a majority of customers who account for the smallest wedge of the revenue pie, while providing little added value for the smaller number of high-value account-holders who generate the greatest revenue. Savvy high-value consumers are increasingly seeing

free checking as a gimmick – one that no longer offers sufficient value to keep their business. They are demanding other benefits that recognize the value they bring to their relationships with their banks. Fail to fulfill that demand, and you won't remain their bank for long.

Better than 'free'

FIs need to explore other ways to improve checking account profitability. So where do you begin?

In order to enhance profitability, it's essential to understand the current value of existing accounts, and to have in place a mechanism for accurately predicting the quality of potential new accounts. This data will help you better segment account-holders, differentiating those whose business is likely to generate greater revenue from those who are likely to constitute a loss for your bank. Identifying your greatest potential source of revenue will allow you to tailor offerings accordingly.

Whether you choose to phase out free checking slowly by offering it only to account-holders with high balances and multiple products, or eliminate it across the board, it will be essential to replace its perceived value to consumers with some other appealing benefits or offerings.

Consider non-traditional benefits that account-holders may already be willing to pay for, such as **credit-monitoring or fraud-protection products**. Offering prime account-holders these services for free, or at a deeply discounted rate, can go a long way toward easing their unhappiness over the loss of free checking. When you start charging them for checks but give them value to go with the checks it creates value and they won't feel like you are just taking something away.

If you don't already have a **rewards program** in place, it's time to create one. Consumers have embraced rewards programs in virtually every aspect of their business lives, from credit card issuers to corner coffee shops. Why not look into one that rewards the entire checking account relationship? Imagine if you could reward them for doing the behaviors that you feel would help them become a strong anchored account.

Circling back to our original thesis, free checking will never be a profit-generator for banks, and it's on its way out as a tactic for acquiring and retaining account-holders. It's time to take another look at how profitable existing accounts are, and what your FI can do to increase checking account profitability and customer satisfaction at the same time.

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