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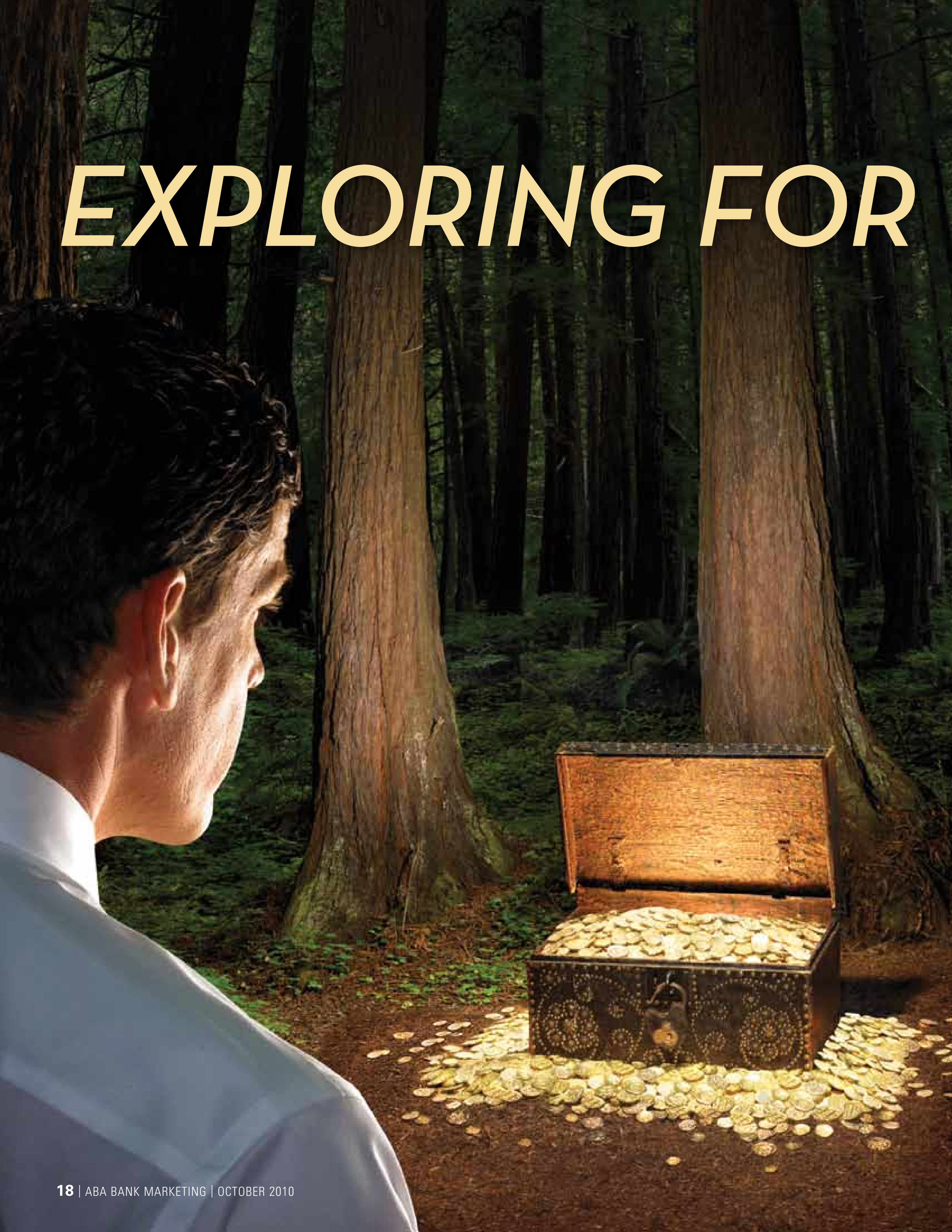


NEW DEPOSIT PRODUCTS

We search for some of the new products currently being offered by banks around the country. What we found provides clues as to current trends—and tips on effective implementation of your own redesigned products.

BY MARY BETH SULLIVAN AND VANESSA MAMBRINO

FREE CHECKING IS ALREADY DISAPPEARING from the product menus of many financial institutions.

That's one of the conclusions from a rough-and-quick survey we took recently of 40 financial institutions around the country. Another determination: Banks that have not introduced new deposit products in years have now redesigned—or at least started to redesign—their existing products.

What is causing this interest in reconfigured deposit products? One factor is Regulation E, which went into effect Aug. 15, and which requires customers to opt-in to overdraft programs. While the full impact of this change in deposit service-change incomes has yet to be measured, banks are already reacting by fine-tuning their deposit-product suites.

Another factor driving product redesign is the recession, which has changed customer needs, leading to a renewed focus on saving. While many checking accounts continue to provide incentives for spending—such as debit reward features—new checking accounts introduced in recent years tend to offer new types of incentives more in line with consumers' changing mind-sets and behaviors. In addition, with today's high rates of online banking adoption and fast-growing acceptance of mobile banking, consumers new and different account access and delivery options from their primary financial services providers.

With these issues in mind, we undertook a brief and somewhat subjective survey of the retail deposit product (excluding time-deposit) offerings in the market today. Our goal was to determine where banks stand in terms of offering more relevant product features, better account access, and easier online purchase and account comparison capabilities. Using the 2010 Top Performers rankings that we produced recently for *ABA Banking Journal*, we randomly selected 20 large/regional banks (total assets of $3 billion or more) and 20 community banks (total assets of less than $3 billion) and gathered information via their Web sites to determine how they are addressing emerging best practices in deposit product redesign.

Deposit (excluding time-deposit) products were assessed across three categories: product features and pricing; product access; and marketing.

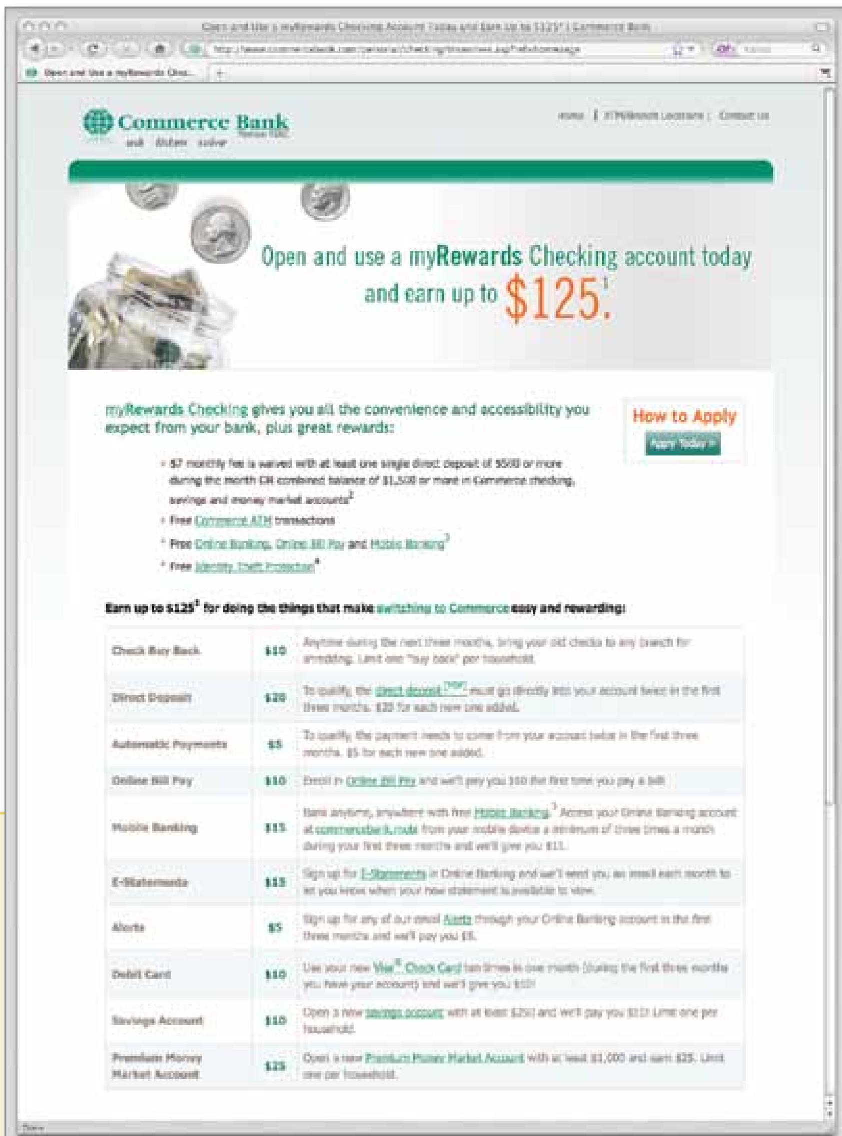
The survey was performed via the Web to imitate the shopping experience of most consumers—63 percent of online U.S. adults who research financial products do so online (according to a 2010 Forrester survey). While our analysis isn't exactly scientific, we think it provides a benchmark of today's deposit product line situation—and we will come back in a year to see how much change takes place as banks and thrifts continue to respond to Regulation E and other regulatory changes.

Survey methodology

Our 2010 Top Performers list of 135 institutions was narrowed to 40 financial services companies for this analysis. We examined both first-quarter financial performance and deposit-product data availability. We also attempted to ensure that selected institutions came from a wide range of geographic regions and represented a variety of sizes. Institutions were *excluded* if they met one of the following conditions:

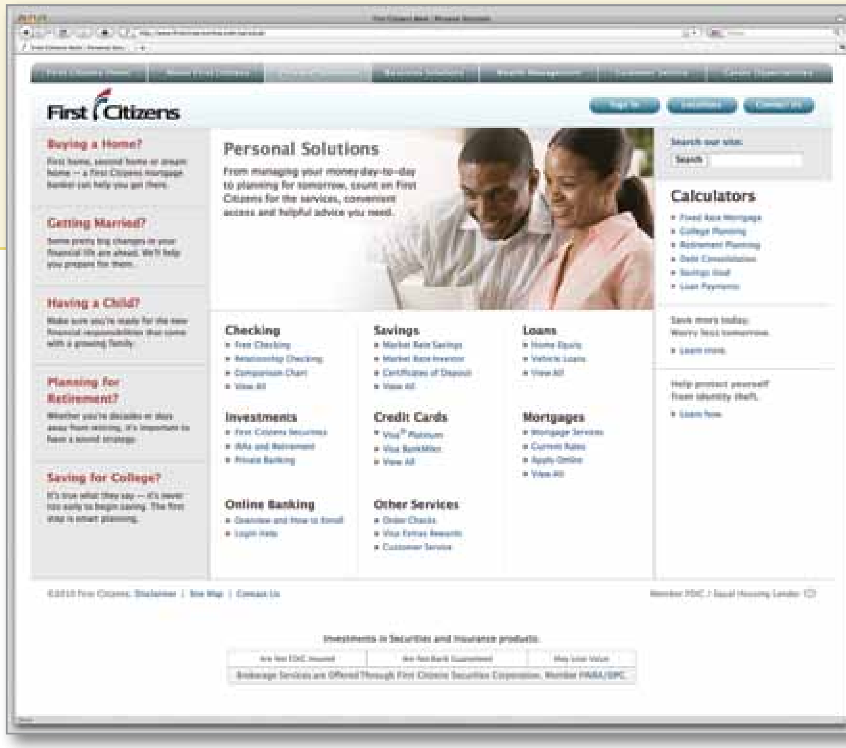
- Experienced a material change in financial performance during the first quarter of 2010 (defined as either a negative ROAE or a Texas Ratio of 100 percent or more).
- Were placed under regulatory order during the first quarter of 2010.
- Did not have a Web site or did not make detail on the pricing and features of their deposit products readily available.
- Operated several separately chartered subsidiaries, each with its own slightly different suite of deposit products.

Deposit products (excluding time-deposit products) were assessed across three categories: product features and pricing; product access; and marketing. We included commentary below about "best practices" with respect to each issue that we examined.



Customers at Commerce Bank (assets: $18 billion), Kansas City, Mo., receive cash rewards for signing up for certain activities: $20 for signing up for direct deposits; $15 for e-statements; $5 for e-mail alerts and so on. Customers can earn up to $125.

Customers at First Citizens Bank & Trust Co. (assets: $8.6 billion), Columbia, S.C., are offered suites of financial products based on their lifestyle needs: Buying a home? Getting married? Having a child? Planning for retirement? Saving for college?



Product features

1. Are products designed to provide incentive for customers to bring additional balances to the institution?

While every institution in our large-bank pool provided incentives for additional deposit balances, only 50 percent of our community bank pool offered incentives—most commonly in the form of relationship pricing. Very few institutions in either size category—six of the large banks and four of the community banks—provided incentives for either credit or investment relationships, as well as deposit balances.

Key takeaway: *There remains significant opportunity for banks and thrifts to offer clear value to consumers for their additional purchases. In addition, incentives for additional account purchase will increasingly extend beyond simply relationship pricing (for example: differentiated levels of service, as described below).*

2. Can customers receive rewards for transactions or other activities?

Only eight of the large banks and three of the community banks surveyed offered a transactions-based rewards program. Unique iterations of this type of program included the reward of free iTunes downloads, earned by making at least 12 debit card transactions in a single month. These musical rewards are currently offered by both First Security Bancorp (assets: $3.2 billion), Searcy, Ark., and Citizens State Bank of Clayton (assets: $81.2 million), Clayton, Wisc.

Only one institution among the 40 surveyed—Commerce Bancshares (assets: $18 billion) of Kansas City, Mo.—offered rewards to customers for other activities. Commerce is currently giving customers the opportunity to earn up to $125 by not just activating and using their debit card, but also by engaging in activities that complete the new customer on-boarding process, such as enrolling in online bill pay and signing up for e-mail alerts.

Key takeaway*: Marketers should review existing rewards programs to ensure that they provide targeted incentives and attract either specific customer segments (example: Gen Y) or specific types of activities (example: signing up for sticky features).*

3. Does the deposit-product suite include value-added services?

Plenty of banks and thrifts of all sizes offer services that are marketed as "value-added" (for a price). At community banks, value-added services often include transactions in excess of a certain deposit-item limit (varying based on balances), as well as insurance products.

Among the 14 large banks touting value-added services, common offers include overdraft protection, identity theft protection, discounts on services offered by other industries (i.e., vision plans) and free ATMs. These features typically serve as add-ons to basic accounts or as standard features for higher-balance accounts. In many cases, value-added services are offered as one large package of discounts rather than as separate packages tailored to customer needs.

Key takeaway: *Value-added features and services are critical for generating fee income. We expect to see a proliferation of these in coming years as banks seek to replace income lost due to Regulation E changes.*

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Product access

4. Can customers open some or all accounts online?

Online account opening is not a common practice—three of the community banks and five of the large banks surveyed gave customers the option of opening accounts online.

Key takeaway: *This functionality is quickly becoming a must-have, especially for institutions targeting younger and/or more tech-savvy consumer segments. At a minimum, it is critical that consumers are able to access all of the information about opening a deposit account that they require (Where do I go? What should I bring?) online.*

Deposit product Survey Results

The chart indicates the percentage of financial services institutions that are currently offering the specified product features or are utilizing the specified marketing practices. The survey involves 40 banks, 20 with assets of more than $3 billion, and 20 with less than $3 billion.

Questions	Asset Size Survey Group		
	Less than $3 Billion	More than $3 Billion	All
Product Features:			
1. Balance consolidation incentives	50%	100%	75%
2. Incentives for transactions/activities	15%	45%	30%
3. Value-added services	30%	70%	50%
Access:			
4. Online account opening	15%	25%	20%
5. e-statements	40%	85%	63%
6. PFM tools	25%	80%	53%
7. Differentiated service levels	5%	10%	8%
Marketing:			
8. Needs-based categorization	0%	5%	3%
9. Comparison capabilities	85%	55%	70%
10. Segment targeted products	80%	40%	60%

Surveyed institutions showed progress in the quest to go paperless. Eight community banks and 17 large banks gave their customers this choice.

5. Can customers choose to receive e-statements?

Surveyed institutions showed progress in the quest to go paperless. Eight community banks and 17 large banks gave their customers this choice. No institution has yet followed Bank of America in charging for paper statements; however, one bank is providing incentives for those customers who choose to go paperless. The Vantage Checking Account at Citizens Financial Services Inc. (assets: $749.9 million), of Mansfield, Pa., offers a higher interest rate on balances up to $25,000, waived online banking and bill pay fees, refunded ATM fees, and other benefits to customers who receive e-statements (and use direct deposit).

Key takeaway: *This feature makes sense from both a customer demand and bank efficiency standpoint. Community banks need to work with their IT providers to get this done.*

6. Does the financial institution offer any tools to assist customers with personal financial management (PFM)?

To answer this question, we used a rather loose definition of PFM tools—one that included the ability to export online banking data to Quicken or the equivalent as well as tools that were more closely integrated with a bank's online banking platform, like "My Spending Report," offered by Wells Fargo & Co. (assets: $669 billion), San Francisco, Calif. One quarter of the community banks surveyed offer customers assistance with the PFM process, most often through the ability to export data to other software. A majority of the large banks surveyed (12) also offered this functionality. Only four large banks offered a more integrated platform. The smallest of these four, Republic Bancorp Inc. (assets: $3.1 billion), Louisville, Ky., offers online banking customers the option of using FinanceWorks, a tool created by Quicken.

Key takeaway: *Basic PFM capabilities are a source of differentiation for community banks, but are more standard today at larger institutions. There is a PFM option for every asset size, as proven by the fact that even our smallest bank, Oklahoma State Bank (assets: $42.6 million), Buffalo, Okla., offers a PFM solution. Banks and thrifts looking to redesign account access should consider ways to make PFM even easier for their customers through platforms that are further integrated with online banking.*

7. Does the institution have differentiated levels of access for higher-balance retail customers (outside of wealth management services)?

Only one community bank and two large banks surveyed rewarded customers for their relationship by offering differentiated levels of account access within the retail product line. Sunwest Bank (assets: $650 million), Tustin, Calif., offers "Sunwest Bank Elite" clients priority credit processing, along with waived nuisance fees and other benefits. Pinnacle Checking clients (those with balances of $30,000 or more) at Republic Bancorp Inc. (assets: $3.9 billion), Louisville, Ky., receive specialized customer service; while Prime Dime Rewards customers at Dime Community Bankshares Inc. (assets: $4.1 billion), Brooklyn, N.Y., receive a dedicated banker and customer service line.

Key takeaway: *One way to truly differentiate retail deposit products is to provide enhanced levels of service for additional product purchases or higher balances. This can be as simple* *as giving high-balance customers a separate line in the branch or ensuring that they always get to the front of the call center queue. This is especially important for institutions targeting older and/or more affluent customer segments where higher service levels are often expected.*

Basic personal financial management capabilities are a source of differentiation for community banks—but are more standard today at larger institutions.

Marketing

8. Are products categorized by customer need or by bank product type?

Among the 40 institutions surveyed, only one—First Citizens Bancorporation Inc. (assets: $8.6 billion), of Columbia, S.C.—has begun to organize its products on its Web site by relating them to specific customer needs (examples: buying a home? getting married?). Even at this bank's site, however, it takes an extra click-through to get to this information.

Key takeaway: *Though many institutions talk about rethinking product marketing and sales from the customer perspective, the majority have not yet put this into practice. Institutions that are able to position deposit products as solutions to specific aspects of consumers' financial lives will set themselves apart from their competitors.*

9. Can deposit products be easily compared?

Consumers of all ages and incomes are searching for banks that can make their financial lives simpler—and one way to deliver on this is to assist with the selection of deposit products. This can vary from providing high-level detail on products at the time that they are introduced (giving customers an idea of the best place to begin their search) to providing a detailed side-by-side comparison of accounts within the same product type.

In our survey, community banks generally provide customers with information to compare products with greater ease—in part because institutions of this size have simpler product sets. Thirteen community banks either have all deposit product features listed in a clear and concise manner on a single page or provide customers with high-level direction in their search for the right product. Only six large banks did this. An additional four community banks provide side-by-side comparisons of their products, while five large banks provide this service.

Key takeaway: *As banks grow and introduce new deposit-product types, they must work to provide a simpler and easier shopping experience for their customers.*

10. Are any products marketed to a specific demographic segment? If so, which segment?

Nearly every bank offers products specifically geared towards two segments—students (or children under 18 years old), and seniors (or adults in the range of 55 to 65 years of age or older). Banks may talk about enhanced segmentation and tailored products, but very few are actively executing on this (at least, not in a manner that is obvious to a casual visitor to the banks' Web sites).

Key takeaway: *Segment-specific products and services will grow in importance in coming years as banks and thrifts adopt greater focus in their business models. It will be important to make it easier for the consumer to understand which products are right for him or her via the online channel.*

In summary, federal regulatory changes combined with a recession and changing consumer attitudes are encouraging financial services institutions to reconfigure their deposit products. When your bank undertakes this process, it should build in incentives for additional deposit balances and rewards for targeted customer segments or desired activities. Banks should link deposit products with value-added services to create additional fee income.

In light of technological innovations, banks should encourage customers to open deposit accounts online and to receive e-statements. Banks should offer online personal financial management services for all customers as well as enhanced or differentiated levels of services for those customers who have expanded their relationship with the bank via either additional product purchases or higher balances.

Consumers of all ages and incomes are searching for banks that can make their financial lives simpler.

When it comes to marketing these reformulated products, bankers should organize and display these products by customer needs (buying a house, getting married, having a baby) and make it simple for customers to compare one type of financial product with another. And finally, bankers need to ensure that customers in target segments can easily identify products that may be designed to meet their specific needs.

Marketers who follow these guidelines will help to boost bank income during a time of regulatory and national economic challenges. ■

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