



Banks Going the Way of Airlines, Netflix, With Debit Fees

Industry experts say that the introduction of debit fees by big banks such as Bank of America echoes a trend that extends beyond the banking industry -- one that is causing customer dissatisfaction and drop-off.

Tags: Bank of America, Wells Fargo, JP Morgan Chase, SunTrust, BB&T, Deloitte Consulting, The Service Quality Institute, Netflix, Fees, Debit, Customer Experience, Durbin Amendment

By *Olivia LaBarre*

SEPTEMBER 30, 2011

URL: <http://www.banktech.com/payments-cards/231602490>

One more bank can be added to the growing list of large financial institutions -- including Wells Fargo, JP Morgan Chase, SunTrust and BB&T -- that are either planning to charge their customers debit fees or considering doing so.

Bank of America has confirmed that because "the economics of offering a debit card have changed with recent regulations," it will begin charging its customers a \$5 monthly usage fee for debit card purchases starting in early 2012. The fee will only occur if a customer chooses to use a debit card to make purchases in a given month, and it does not apply to ATM usage. The bank will waive the fee for customers with certain premium accounts and wealth management clients. The announcement was made yesterday via an internal memo.

Christopher Allen, a senior manager at Deloitte Consulting's strategy and operations team, focusing on the banking and payments sector, says that given all of the changes and new regulations in the banking industry, including the Durbin Amendment and beyond, he is not surprised to see this type of activity. "The regulations have left a significant revenue gap for many banks, and they're struggling with how to grow their revenues in a somewhat tepid economic environment, as well as the regulatory environment they're in," he says.

Allen says that these new fees are indicative of a trend that extends beyond the banking industry. "For example, airlines have put up fees for checking bags," he explains. "This is just another in a string of things that consumers are getting hit with, and they're all reacting in different ways."



John Tschohl, founder and CEO of The Service Quality Institute in Minneapolis, warns banks that they could face the same types of losses and customer drop-off that Netflix has been experiencing after changing its pricing structure. "This is very dangerous water that you're treading in," he says. "You don't want to have what happened to Netflix happen to you. The cost of a lost customer is probably 10 times greater than the amount that you're going to receive from charging for a debit account." He adds, "It's too easy for people to switch."

But in the immediate future, says Allen, "I don't see a landslide of people migrating out of debit, at least initially." He says that customers may react to these new banking fees in one of three ways. Some will do nothing and continue to pay the fee. Customers who are fee-sensitive may look for alternatives, whether in other banks or in other forms of payment. And along those lines, more customers could start using credit instead of debit.

Tschohl says that in order to retain customers in the long run, though, banks need to focus on a different strategy than leveraging fees. "Really big companies and banks forget that they're in the customer experience business," he says. "You can create more revenue by creating a better customer experience so people want to put money into your bank."