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INSENSITIVE SERVICE CHARGE ACTIONS

I was talking to a group of people at our church the other day and again was shocked at the feedback I was hearing regarding financial institutions' service charge practices. Obviously, some people had just received notification that their account charges were increasing without any accompanying rationale except the old blanket statement "costs have gone up". Generally speaking the majority of people are seniors in the church group and they are fairly computer literate and have a good business sense, so they were upset.

The discussion was penetrated by the priest's statement that the church doesn't pay service charges since it migrated to a credit union thirty miles away four years ago. I remember that switch as I was asked to spearhead a tendering action for the church's banking since it had an average of $25K in their account but were still charged service fees of over $10 monthly. In the review process all major banks in the area, including my ex-employer were requested to tender – only 3 out of 5 responded and none offered a service charge free account for charitable churches. So I dropped into Meridian Credit Union over a half hour from town. I was greeted by the receptionist and I told her what I was looking for. She responded quickly that they would welcome the church's business and there would be no service charges plus she provided information on their normal rates including a seniors' package. The Parish Planning Council approved the switch and concurrently some individuals involved opened personal accounts. Since then all the area churches in our faith have relocated their banking arrangements to the credit union. The word has spread throughout the congregations and other local churches. The spillover to individuals is quite amazing since the institution is some distance away. With many, the financial organizations had not informed them that there was a seniors' package or a less expensive way to conduct their transactions or save on service charges – no proactive relationship management.

Unfortunately, local bank personnel hide behind "head office policies" regarding service charges and they indicate that it is up to the customer to request special packages. So when notifications are received for increased fees, sensitivities heighten.

I sat back and recalled the time that I had the responsibility to recommend fee increases in commercial accounts where I used to work two decades ago. Some people were complacent about the annual review of charges and would simply recommend an extra 5 cents, 10 cents or $1 as a way to reach their annual revenue targets.

Naturally, I would request rationale and customer sensitivity research. In the latter case, managers would try to brush off the need by saying prices are inelastic. From a costing perspective many had to go back to the Finance Department and attempt to get a handle on variable and fixed cost allocations. It bothered me to think that there was a feeling that we had a divine right to charge more because of inflation and overall cost increases in the bank's operation regardless as to what drove the incremental expenses.

There is a key business principle here that is missed i.e. customer centricity. Assess your actions from the consumer perspective into the organization. When price increases become clinical and passive exercises one should worry about the short and long term impacts. You must face the fact that people are more technologically and financially literate than ever before. The unsubstantiated "nickel and dime" philosophy will erode your loyalty and eventually profitability. Consumers and businesses know that electronic transactions are less expensive for the FI's than over-the-counter transactions in the branches by a significant amount. Why should you subsidize branch costs through equalization fees on electronic transactions? If your productivity around payments/deposits has improved why are you increasing fees? If you have overheads growing in the organizations, are you doing efficiency and value-for-money reviews to improve economies?

Key lessons have taught us to take specific actions:

1. Conduct customer research on service charge sensitivity and loyalty regularly
2. Understand the differences in channel costs for both sales and service transactions
3. Ensure there is no fee leakage with ad hoc services
4. Investigate your "customer churn" and the related costs to your business
5. Proactively offer service charge reviews and packages available i.e. automatically recommend to segments e.g. seniors on applicable birthdays
6. Assess the erosion impact by disintermediaries on your revenue streams especially payments
7. Build an improved education model for staff and customers regarding cost-benefit options
8. Understand the indirect implications of service charge policies at local level organizations and their influencers
9. Regularly and proactively offer service charge reviews through customers' preferred channels
10. Stop commoditizing yourself and opening the door to non-traditional competitors

Sensitivity to customers' preferences and concerns is crucial. Your customer care strategy should capture all customer concerns at every level, resolved or unresolved, to ensure senior management knows the grass root issues regarding charges and other irritants. Don't leave this as a decentralized "fix it where you can" philosophy. Consumers and businesses more than ever shop "best deals" with multiple service suppliers, and the Internet has facilitated the search processes.

WESI has done audits on many FI's service charge practices for improved customer relationships and revenue streams. In some cases, senior management gains a better appreciation of impacts and options. Once you are apathetic towards fee increases the door is automatically open to competitors.

OUTSOURCING CONTINUES TO GROW

Although the media of late has been quiet on "job outsourcing to foreign countries" within our industry, the trend continues globally. Business Processing Outsourcing and the IT enabled service industry covers contact centre services, back office services, media, legal and other data transcriptions, animation, software development, engineering design and digital content. At a post recession time, when countries such as the USA are attempting to grow jobs, it is interesting how many of the major corporations including FI's continue to export them. For example, in the Philippines in 2013, BPO accounted for 800K jobs! Estimates for that country indicate a further growth in the next three years of 120K jobs annually. Other countries such as India and Spanish speaking destinations in South America continue to increase. There may be solid economic rationale for these moves but ensure the Board understands and endorses the policies and actions. Plus senior management needs to have a proper public relations strategy and contingency communications available. Also employees need to have appropriate knowledge and acceptance.

SOCIAL MEDIA IMPACTS

Everyone believes that they have and are effectively growing a customer focused social media, integrated strategy and actions. Are you a believer, skeptic or opponent?

I think we all agree that social media can be a powerful tool as part of an overall strategy to engage and converse with customers and prospects.

In the U.K., companies were found to be struggling to deliver adequate customer service through the web, e-mail, social media and web chat channels with their Twitter performance particularly spotty.

Senior executives in some other countries have told us that social media has not impacted them materially! When we dig further we see extremely high numbers of users in most countries in a combination of Facebook, Twitter, YouTube and Linkedin. In fact, we see active referral messages to contacts, friends and family members endorsing specific FI's and criticizing others.

The Connection, PRWeb recently advocated how to improve the impact of your social media spend. Social media are powerful tools that can generate significant results or cause big problems if you don't understand how everything works/are used. They recommend these best practices.

1. **Track the Tangible** – tie efforts to numbers that represent real performances
2. **Mobile is Master** – be mobile friendly from the outset
3. **Listen, Respond, Engage** – employ social listening and respond plus engage
4. **Hashtags for Visibility** – use hashtags on your social media posts to increase visibility

Social media can be a powerful support resource if you manage it that way.

DISINTERMEDIATION WILL INCREASE

Recently I blogged on competitive disintermediation which has grown rapidly over the past couple decades and is now accelerating in broad and narrow niches. Remember 20 years ago when mortgage brokers started to erode bank and credit union relationships and turn the value proposition of home financing into a commodity? In Canada, new players came on the horizon such as ING Direct and Presidents Choice, which now have millions of customers and they have built solid profit records. Concurrently, manufacturers and retailers started to explore the financial industry product opportunities – General Motors, Harley Davidson, Walmart, Target, etc. etc.

Not only has the competitive universe expanded but also the total revenue base for financial services.

Even the unbanked or underbanked have become a target and not just by the questionable cheque cashing/money lending industry. ($400 @ $80 interest for 2 weeks)! Research indicates that many average or better than average customers also frequent these stores.

So now we are in the social media era and in your strategic brainstorming, who do you see as the next wave of digital disruptors? Are you not looking at these scenarios? What erosion could they cause? At the same time there are many key brands entering the payments revenue stream e.g. Starbucks.

Back to social media! We can see major digital players penetrating product and relationship positions. For example, Facebook and Linkedin - one in the consumer market and the other with entrepreneurs. Plus we see other disruptive possibilities. The whole P2P, B2B, P2B and B2P world without traditional FI's is on the horizon.

LAST WORD

The sales and service culture transformations for many organizations and their staffs were traumatic but beneficial. Yet some FI's are not yet there and are only starting the journey. With many organizations there was and is push back from employees whom we group into three standard sets of characteristics:

- Supporters
- Skeptics
- Saboteurs

Generally, the latter employees could not be changed and many ended up on exit paths – at all levels. Importantly, we learned just how important the supporters were to the future of the organizations' competitive well-being. Those people who had a customer centric, adaptable set of characteristics were and still are invaluable to any organization in a dynamic environment – which financial services undoubtedly are. When these staff members are given the knowledge and empowered to perform, results are startling.

Today we need a revival in human resource management to attract, develop and reward customer change agents that are trusted and collegial. From where the buck stops to the newest recruit, these people are the energizers for competitive success and people satisfaction internally and externally. Your employees are great assets that execute the vision and values the team lives for today and in the future. Is your institution the people place where customers like to deal and others want to work? If it is – keep building these strengths.