

Trent's Comments

January – February 2013

Germantown, Tennessee

Leveraging New Technologies to Reduce Costs

Last year, I wrote about "significant and persistent costs" and the importance of identifying and controlling them. As we start the New Year, I want to look at another area that will affect your bottom line - failure to modify customer behavior in order to benefit from the reduced costs of new delivery channels.

As you invest in new technologies, much of the focus is on the “sign-up” phase – getting customers to sign up for mobile banking, e-statements, or Internet Banking. Clearly, it is important to get folks signed up as the first step. This is not the desired result though . . . the intent is to get folks to adopt behaviors that reduce your operating costs, and improve customer satisfaction. Effective employee education and targeted marketing campaigns can help you to achieve your goals. Let's look at four currently popular technologies as examples:

Mobile Banking

While you certainly need to have mobile banking from a competitive standpoint, it is not until a substantial percentage of your customer base begin to actively use mobile banking that you will see cost benefits from the technology. Measuring unit costs is difficult. However, as customers become more comfortable with using their mobile phones to perform increasingly complex banking functions, visits to your branches and calls to your call center should decline. This will lower the cost of serving customers, and increase customer satisfaction, as they are able to quickly and easily handle many of their banking needs with no outside help. Our society is increasingly reliant on mobile devices, so it is important that you reserve your “place” on these devices. You will then be poised to offer additional mobile based services.

E-Statements

E-statements offer you a significant cost savings, every month, over paper statements. Thus, getting customers to accept electronic statement delivery is a worthy goal. Think about the number of times companies that you do business with (utilities, delivery companies, etc.) encourage you to accept electronic statement delivery.

Your customers are getting this pressure from all sides, and most are willing to go along with it, for everything from cost to privacy reasons. As a bonus, e-statement delivery paves the way for delivering other notices electronically, reducing costs and improving customer service (same day notification of returned items, for example.) In general, you should be able to reduce the costs of statement production by at least 50-75 cents per account, per month. Do the math. You want to save this money, and your customers want electronic statements. In addition to straightforward promotion of e-statements, you should include e-statements as the standard offering for new accounts, and use them as an incentive to customers who may be seeking a free account, by including accepting electronic statement delivery as one of the required terms for a free account.

Internet Banking

Internet Banking, properly deployed, should greatly reduce your costs of customer service by allowing customers to handle more of their banking activities on their own. In particular, the ability to transfer funds, and see images of paid items will mean that, like mobile banking above, your customers require much less call center contact to address their banking needs. This reduces your costs and improves customer satisfaction. Another key part of Internet Banking is bill pay. Many banks have had poor experience, penetration wise, with bill pay, as their initial offerings were cumbersome, required advanced payment, and may have even cost extra to use. The reality is this . . . many of your customers have been driven to on-line payments through the biller's sites, and won't change their habits unless you find a way to make it easier (I think aggregation of bills on a hand held device might have a shot) For now, concentrate on those of your customers who are still check writers, and promote the ease of bill pay to them. Each time you convert a check to an electronic form of payment your transaction costs go down significantly.

Debit Cards

Debit cards are immensely popular with customers. Generally, when banks promote debit card utilization, it goes up in response. When promotions cease, it then levels off - it does not go back to prior levels. Thus, we can acquaint usage with adoption. Even the most expensive debit card transaction (customer enters their PIN) is significantly less expensive than processing a check. Signature based debit card transactions actually generate revenue, via interchange fees. Efforts to convert check writers to debit card users will, at a minimum, reduce your transaction processing costs, and may even increase your interchange income. Continuous promotion of debit cards is always productive. Don't overlook debit cards for your businesses, as well. Most ATM/EFT providers offer you a better interchange fee on such cards, and transactions are usually larger, so there is good revenue to be had.

Regular readers know that I like to end by providing you with actionable steps so that you can benefit from my advice. In this case, I'm offering two suggestions for your consideration:

Checking Account Offerings

In an upcoming issue, I will discuss the matter of consolidating the types of accounts you offer, and improving your bundling and promotion of those accounts. For our purposes here, let me say that a key way to influence customer behavior is to combine mandatory use of selected products (like e-statements and debit cards, for example) with the promise of free checking. In this way, customers can choose to avoid monthly fees for account processing, and agree to use those products and services that will help you to reduce costs associated with processing those accounts.

Promoting New Services

As you plan to implement new technologies from an operational standpoint, it is essential that you also have a marketing plan. Employees are the key. As I like to say, "if you have knowledgeable and enthusiastic employees, you can sell anything to your customers". The good news is, you are not in a "hard sell" mode. Most of the newer products are already of interest to your customers, and you need only make them aware of the product's availability to get acceptance. E-statements do require a bit more work, but proper promotion will build good excitement and acceptance.

Especially if you already have some of these products in place - and you certainly do - promoting them more effectively is a low cost, high return effort. As always, let me know if you need help addressing these or other matters.

Upcoming Speaking Engagements

January 2013

- **1/24: North Dakota Bankers Association: *Bank Management Conference***
- **1/29: Idaho Bankers Association: *Directors' Leadership Conference***
- **1/31: Massachusetts Bankers Association: *CEO/Senior Management Workshop***

February 2013

- **5: Utah Bankers Association: *CEO Conference***
- **15: Texas Bankers Association: *Technology Conference***

Another Option for Accessing My Expertise and Insights

If you haven't already, please visit my blog www.bankinginsights.blogspot.com You can subscribe to the blog in order to receive updates, and I encourage you to do so. My plan is to use the blog to address specialized topics, or alert you to rapidly changing regulatory or fraud issues.

Trent's Comments is published six times each year and provides insight into strategic topics facing financial institution executives. Please feel free to share this with your staff and colleagues. Should you not wish to receive this newsletter, simply send me an email and I will remove you from future mailings.

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