KEEP IT SEP·A·RAT·ED

by Scott Kluge

Differentiating an offering's value from the amount you charge for it.

Financial institutions are getting better at marketing themselves. However, many still overlook a practice so widespread that it is difficult to see: they continue to refer to one of their main revenue sources as "fees."

This moniker only reinforces the perception of being penalized — a "gotcha" — as opposed to the bank or credit union providing a quality service at a fair cost. The problem is not that financial institutions are charging for their services; it's that there are not enough obvious benefits to the consumer to warrant being charged.

SINCE A FEE IS INCAPABLE OF POSSESSING VALUE, IS IT REALLY THE BEST WAY TO DESCRIBE WHAT YOU CHARGE FOR YOUR SERVICES?

The word this industry uses to describe service charges only adds difficulty. When was the last time you viewed a fee as a value-added transaction? I can't think of an example, either. But I can easily recall a long list of subscriptions and memberships in my life, where I gladly paid something up-front to get something of value in return.

Magazines and newspapers charge subscriptions to offset their costs, for example, and consumers view the subscription price as a fair trade for the content being delivered. Ask most American Express members why they pay an annual fee, and they will mention membership benefits that more than justify this outlay.

In either case, there is an easy way to eliminate all fees: don't use the service. Therefore, whenever a consumer faces a fee situation, he or she naturally assesses whether the benefit of the service outweighs the charge. Let's follow the logic of how this might sound for a banking consumer:

"Given that banks are in business to protect my money and to make money on the interest spread between deposits and loans, any fee that penalizes me for putting my money into a bank is contrary to the reason why I would use one in the first place. Paying a monthly fee to use my own money doesn't make sense."

So what is a bank or credit union to do? Deliver services of obvious value for which consumers are willing to trade up and pay. Here's a great example: turn your mobile app platforms into a source of income.

Basic for free, charge for trade-up

Most financial institutions provide a free mobile app for customers to do basic things like check balances, transfer money and find nearby branches or ATMs. But this same app could become a platform to up-sell and generate subscription revenue (formerly referred to as "fee income").

Consider the innovation that allows consumers to securely deposit a check by taking a digital photo of it with their smartphone. This service provides an obvious convenience benefit for the customer — and a tremendous income potential for the bank. How? By offering basic smartphone app functionality for free, and then charging a small subscription price ($4.99, for example) to unlock the capability to deposit checks using their smartphone cameras.

Throw in the ability to make peer-to-peer payments, and you've got a nice bundle of value-added services for which consumers can easily recognize what they're paying for.

Now, think about how that same mobile platform could generate other sources of revenue. While continuing to use the app to cross-sell credit cards, car loans or brokerage services, you could offer the option to upgrade to an insured e-wallet, again for a nominal annual subscription price.

While offering smartphone payment functionality at no charge, you might get away with charging for protecting the payment vehicle. Insuring against smartphone loss or theft would be a clear value-add for those consumers who like extra peace of mind.

Make someone else pay

Another way to generate fee income through consumer activity is to embed charges as transaction fees paid by other service providers. For example, consumer credit and debit card transaction volume exploded as the cards became a convenience tool for consumers, and issuing banks reaped the benefits of small fees paid by the businesses accepting credit and debit card payments.

Future growth in electronic payments will likely occur in peer-to-peer transactions that have historically been made via cash or check. Many banks and credit unions are now starting to support electronic peer-to-peer transactions, but it is common for up to three days to pass before a payment moves from payer to payee. What if you offered three-day e-transfers for free, but provided an expedited service with same-day clearing for a small charge per transaction? The added value is obvious.

Consumers are willing to pay for apps and banking services that provide benefits to them. Now it is up to banks and credit unions to align their innovation efforts with consumer demand, while also making it obvious how every fee delivers added value for customers and members.

It is this mindset that will reduce your need to charge and increase fees — and free you from using the word "fee" altogether.

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