

Payment Fee Disclosures: ***How far should financial institutions go to inform their customers?***

According to the Merriam-Webster Dictionary, the word 'disclose' has the following definition: to make known or public; to open up, expose to view. Recent legal cases have brought the issue of fee disclosures back in the spotlight provoking questions regarding the effectiveness of current disclosure methods and what changes, if any, are necessary for improving the way disclosures are made in the future.

Financial institutions around the world have been disclosing information to customers for as long as they've been in business. After all, who wants their customers to be surprised? Disclosing just how much we will pay customers for their deposits or what service levels customers should expect when they walk into a branch are good things, and key elements of the value proposition that creates demand. Disclosing how much customers will have to pay, what kinds of fees they will be subject to and when these fees will be charged is not usually a positive message, but it is part of the value proposition (even if negative) that a customer uses to make decisions about where they want to take their business.

Disclosures now required by law have been a source of great debate, sometimes litigious, and the driver of significant expenditures on the part of financial institutions. Ensuring that customers are fully aware of the myriad of fees they might be subject to and under what conditions these fees will be charged is important. Customers surprised by a fee, particularly in the first few statement cycles, are more likely to shop their business than customers who are not surprised. The problem, of course, is that the complexity of fees, particularly those associated with payment mechanisms, has increased the likelihood of surprise fairly significantly. The list – ATM fees (surcharges, foreign or disloyalty fees), PIN debit card usage fees, bill pay fees, overdraft fees, currency conversion fees – is long and (at least in the history of payments) relatively new. As each one of these fees was introduced, customer responses ranged from surprise to irrelevance, with anger lurking in the shadows waiting to spring.

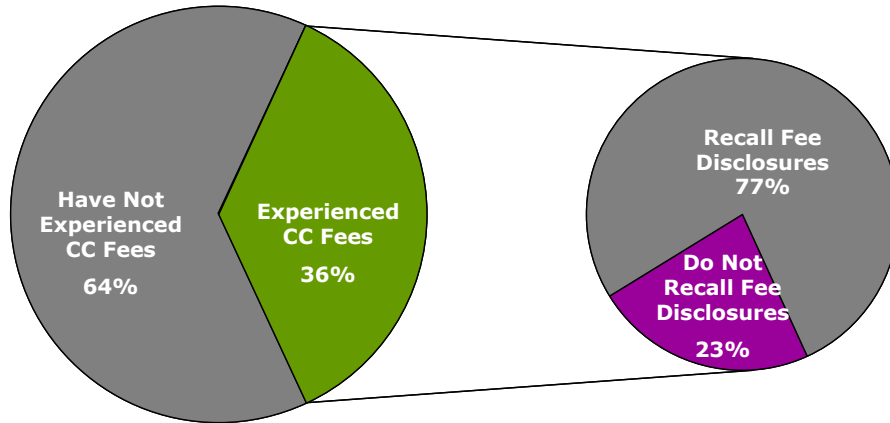
No business in their right mind wants surprised or angry customers, and as a result, FIs want to ensure that their customers understand all elements of the value proposition, including prices and fees. Just as importantly, no lawmaker wants their constituents surprised by fees an FI might impose, and as a result a number of disclosure requirements have been passed into law to ensure that financial institutions of all types do not have the ability to 'spring one on the public' without legal consequences.

And to what extent have these disclosures fulfilled the intent lawmakers might have had? If their intent was to ensure that consumers are fully aware of potential fees, they have only partially succeeded. The reality is that customers can be notified of a certain fee verbally and/or in writing when they open an account and then again through regular mailings, but until they actually experience the fee their level of awareness may be less than desired. And even for some of those who experience fees, they may not be fully aware of just what happened. Consider these facts from a recent survey we conducted of 2,009 consumers:

- Sixty percent of our survey population has experienced an ATM surcharge fee. Of this group, 64% identified the notice on the ATM screen during the transaction as the disclosure method they recall most. Eight percent, even after experiencing the fee, do not recall any disclosure.

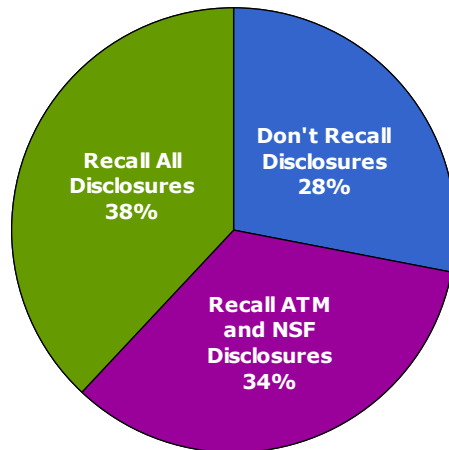
- Forty percent of our survey population has experienced a fee for insufficient funds. Of these, 11% do not recall a disclosure of any kind; 48% recall the fee being disclosed in writing when the account was opened.
- PIN and signature debit fees have relatively low experience rates – 14% for PIN debit and a reported 7% for signature debit. In both cases, more than 60% of customers do not recall any disclosure.
- Currency conversion fees were experienced by 36% of our survey respondents, and almost a quarter of these do not recall any disclosure.

Experience with and Disclosure of Currency Conversion Fees



We discovered that 28% of our survey respondents of bankcard carrying customers do not recall disclosures for any types of fees. Almost 38% of the survey respondents recall disclosures only for ATM and NSF fees, largely because of their prevalence. The remainder – 34% – indicate that they have been well informed and recall disclosures for bank and card fees of all types.

Fee Disclosure Recollection



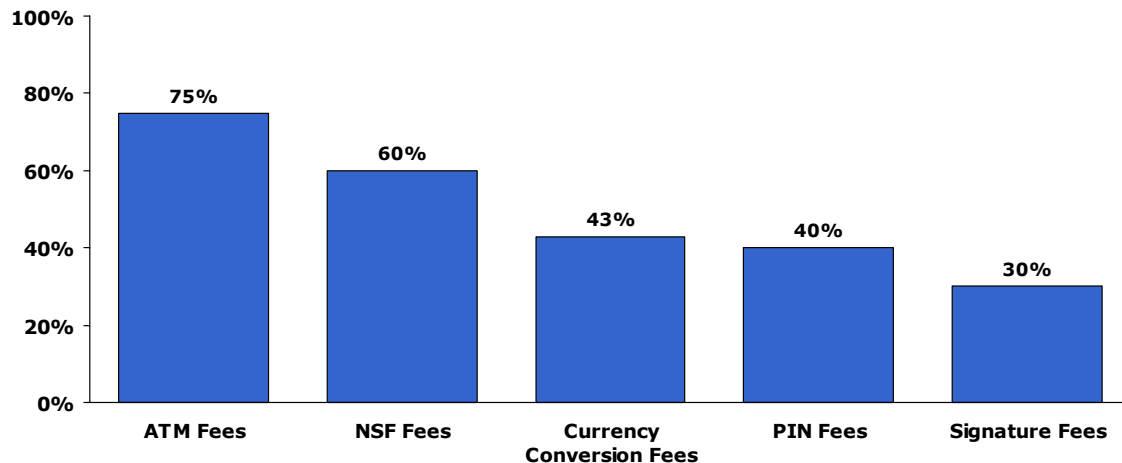
On a pure financial return basis, whatever financial institutions are doing to capture the attention of customers is meeting with limited results – having one in three customers express that they do not recall disclosures of any kind is not particularly effective performance. Viewed from another perspective, this may be more a statement on customer attention spans and available bandwidth to hear what is

being disclosed, rather than a statement purely on effectiveness. Few will disagree that disclosure of a fee on a real-time basis – while the transaction is occurring – is one of the most effective mechanisms, but even here only a 92% effectiveness level is achieved. What the remaining 8% might be thinking about when they press 'Accept' on the ATM for a surcharge is anyone's guess.

Awareness based on disclosure or experience (the best type of disclosure) is one question. How people react or change behavior once they become aware of fees is another.

- 25% of those who have experienced or state that they are aware of ATM surcharge fees do not change their behavior (i.e., they continue to use the same ATM despite the fee). The remaining 75% use a different ATM (the most frequent behavior change), use cash back at the point of sale, and/or make larger withdrawals to avoid the fee (through fewer trips to the ATM).
- For NSF fees, 40% of those who have experienced or state that they are aware of the fee do not change their behavior. 60% either double check their balance or indicate that they have stopped using whatever payment method first led to their being charged the fee.
- For PIN and signature debit fees, the vast majority (60% for PIN; 70% for signature) indicate that they have not changed their behavior.
- And for currency conversion fees, 57% have not changed their behavior, meaning of course that 43% have found presumably less expensive ways to conduct transactions when not in a home currency.

Percentage of Respondents Who Have Changed Behavior as a Result of Fee Experience/Awareness



Presumably, people who have not changed their behavior either have no alternative or no alternative they believe provides the same level of value (e.g., convenience) despite the imposition of a fee.



Fees associated with payment mechanisms and accounts are here to stay. They are part of the exchange in value customers either accept or reject as they make choices about their transaction accounts and cards. Likewise, lawmakers are here to stay, and their actions regarding the protection of consumers in the form of disclosures are well intended, albeit expensive to execute. Like it or not, the fact that about a third the bankcard-carrying population does not pay any attention to these

disclosures, even when confronted with them on a real-time basis, is probably here to stay as well. A lot of people change their behavior to avoid a payment fee. No surprise here. That said, a material number continue to pay these fees, indicating that the value proposition is acceptable, whether driven by convenience, lack of alternatives, or that the fee is not particularly material in total amount.

In the end, fees need to be disclosed to ensure that the consumer has the appropriate information to make an informed choice. How far financial institutions must go to ensure their customers pay attention to the disclosure remains an open question.

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Dove Consulting, a division of Hitachi Consulting, is a Boston-based consulting firm specializing in strategy and organization effectiveness. Dove's value proposition—deep expertise for immediate value, sincere collaboration with clients, and the delivery of clear results—has enabled the firm to become a highly valued and trusted advisor to leading companies and their executive teams all over the world. Founded in 1981, Dove offers deep expertise in four industry areas: financial services, consumer broadband, consumer packaged goods, and high technology.

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