

Why Is It Still Branded a Checking Account?

Consider the following facts:

- Checks now account for less than 20% of the transaction mix of most retail banks, and check volume is declining by 4+% annually.
- Debit is by far and away the big growth driver, adding anywhere from 15 to 25% per annum for retail banks.
- The majority of DDA accounts in the U.S. continue to carry 'checking' as a lead brand, often modified by words like regular, free, or premier. In fact, 47 of the 48 free checking products offered by the 50 largest banks in the U.S. are branded 'Free Checking' or some near variation.

Despite the fact that consumers have changed their behavior and have replaced many of their checks with either debit or bill pay, we as a banking industry have continued to brand DDA accounts with the word 'checking'. It's traditional and it's certainly not going to raise any eyebrows, but is it as safe as we might think? We would say not. We think that retail banks are inviting innovative competitors to enter the DDA business with brands that strike a more emotional chord with retail customers. In essence, we believe that the 'checking' brand could go the way of the 'MP3 player' brand, and be replaced by the equivalent of the 'iPod' brand. The implication of this is significant – the likely innovator of both a new and edgy brand along with a new and edgy 'checking' account product will most likely not come from within the industry.

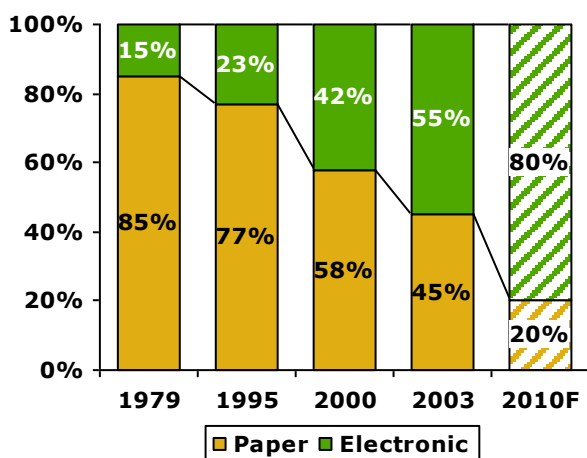


The Shift to Electronic Transactions

The brand 'checking' as we know it is quickly becoming obsolete, and consumers have embraced and fostered this evolution. No longer just a provider of cash and check services, today's 'checking' accounts offer a broad mix of access devices. Retail bank customers have migrated to electronic access devices because they find them more convenient, more accessible, and faster than traditional forms of payment. Current trends suggest that consumers prefer to access their accounts electronically, exchanging cash and checks for debit cards and online bill pay. In addition, government agencies are increasingly distributing state benefits such as child support and unemployment via ACH and debit, while businesses now utilize remote capture to convert checks to ACH, streamlining the payment process.

Due to wide application and integration, electronic access devices have diminished check check volumes at an accelerating rate, currently 4.3% per annum. Conversely, electronic payments have grown from 23% of non-cash consumer payments in 1995 to 55% in 2003 and are projected to command 80% by 2010. Checks, on the other hand, represent less than 20% of the transaction mix of most financial institutions. It is clear that card and electronic access devices have emerged as the clear preference for banking customers.

Non-Cash Payments Mix, 1979-2010F



Electronic Payments Annualized Δ in percentage points

1979-1995	+0.5
1995-2000	+3.8
2000-2003	+4.3
2003-2010F	+5.5

Source: Federal Reserve; 2010 forecast based on Dove estimates

The Rise of Debit

In 2006, debit became the most widely used form of electronic payment, with 329 million debit cards swiped for 26.6 billion purchases. It is no surprise that debit cards have fueled the migration from paper to electronic payments. Given its strong annual growth, currently around 24%, debit will continue to drive the displacement of cash and checks.

For financial institutions, increased debit usage presents several financial benefits. Debit cards yield higher revenue per transaction than checks. Compared to an average of \$0.52 for signature debit and \$0.23 for PIN debit, checks generate just \$0.18 per payment. The industry average for combined PIN and signature debit usage is 16 transactions per active card per month, but best-in-class issuers are achieving an average of 23 signature POS transactions, which provides financial institutions with greater incentive to promote migration from low to high value access devices like debit.

Benefits of Transaction Migration

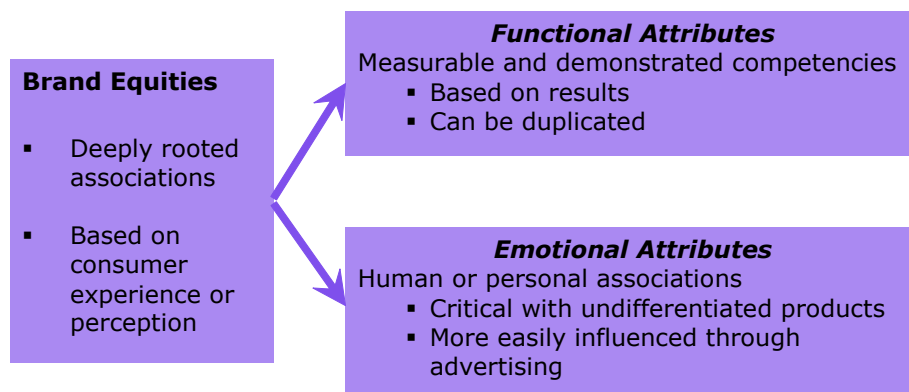
Consumers access their checking accounts primarily through payments and choose their account relationships according to the variety of products and services offered. Since consumer trends clearly suggest that electronic instruments are the preferred mode of access to checking accounts, it is important for financial institutions to offer products that meet these preferences.

The case for transaction migration is even more compelling when considering the importance of payments from a profit standpoint. On average, payments comprise 35 to 40% of non-interest income for retail banks, with some as high as 50%. Sustaining payment volumes and biasing this volume to higher revenue electronic access devices is therefore crucial to the bottom line.

Competitive Advantages of Effective Branding

In a time when the financial benefits of electronic transactions are far more attractive than those of checks, playing to consumer preferences for electronic access would seem to be a logical strategy for marketing checking products. Most banks, however, have failed to capitalize on this opportunity, leaving themselves susceptible to the potential onslaught of more forward-thinking competitors and new entrants.

Brands can carry functional or emotional attributes that appeal to consumers in different ways. Unfortunately, the vast majority of banks have not applied this basic reality to depository accounts. Today's 'checking' products are generally similar across banks; features and services offered in various product categories are consistent regardless of the bank's size or geographic reach. The undifferentiated nature of checking accounts suggests that some sort of emotional branding would serve financial institutions well.



Examples of Functional and Emotional Branding

<i>Functional</i>		<i>Emotional</i>
MP3 Player	→	iPod
Car	→	911 Turbo
PC	→	ThinkPad
Chocolate	→	Dove Bar
Ice Cream	→	Ben & Jerry's

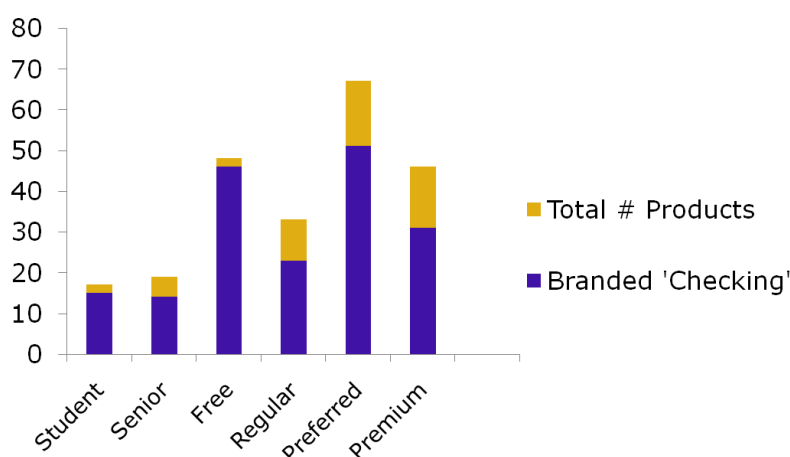
More specifically, we believe that checking account brands should appeal to the consumer preferences for debit and online access devices. They should provide clear meaning to the customer and differentiate themselves from competing products with seemingly similar offerings. Effective branding of checking accounts is particularly important because of proliferation and lack of differentiation. Checking accounts are accessible to all virtually consumers and generally offer the same products and services. By building deeply-rooted associations and reinforcing positive perceptions in the minds of consumers,

great brands build customer loyalty and retention, reinforce purchase decisions, and attract new customers, while creating barriers to imitation.

Prevalence of Generic Checking Account Brands

Despite the significant changes in consumer banking trends, most banks have not branded their checking accounts creatively or uniquely. Their brands reflect neither the functional attributes in offering electronic access devices nor the emotional attributes of convenience, accessibility, or speed for the consumer. The vast majority of checking accounts of the top 50 banks in the U.S. continue to be branded with generic names such as 'Student Checking' or 'Regular Checking.'

Relative Share of Generic Brands from Top 50 U.S. Banks



Free checking products are especially devoid of originality. In fact, 98% of the free checking products offered by the 50 largest U.S. banks are branded in some form or fashion with the words 'Free Checking'. A few banks use adjectives to modify the notion of free checking, but to the point of absurdity. Consider just how differentiated the following brands are: 'More than Free', 'Completely Free', 'Sincerely Free', 'Simply Free', 'Totally Free', or 'Absolutely Free'.

There are some exceptions to the generic brand, such as State Street's 'Silver Circle Checking' for customers over the age of 55, Key Bank's 'Advantage Checking', and Bank of the West's 'First Choice'. ING is one of the few banks that play to the clear consumer preference of debit and online, branding their all-electronic paperless checking account 'Electric Orange'. However, with mobile banking and other access devices looming on the horizon, financial institutions should expect new entrants to innovate and create emotional brand connections to consumers.



Given the decline of checks and growth of electronic payments, the 'checking' account brand has become outdated. Most banks have continued along the

traditional path of generic functional branding and have not considered the potential risks.

The challenge for financial institutions is to move away from the comforts of their generic brand portfolios and devise an approach that attracts customers on a personal level. The impending entry of new competitors offering new electronic access devices, such as mobile banking, further demonstrates the urgency and necessity of this issue.

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