

Chicago Tribune

Sizing up customers Are you happy with your bank? More and more, that may depend on how happy your bank is with you.

Sunday, November 8, 1998

By Melissa Wahl

Chances are that every time you do business with your bank these days, it is using an increasingly sophisticated computer analysis to judge your value.

Raise your checking account balance, and your rating is likely to go up; call the customer service center twice a day, and your popularity plummets. Customer profitability ratings are something nearly all big banks are working on now, arguing that they must know how much money they can make-or how much they're losing-on individual customers to stay competitive.

Critics complain that banks are taking it too far, particularly in imposing new fees on less profitable customers. By the end of the year, more than 55 percent of the country's banks plan to be able to calculate customer profitability, according to Gartner Group Mentis Financial Services in Durham, N.C. Right now the customer rating process is invisible to you, the consumer, except when a teller decides to waive a fee because you are a valuable customer, or when you are slapped with a new fee because you haven't been carrying your weight.

But your status as a bank customer will become increasingly clear over the next few years as banks hone their customer rating skills. Sometimes the message will come through even more fees; other times through courtesy calls from bankers making sure you are happy with their bank. Bankers say they don't intend to use it to weed out unprofitable customers-they'd rather make them profitable.

Eventually, you should be able to lean across the teller counter to sneak a peak at a screen that will flash your profitability score with the bank: one-through-five; A-through-D; gold, silver or bronze. "We are moving toward the point where tellers and front-line people will know how profitable you are and will determine how they approach you about business," said Gerard Cassidy, a bank analyst with Tucker Anthony in Boston.

A handful of banks across the country are there already-which is a technological feat-but no banks in Chicago say they plan to bring customer profitability information right up to

the teller line. LaSalle Banks, however, says it used profitability information to help design a new line of products this year.

And Harris Bank is analyzing transaction behavior and costs, as well as holding focus groups and doing surveys, to decide what its future product line will look like. Banks have been reticent about discussing details of their profitability efforts, stemming partly from competition, but largely from a fear that consumers will retaliate against such efforts, which often lead to higher fees for unprofitable customers. The profile of a profitable bank customer might surprise you. It varies considerably from bank to bank, but generally profitable customers keep high balances and a number of accounts, and have been with a bank for several years.

They are not necessarily wealthy; in fact, people living on the edge can be the best revenue generators-as long as they are paying off their loans-because they often bounce checks and pay other fees.

Kim Sutherland, a bank consultant at Market Line Associates in Atlanta, says banks in other parts of the country also are secretive about their customer profitability analyses because of the beating First Chicago Corp. took in the media and even in Congress when it announced in 1995 that it would start charging \$3 per visit to tellers under certain circumstances.

That fee came after First Chicago, now called Bank One Corp., had dissected its retail bank profitability at the household level to understand where it did and did not make money. "I've heard more fear," Sutherland said. "Every bank is talking about what happened to First Chicago." First Chicago's move made excellent business sense but was bad for public relations.

The fee was meant to direct customers away from teller lines toward less expensive ways of doing business, such as automated teller machines-something that was accomplished almost immediately. And two-thirds of First Chicago's new checking accounts now are the self-service kind, which have free ATM access and telephone service but include the \$3 teller fee, said spokesman Thomas Kelly.

Perhaps most telling is that other banks have followed First Chicago's route. But castigation from consumer groups accompanies such moves, as it did last month when Fleet Financial Group in Boston began charging a \$2 teller fee. "Fees are the ugliest new aspect of banking, and without the computer (analyses), they couldn't have done that," said Robert K. Heady, the founding publisher of Bank Rate Monitor. Bank advocates say the industry has to do something to compensate for shrinking profit margins between loans and deposits, and heavy competition from non-banks, such as mutual funds and brokerages.

Banks turned to fee income in the late 1980s and early '90s, when the industry was struggling and consultants encouraged them to act more like other businesses in determining their pricing. "The consumer tends to forget that banks are running a business, and shame on the banks for not getting that point across over the years," said George Morvis, president and chief executive of Financial Shares Corp., a financial services consulting firm in Chicago.

Eventually, customer ratings will divide the successful big banks from the unsuccessful ones, said Gerard Cassidy from Tucker Anthony. "The highly profitable banks in the 21st century will develop systems that identify profitability down to the individual household," he said. He and others emphasize that banks have a long way to go before their profitability measurements are sufficiently honed.

Even a survey of banks by Gartner Group found only 14 percent think their profitability assessments are accurate. One reason more banks are measuring profitability is that they have lost their best customers to mutual funds, brokerages and other non-bank firms over the years, and although they are trying to gain them back, they also are struggling to make the ones that are left more profitable, analysts say.

A popular statistic tossed around is that 20 percent of banks' customers generate 80 percent of their profit. Market Line Associates says the situation is more dire, with 20 percent of a banks' consumer customers bringing in 140 percent to 150 percent of overall income. By contrast, the bottom 20 percent are money-losers for banks, draining as much as 50 percent from profits.

"People of that orientation are fortunate today, because they are being subsidized by other households that are paying well more, and oftentimes five or 10 times more, for their services," said James McCormick at First Manhattan Consulting Group in New York. Still, the objective is not to kick out the less valuable customers, consultants say. "You would not take all the fives (the lowest rating at some banks) and close all those accounts," said Sutherland at Market Line. "Hopefully, you would look at the behavior behind why they got there."

Maybe that customer could be persuaded to switch to an electronic account that would cost the bank less, for example. "Or maybe I'm a five right now because I'm a medical student, but I'm going to become a profitable customer when I need a loan for my clinic," Sutherland said.

Another major part of profitability analysis, and one that banks are more willing to discuss, is how it helps them target and keep their best customers. Bank One now has a sophisticated system that "can predict when a premier client is going to defect," said Kenneth Stevens, who heads retail operations for the bank.

Armed with that information, Bank One piloted a program where employees called customers when it seemed they might be dissatisfied with the bank. In half of the calls, they not only retained the customer, but sold at least one additional product, Stevens said. Customer segmentation-dividing customers by demographics and other measures-is becoming popular among banks of all size, but many small banks use it only for targeting their sales efforts, and not to determine customers' profitability.

Wintrust Financial Corp. in Lake Forest, for example does not use the profitability part of its segmenting software for its community banks. "We've grown as fast as we have because we treat customers the same: nicely. Big banks add lots of fees to unprofitable customers, which is against what we're all about as a community bank," said Robert Key, who runs marketing for Wintrust.

Copyright © 1998 Chicago Tribune. All Rights Reserved.

