



CORNERSTONE
ADVISORS

ACCESSORIZING THE CHECKING ACCOUNT

Improving the Bank/Customer Value Equation

RON SHEVLIN

Director of Research
Cornerstone Advisors

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INTRODUCTION

In a recent survey of senior executives at mid-size financial institutions conducted by Cornerstone Advisor, nearly all (95% to be exact) said that “customer experience improvement” was a top objective of their digital transformation efforts. In contrast, just four in 10 cited product improvements as a top objective.

That’s short-sighted. Improving the customer experience of the checking account—which is diminishing in importance in consumers’ financial lives—is like installing an escalator on a horse buggy. The escalator adds some convenience, but what’s really needed is a whole new and different product.

CHECKING ACCOUNTS HAVE BECOME PAYCHECK MOTELS

Community-based institutions must deal with the fact that checking accounts don’t play the same role in consumers’ financial lives that they used to. This is fueled by a trend we call **deposit displacement, or the displacement or diversion of funds from traditional to non-traditional accounts**. Here are four examples of how deposits are being displaced from checking accounts:

- 1. Health savings accounts.** Deposits in HSAs grew from \$14 billion in 2012 to roughly \$45 billion at the end of 2018. Where did that money come from? It was siphoned away from consumers’ primary checking accounts and into HSA accounts that are probably not held at the same banks as the primary checking accounts.
- 2. Person-to-person (P2P) payments.** Consumers made more than \$60 billion in payments through Venmo in 2018. While that’s impressive, a source tells us that Venmo has \$2.2 billion of funds sitting in users’ accounts—and not in those users’ bank accounts. In late 2018, Square’s former chief financial officer told a conference audience that Square Cash users had so much money sitting in their accounts that the company was evaluating what banking services it could offer to deploy that money.
- 3. Retailer mobile apps.** Starbucks’s recent SEC filings revealed that the merchant has \$1.6 billion in deposits on customers’ loyalty cards. Other retailers like Walmart and CVS have followed suit. The result is a slow draining of funds from consumers’ checking accounts.
- 4. Robo-advisor tools.** Consulting firm A.T. Kearney estimated that assets held in robo-advisor tools will reach \$2.2 trillion by 2020. While this might point to a business opportunity for banks, it’s also a threat. Kearney believes half of those assets will come from currently non-invested assets—in other words, bank deposits.

The result of these behavioral changes is that—despite most consumers having one—the importance of checking accounts is diminishing in consumers’ financial lives. In effect, checking accounts have become “paycheck motels”—temporary places for people’s money to stay before it moves on to bigger and better places.

COMPETING ON PRODUCT INNOVATION

Strategists must determine if investing in experience improvements really creates an economic return and/or competitive advantage. Importantly, they must answer two questions: 1) How much will it cost to be the industry leader in customer experience? and 2) What competencies or capabilities will be required to achieve and maintain that leadership position?

In their book *The Discipline of Market Leaders*, the authors posited that industry leaders excel in one of three disciplines—product leadership, customer intimacy or operational excellence—while maintaining competitive positions in the other two.

Only the largest banks truly have the resources (i.e., money, technology and people) to be among the leaders in customer experience.

Smaller institutions don’t have the money to invest, and their reliance on third-party vendors for technology means they probably don’t have the capabilities or competencies to be the customer experience leader. For the majority, competing on customer intimacy or product leadership is the necessary competitive discipline.

There’s another path for community-based institutions to compete: “Accessorize” the checking account with value-added services that consumers already purchase, use and want.

Based on a Q2 2019 survey of 2,506 US consumers with a checking account and smartphone, this report will demonstrate the demand and opportunity for mid-sized banks and credit unions to pursue this strategy.¹

¹ Throughout the report we refer to the following generational segments: 1) Younger Millennials, 21 to 29 years old; 2) Older Millennials, 30 to 38 years old; 3) Gen Xers, 39 to 53 years old; and 4) Baby Boomers, 54 to 73 years old.

CHALLENGES FACING COMMUNITY-BASED FINANCIAL INSTITUTIONS

Consumer surveys often find that small and mid-size banks and credit unions enjoy higher levels of trust and Net Promoter scores than do the megabanks (i.e., Bank of America, Citibank, JPMorgan Chase, Wells Fargo). And yet, Millennials are taking their business to megabanks and large regionals.

Millennials—consumers between 21 and 38 years old—are those most likely to be in the market for checking accounts. However, just 24% of Millennials have their primary checking account with a credit union or community bank. Nearly half—45% to be exact—have their account at one of the four megabanks (Table A).

Table A: Type of Primary Financial Institution by Generation

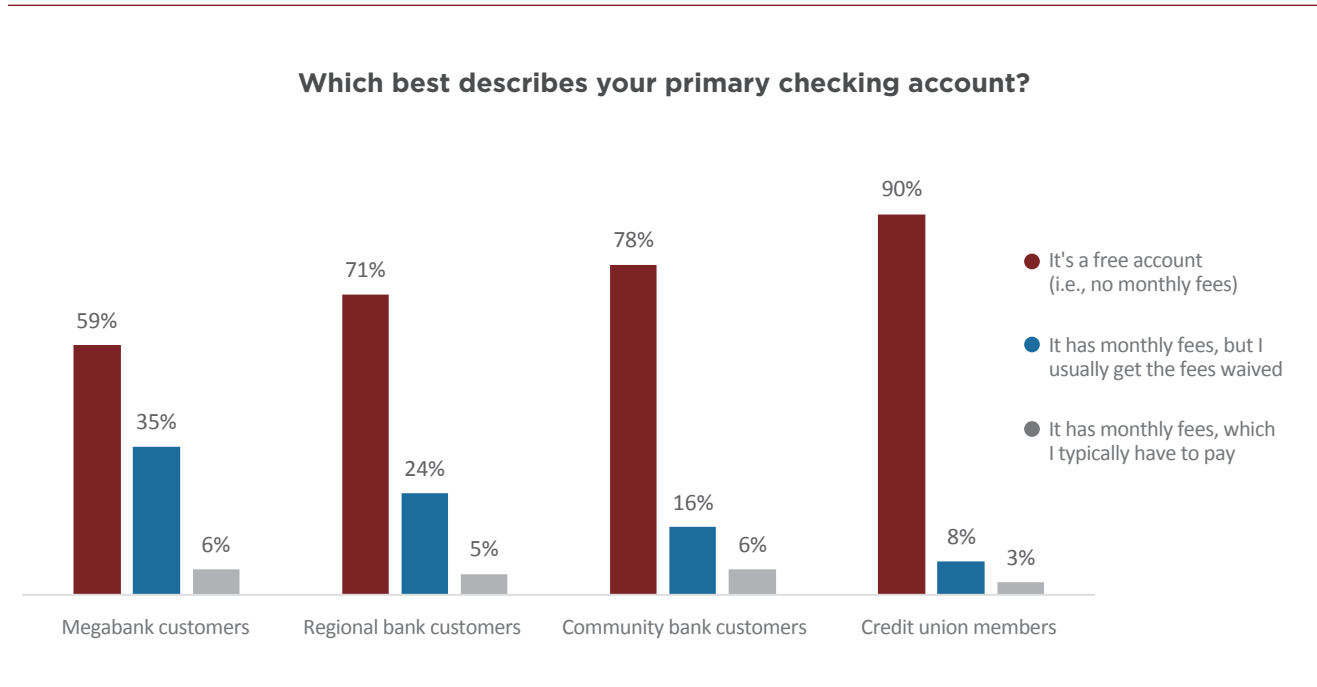
	Percentage of Consumers That Consider the Following Type of Financial Institution Their Primary Provider			
	Younger Millennials	Older Millennials	Gen Xers	Baby Boomers
Megabank	45%	46%	37%	34%
Regional bank	23%	20%	23%	24%
Credit union	16%	13%	18%	17%
Community bank	8%	11%	13%	19%
Other	4%	5%	7%	5%
Digital bank	3%	5%	2%	1%

Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

Small and mid-size institutions must also grapple with the fact that:

- **Few consumers pay a monthly checking account fee.** Despite the fact that many institutions have done away with free checking, few consumers actually pay a monthly fee. Overall, 5% of consumers pay a monthly fee, and among credit union members, it's just 3%. The majority of fee-based account holders get fees waived by maintaining minimum balances or opening a specified number of accounts (Figure 1).

Figure 1: Types of Checking Accounts Held by Consumers by Type of Institution



Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

- Consumers want rewards—but don't get them at small and mid-size institutions.** The top three features consumers look for when they're in the market for a new checking account are convenient branch locations, low monthly fees, and the best rewards program (Figure 2). However, just 10% of community bank customers and 16% of credit union members say the debit card associated with their checking account earns rewards. That's in contrast to 26% of megabank customers and 20% of regional bank customers (Figure 3).

Figure 2: Checking Account Selection Factors

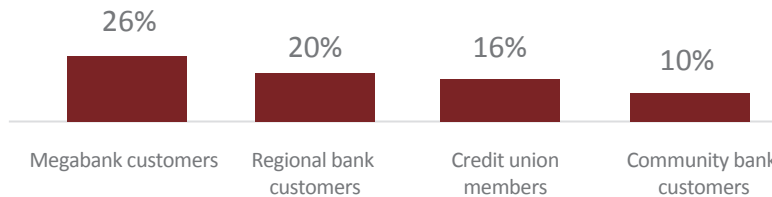
Factors Most Important to Consumers Looking for a New Checking Account
(Percentage of respondents citing the factor)



Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

Figure 3: Debit Card Rewards

Percentage of Consumers Who Earn Debit Rewards



Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

DEMAND FOR VALUE-ADDED SERVICES

Consumers buy a lot of products and services. Smart marketers have learned that there are a host of value-added services associated with the core products that consumers are willing to buy. We calculated consumers' demand for a variety of services and their interest in obtaining these services from their banks and credit unions.

DIGITAL SERVICES

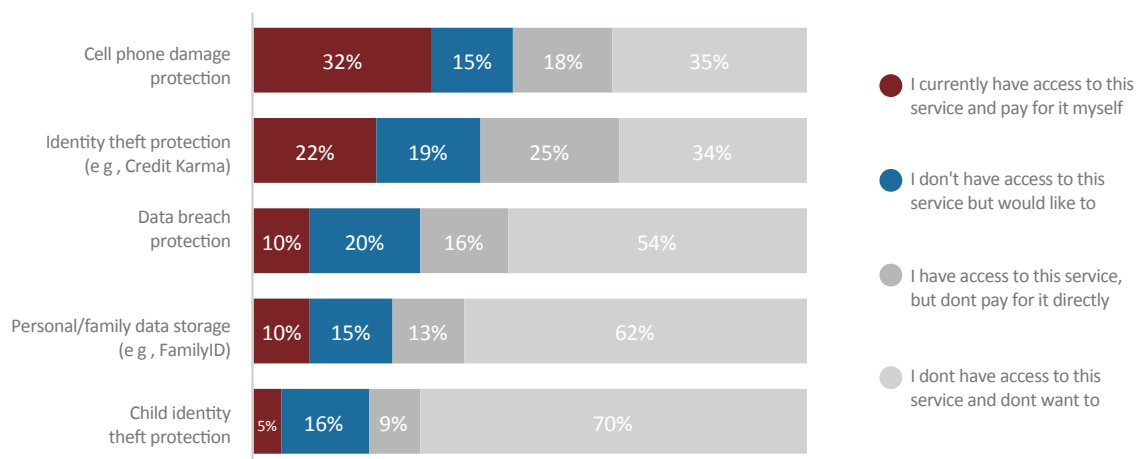
The rapid adoption and use of smartphones have made consumers aware of two realities: 1) Those devices break, and 2) There are bad people misusing other people's personal data.

Smartphone adoption has given rise to a new set of services. Half of consumers now have access to cell phone damage protection, with roughly a third paying for the service themselves. Fifteen percent of consumers don't have access to this service but would like to.

In addition, nearly half of consumers have access to identity theft protection with a little more than one in five paying for it themselves. Almost one in five consumers express interest in this service (Figure 4).

Figure 4: Digital Value-Added Services

Please indicate whether you currently have access to the following services



Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

Services like data breach protection, personal/family data storage and child identity theft protection are less popular, but younger consumers express greater interest in them than older consumers do (Table B).

Table B: Interest in Digital Value-Added Services by Generation

Percentage of Consumers That Have Access to Service and Pay for It, or Don't Have Access But Would Like To

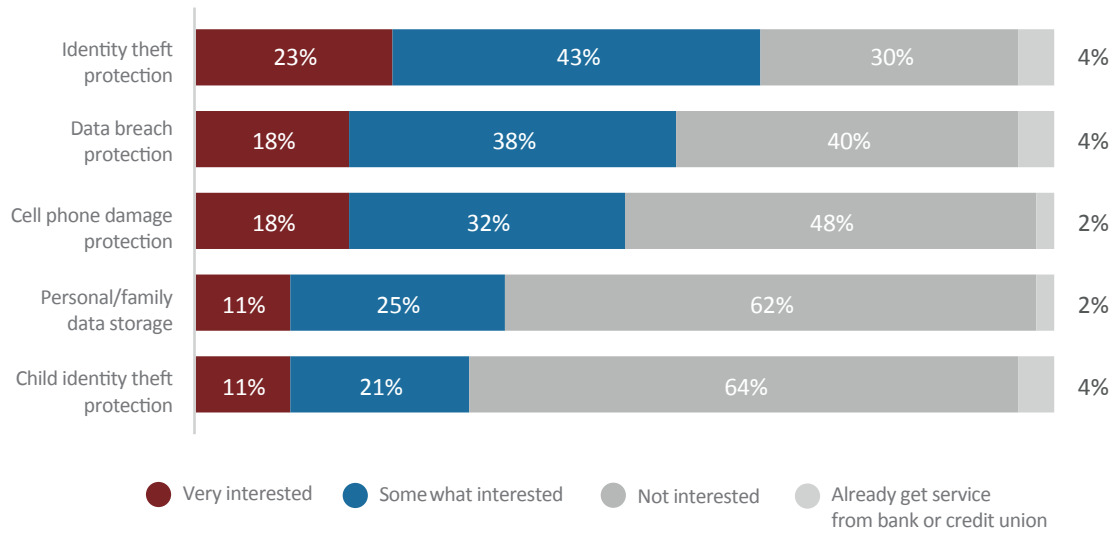
	Younger Millennials	Older Millennials	Gen Xers	Baby Boomers
Cell phone damage protection	45%	46%	37%	34%
Identity theft protection	23%	20%	23%	24%
Data breach protection	16%	13%	18%	17%
Personal/family data storage	8%	11%	13%	19%
Child identity theft protection	4%	5%	7%	5%

Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

Consumers show a strong interest in obtaining these services from a bank or credit union. Nearly a quarter of consumers are very interested in getting identity theft protection from a financial institution, and almost one in five are very interested in getting data breach protection or cell phone damage protection (Figure 5).

Figure 5: Interest in Obtaining Digital Value-Added Services from a Bank or Credit Union

**How interested would you be in getting the following services from a bank or credit union if they were bundled with a checking account?
(A small monthly fee would apply, dependent on the number of services you choose.)**



Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

Again, there are differences in interest by age group. Three-quarters of Millennials express interest in getting identity theft protection from a financial institution. And close to half of them show interest in getting data storage and child identity theft protection (Table C).

Table C: Interest in Obtaining Digital Value-Added Services from a Bank or Credit Union

Percentage of Consumers Somewhat or Very Interested in Obtaining Service from a Bank or Credit Union

	Younger Millennials	Older Millennials	Gen Xers	Baby Boomers
Identity theft protection	75%	75%	66%	56%
Cell phone damage protection	63%	60%	50%	38%
Data breach protection	60%	61%	58%	49%
Personal/family data storage	44%	49%	38%	12%
Child identity theft protection	44%	45%	38%	23%

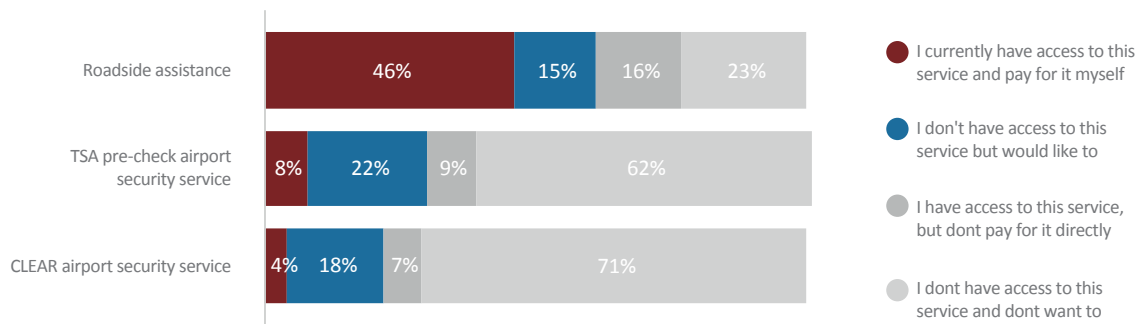
Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

TRAVEL-RELATED SERVICES

Travel-related services like roadside assistance are very popular with consumers. More than 60% currently have access to this service and the majority pay for it directly. TSA pre-check security access and the CLEAR airport security service are less popular, but roughly one in five consumers express interest in obtaining these services (Figure 6).

Figure 6: Travel-Related Services

Please indicate whether you currently have access to the following services



Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

As with many of the services listed in this report, younger consumers display a stronger interest in travel-related services than older consumers do. In fact, the percentage of Younger Millennials interested in travel-related services is twice that of Baby Boomers (Table D).

Table D: Interest in Purchase-Related Services by Generation

Percentage of Consumers That Have Access to Service and Pay for It, or Don't Have Access But Would Like To

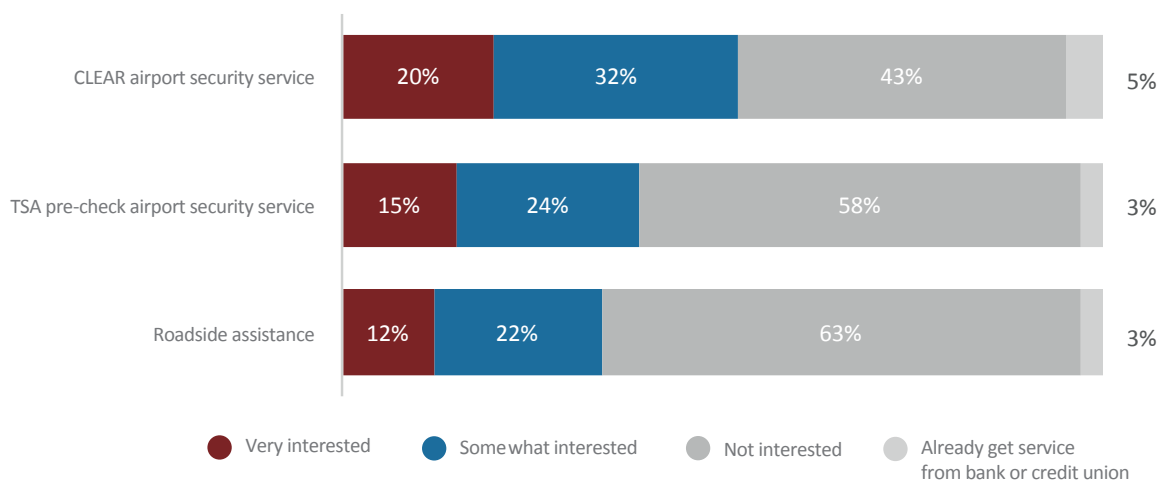
	Younger Millennials	Older Millennials	Gen Xers	Baby Boomers
Roadside assistance	52%	59%	63%	64%
TSA pre-check airport security service	37%	32%	28%	25%
CLEAR airport security service	30%	28%	22%	15%

Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

Half or more of all consumers express an interest in getting roadside assistance through their bank or credit union. Nearly 40% are open to getting the TSA pre-check from their financial institution, and a third show interest in getting the CLEAR service from their bank or credit union (Figure 7).

Figure 7: Interest in Obtaining Travel-Related Services from a Bank or Credit Union

**How interested would you be in getting the following services from a bank or credit union if they were bundled with a checking account?
(A small monthly fee would apply, dependent on the number of services you choose.)**

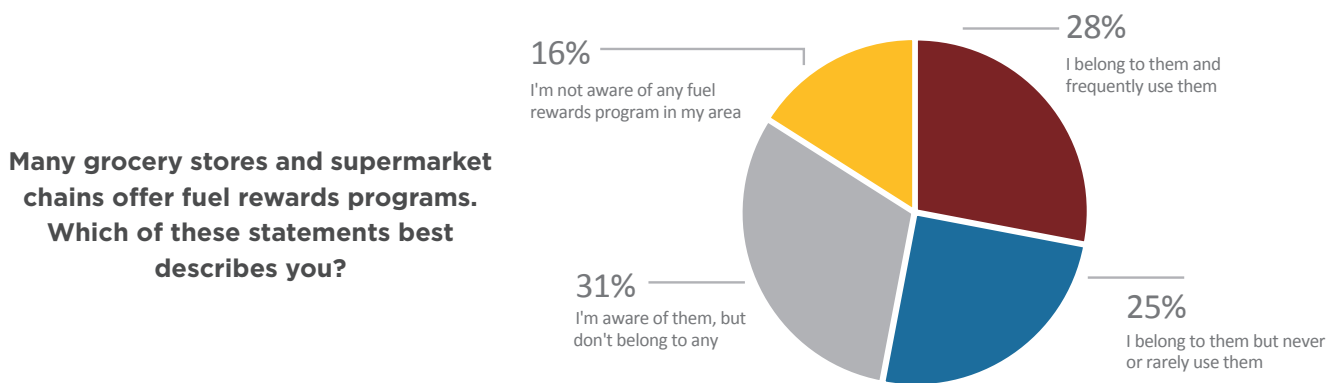


Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

FUEL REWARDS

Many grocery stores and supermarket chains offer fuel rewards programs to help customers save money on gas prices. Just over half of consumers belong to one or more programs, and 28% use them on a frequent basis (Figure 8).

Figure 8: Fuel Rewards Program Participation



Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

Consumers' participation in these programs are likely impacting their use of their banks' and credit unions' debit cards. Four in 10 Millennials have paid with cash instead of their debit or credit cards in the past year in order to get a discount on gas prices. And roughly three in 10 of all consumers have paid with a specific credit card in order to get a discount (Table E).

Table E: Actions Taken to Get Discounts on Gas Prices

Percentage of Consumers That Have Done the Following in the Past Year to Get a Discount on Gas Prices

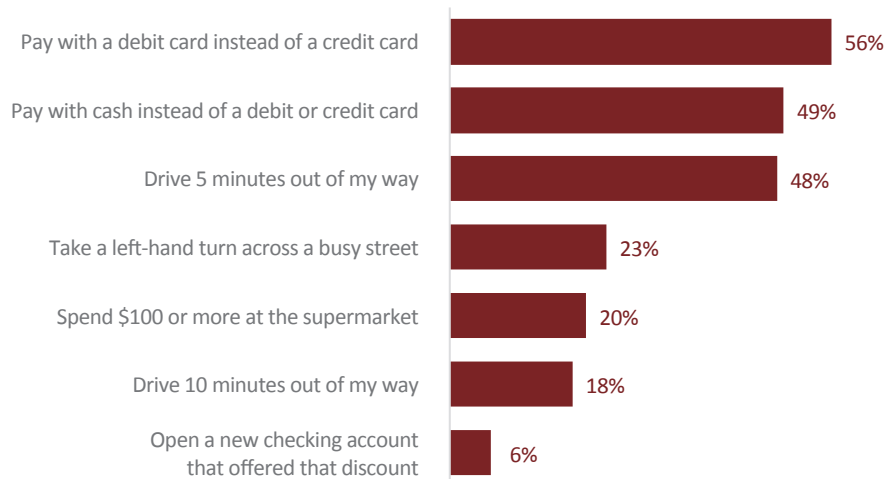
	Younger Millennials	Older Millennials	Gen Xers	Baby Boomers
Use a loyalty card or app from a gas company	33%	37%	30%	21%
Pay with cash instead of a debit or credit card	41%	39%	32%	25%
Pay with a specific credit card	30%	31%	28%	33%
Use a grocery or supermarket fuel rewards card	39%	45%	46%	53%
Buy something else at the gas station	20%	20%	18%	12%

Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

Consumers could be incentivized to make more use of their financial institutions' debit cards. A little more than half say they would pay with a debit card instead of a credit card in order to get a 10-cent discount on gas (Figure 9). In addition, 11% of Younger Millennials would even open a new checking account in order to get that discount.

Figure 9: Fuel Rewards Program Participation

Which of the following would you do to save 10 cents a gallon on gas?



Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

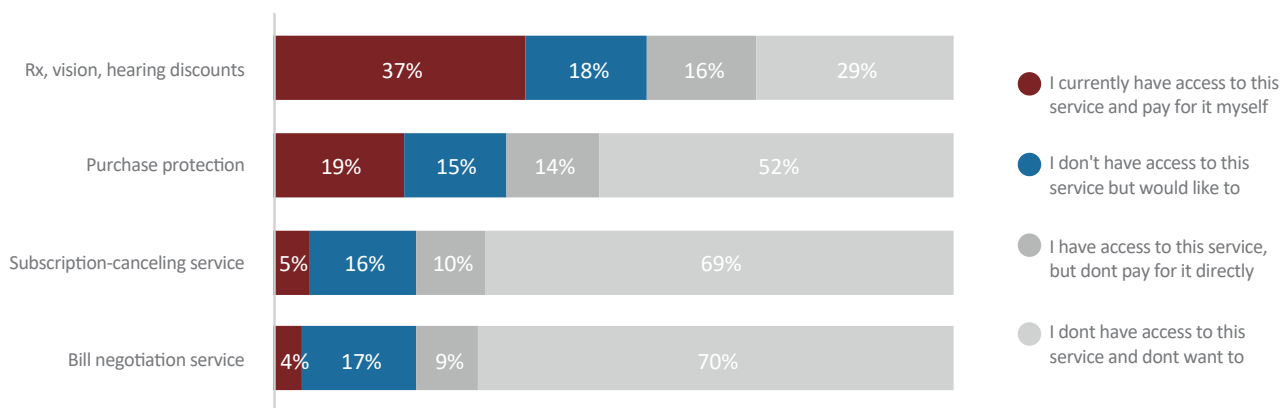
PURCHASE-RELATED SERVICES

Who doesn't love a discount? Some consumers are even willing to pay to get one. In fact, 37% of consumers say they pay to get prescription, vision and hearing discounts. Another 18% are interested in gaining access to them, while 16% have access to those discounts without having to pay for them.

Purchase protection plans and extended warranties have been around for a while, and nearly one in five consumers say they have access to these plans and currently pay for them. Subscription-canceling and bill negotiation services are newer entries in the market, yet roughly one in six consumers express interest in getting these services (Figure 10).

Figure 10: Purchase-Related Services

Please indicate whether you currently have access to the following services



Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

Younger Millennials, in particular, show an interest in these services, with Older Millennials not far behind. Even about one in five Gen Xers express interest in bill negotiation services and discounts (Table F).

Table F: Interest in Purchase-Related Services by Generation

Percentage of Consumers That Have Access to Service and Pay for It, or Don't Have Access But Would Like To

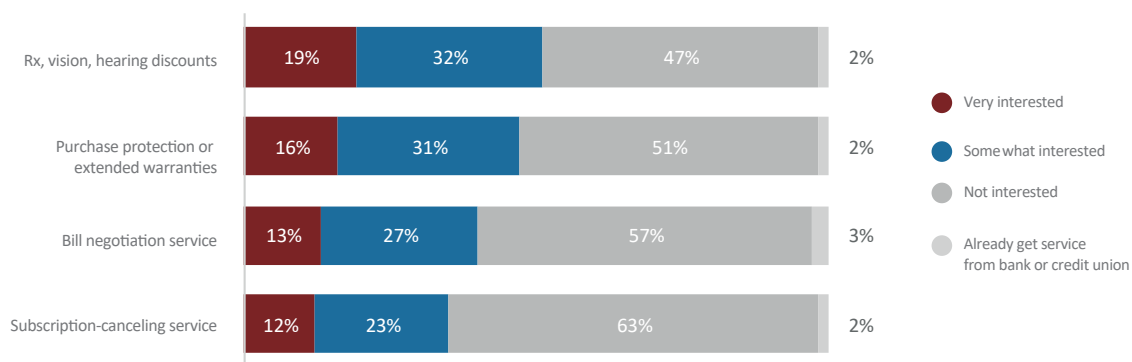
	Younger Millennials	Older Millennials	Gen Xers	Baby Boomers
Rx, vision, hearing discounts	51%	56%	58%	54%
Purchase protection/warranties	42%	41%	34%	28%
Subscription-canceling service	34%	32%	21%	9%
Bill negotiation service	29%	30%	22%	10%

Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

Close to half of consumers are interested in getting the discounts and purchase protection services from a financial institution. And four in 10 say they would be somewhat or very interested in getting bill negotiation services through their bank or credit union (Figure 11).

Figure 11: Interest in Obtaining Purchase-Related Services from a Bank or Credit Union

**How interested would you be in getting the following services from a bank or credit union if they were bundled with a checking account?
(A small monthly fee would apply, dependent on the number of services you choose.)**



Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

It’s the Baby Boomers who are depressing demand for these services from financial institutions, as fewer Boomers are interested in getting bill negotiation and subscription-canceling services from a bank or credit union compared to the other generations (Table G).

Table G: Interest in Obtaining Purchase-Related Services from a Bank or Credit Union

Percentage of Consumers Somewhat or Very Interested in Obtaining Service from a Bank or Credit Union

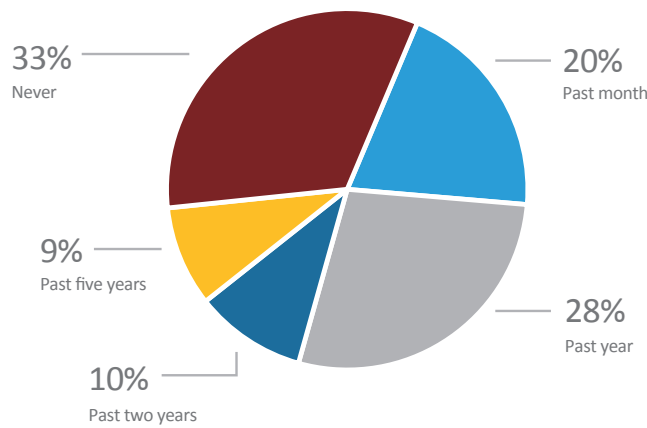
	Younger Millennials	Older Millennials	Gen Xers	Baby Boomers
Rx, vision, hearing discounts	59%	55%	51%	41%
Purchase protection or warranties	53%	53%	48%	38%
Bill negotiation service	52%	54%	43%	25%
Subscription-canceling service	51%	45%	37%	19%

Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

Price-match guarantees have also become a popular service, and nearly half of consumers purchased something that had a price match guarantee in the past year (Figure 12). However, seven in 10 consumers say it's a "real pain" or "challenge" to track prices. Slightly more than two-thirds of Millennials and Gen Xers are interested in getting price-match guarantees from a bank or credit union (Figure 13).

Figure 12: Price-Match Guarantee Usage

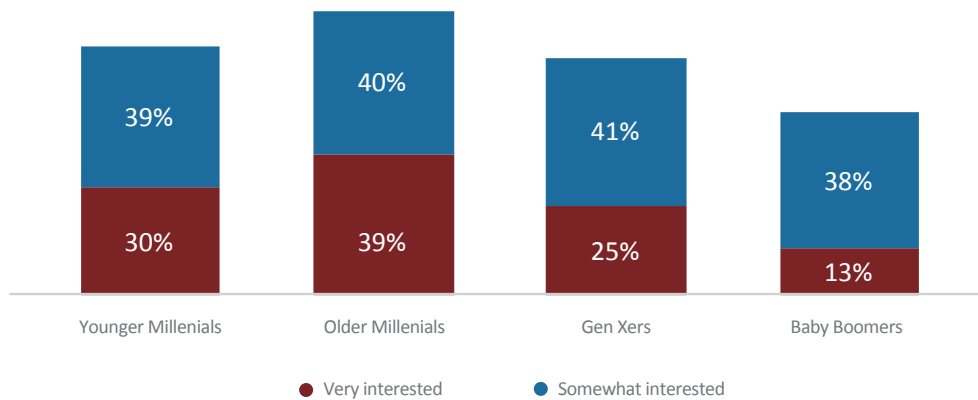
When was the last time you bought something that had a price match guarantee?



Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

Figure 13: Interest in Obtaining Price-Match Guarantee from a Bank or Credit Union by Generation

Percentage of Consumers Interested in Getting Price-Match Guarantees from a Bank or Credit Union



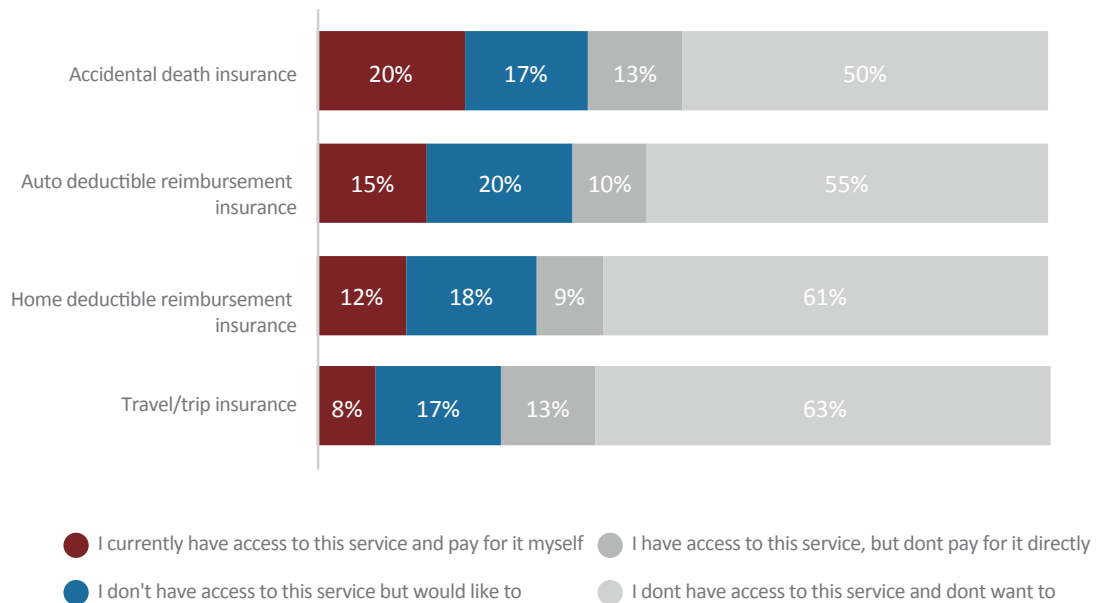
Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

INSURANCE-RELATED SERVICES

Although no more than 20% of consumers currently have access to (and pay for) accidental death insurance, travel insurance, and auto and home deductible reimbursement insurance, nearly one in five said that they'd like to have access to these services. (Figure 14).

Figure 14: Insurance-Related Services

Please indicate whether you currently have access to the following services

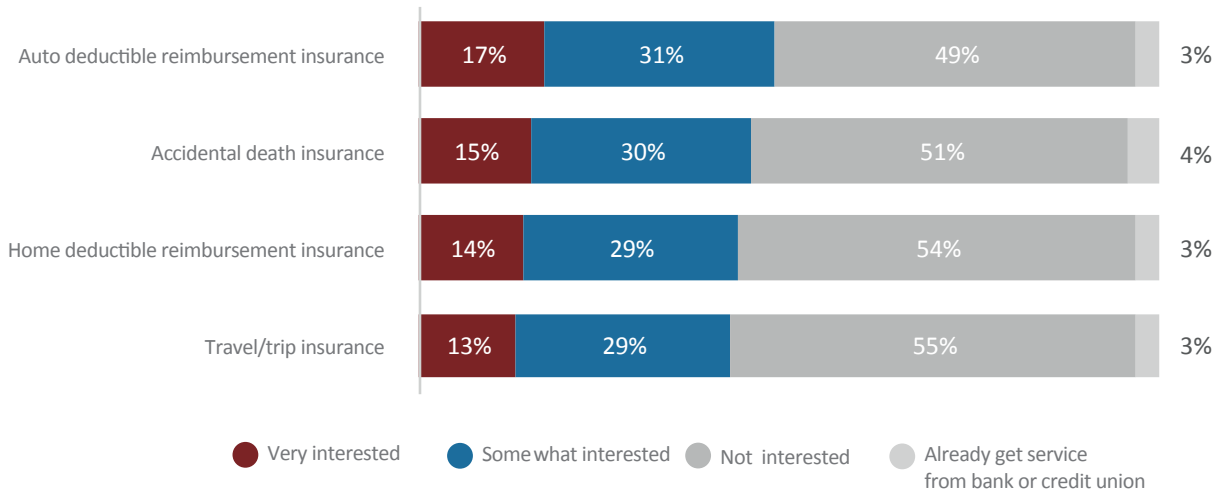


Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

In addition, more than four in 10 consumers express some level of interest in getting all four insurance-related services from a bank or credit union (Figure 15). As with the other services, more Millennials and Gen Xers express interest in getting insurance-related services from a financial institution than do Baby Boomers.

Figure 15: Interest in Obtaining Insurance-Related Services from a Bank or Credit Union

**How interested would you be in getting the following services from a bank or credit union if they were bundled with a checking account?
(A small monthly fee would apply, dependent on the number of services you choose.)**



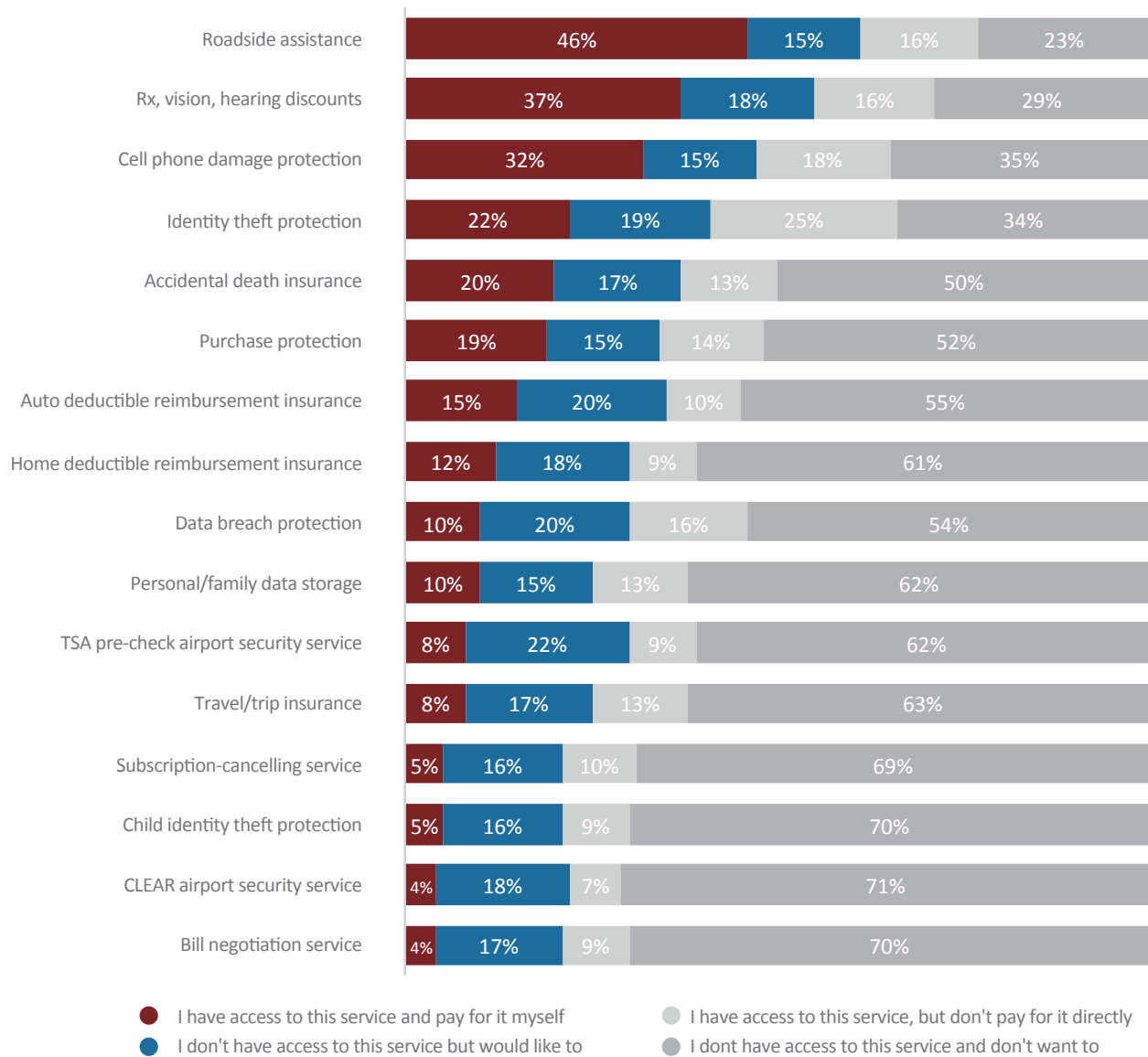
Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

CONCLUSIONS

Overall, there is strong consumer demand for a wide range of value-added services (Figure 16).

Figure 16: Consumer Demand for Value-Added Services

Please indicate whether you currently have access to the following services



Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

Consumers show strong interest in obtaining non-financial services from a bank or credit union—in particular, younger consumers. Just shy of half of the Millennials are interested in getting 11 or more of the 17 services they were asked about from a financial institution (Table H).

Table H: Interest in Value-Added Services from a Financial Institution by Generation

Percentage of Consumers That Are Interested in Obtaining Value-Added Services from a Bank or Credit Union

Number of services consumers are interested in getting from a bank or credit union:	Younger Millennials	Older Millennials	Gen Xers	Baby Boomers
0	12%	10%	16%	21%
1	4%	3%	3%	7%
2	3%	2%	5%	10%
3-5	11%	18%	14%	16%
6-10	25%	22%	23%	22%
11+	45%	44%	39%	23%

Source: Cornerstone Advisors survey of 2,506 U.S. consumers with a checking account and smartphone, Q2 2019

Faced with strong competition for Millennials from megabanks, revenue-generation challenges, and the inability to meet consumers' desire for debit card rewards, community-based financial institutions must find different strategies to compete. They should rejuvenate their checking account offerings by:

- **Bundling value-added services with the checking account.** Digital, purchase, insurance, travel and fuel rewards services are popular with consumers today and many express interest in obtaining these services through a bank or credit union—even for a monthly fee.
- **Packaging the value-added services into bundles.** Consumers express strong interest in getting four particular value-added services from a financial institution: identity theft protection, data breach protection, price match guarantees and roadside assistance. Banks and credit unions should: 1) Bundle these services into a single package at a specific price point; 2) Add cell phone damage protection and Rx, vision and hearing discounts for a second bundle at a higher price point; and 3) Create a super bundle with a majority of the services at the highest price point.
- **Testing category service bundles.** In each of the service categories evaluated—digital, purchase, insurance and travel—there is a wide variation of consumer interest in getting individual services from a financial institution. Banks and credit unions should test offering category bundles—i.e., all digital-related services, or all travel-related services—in a single bundle.

ABOUT

CORNERSTONE ADVISORS



Cornerstone Advisors takes financial institutions from strategy to execution with consulting solutions that address the immediate and evolving challenges of the banking industry. Our experts know fintech, strategy, contracts, performance, technology, mergers and acquisitions, payments, delivery channels and lending—inside and out.

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Have questions
about this report?

Contact:

Ron Shevlin, Director of Research
Cornerstone Advisors

rshevlin@cnrstone.com

480.424.5849