Payments and bank fees: an $82b balancing act

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EY Parthenon
Building a better working world

The EY-Parthenon US Payments and Bank Fees Consumer Survey[1] found that Americans annually pay an aggregate of nearly $82 billion in payments and banking fees, or $311 each on average. One in three consumers has or is ready to switch financial providers due to dissatisfaction with account and card fees. This insight, drawn from the responses of more than 2,000 US consumers, underscores the impact of fees on consumer retention and loyalty.

$82b

annual payments and bank fees paid by US consumers

$311

annual average payments and bank fees per US consumer

As fees are at the center of public attention, banks and payments providers need to consider the impact of fees on the thought process of consumers, necessitating a reevaluation of how fees are assessed and communicated. The challenge extends beyond near-term revenue considerations as institutions must also think about the consumer experience and the value perceived by a younger, more fee-conscious demographic.

Inform fee strategy with consumer insights

In redefining account and card fee structures, the primary objective for banks and payments companies must be to balance short-term revenue goals with the impact on customer lifecycle value.

Consumers recognize that fees are a necessary aspect of receiving financial services. Compared with other industries, account and card fees are even considered "better": 80% of consumers surveyed consider the degree of account and card fees to be fair, and 81% believe that transparency is in line or better.

However, consumers still seek reasonable and commensurate fee levels that reflect the service (and associated costs provided). In parallel, they increasingly seek clarity regarding the fees they are charged and detest fees that come as a surprise, even if they were noted in the fine print.

Overall, nearly half of the consumers surveyed by EY-Parthenon team (45%) find payments and bank fees unreasonable. This number is even higher for younger populations or lower-income earners.

Similarly, these segments also are the most fee sensitive when choosing payments and banking partners. For example, 90% of consumers ages 36 to 45 consider fees to be a significant factor when they choose a new banking service or payment product, according to the survey.

81%

of consumers believe that fee transparency within financial services is better or in line with other industries

Although fees matter to every age group, consumers ages 26 to 45 are up to 50% more fee sensitive than 75+-year-olds when selecting a new financial services provider, according to the EY-Parthenon survey.

Rethink the value of service fees

Aligning fees with consumer expectations also means rethinking the value that these fees represent. Are consumers getting something worthwhile in return for what they pay?

Some fees seem "fair" to most consumers, especially where consumers understand that a service was provided, and where the fee was transparent. For example, a majority of consumers believe that an "over credit limit" fee is reasonable.

In contrast, other fees are considered unreasonable by many consumers. Typically, these are fees where the service is considered a "commodity," or the price is typically seen as too high. Examples of this are ATM fees or paper statement fees.

At the same time, the perception of "reasonableness" changes between demographics and the frequency with which fees are levied. For example, most lower-income consumers would consider "returned payment" fees to be unreasonable, whereas higher-income consumers are more accepting of this fee.

This perception of payments and bank fees is now actively driving churn and shaping the selection of new financial service providers.

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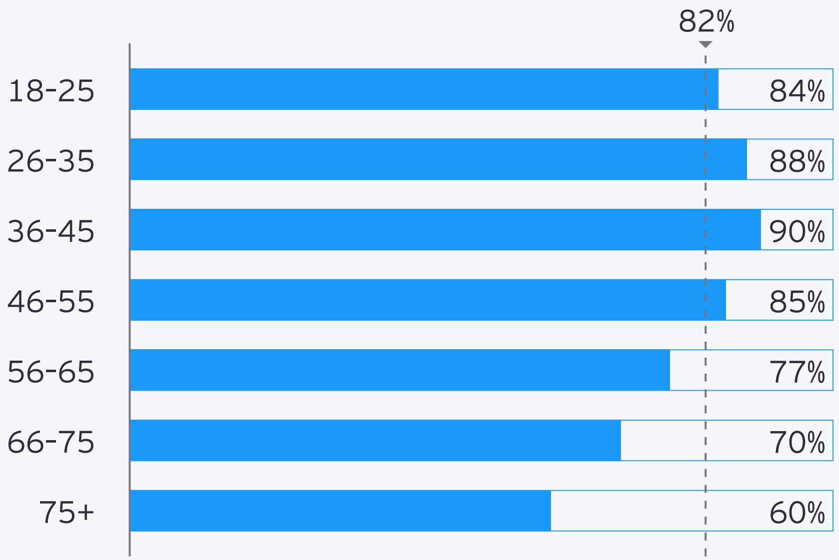
Share of consumers influenced by fees in selecting a financial services provider



And hitting these demographics with fees that they deem unreasonable is almost a surefire way to lose them. The survey found that nearly half of consumers who were charged a minimum balance/account fee stated that they have left — or are planning to leave — the provider due to this fee being charged.

Again, not all fees are the same. While fees for services rarely drive churn, almost every account penalty fee seems to result in a high churn risk (e.g., returned payment fees, insufficient fund fees).

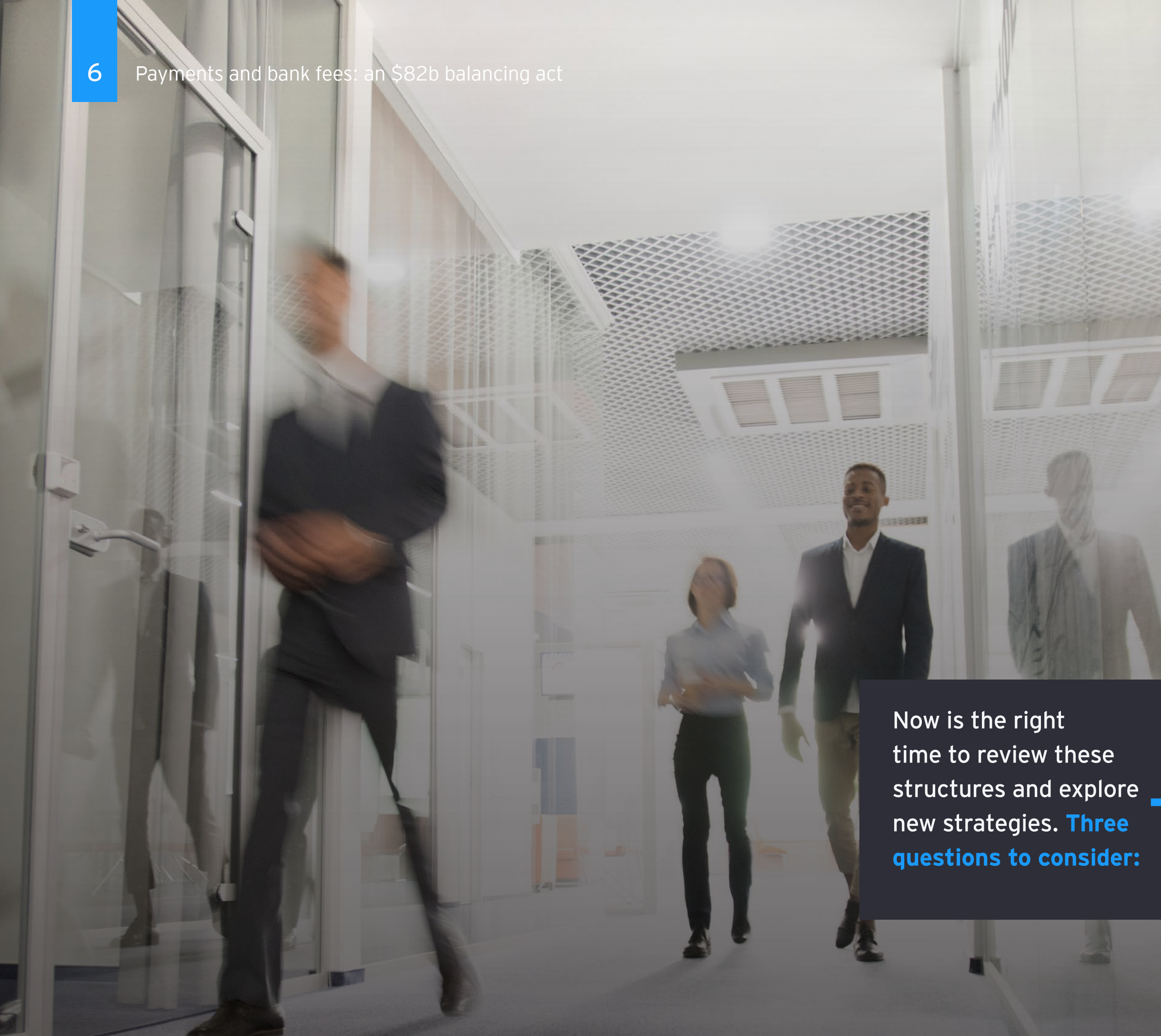
Account and card fees driving consumers to leave their provider

1 in 3

consumers has or is ready to switch financial providers due to dissatisfaction with payments and banking fees

Top fees driving consumers to leave their financial services providers

	Account fees	Card fees
01	Minimum balance/ account	Inactive
02	Returned payment	Returned payment
03	Insufficient funds	Reward redemption



Now is the right time to review these structures and explore new strategies. **Three questions to consider:**

Now is the time to take action

Banks and payment providers face significant risks by not adapting to the changing fee environment as consumer attrition and revenue loss can result. The EY-Parthenon survey showed that 56% of consumers who left their provider due to fees attributed their decision to an account penalty fee. Consumer departure not only affects profits, but also diminishes trust and loyalty, vital for sustained relationships. Additionally, potential regulatory fee caps pose a threat; institutions that haven't diversified revenue or revisited fee models may struggle to compensate for lost earnings. Hastily crafted strategies, such as introducing unregulated new fees, could further erode consumer trust.

1. Does your institution have a solid understanding of the lifetime value of your customers – and how a single, unexpected fee can destroy it? Are fees additive to customer lifetime value, or do they reduce it?

2. Does your institution understand which fees consumers consider to be fair and transparent – and which ones are not? This is especially important for younger consumers who perceive value differently and are more sensitive to fees, making traditional strategies less likely to succeed.

3. How transparent are you about your fees? Does your institution earn money because consumers "stumbled" into a fee, or because a consumer actively chose to "purchase" a service and pay for it? The former will increasingly lead to churn.

Summary

In a financial world where fees have become a point of contention, banks and financial institutions must act. The willingness of consumers to change providers over fee dissatisfaction, coupled with the potential for regulatory caps, underscores the urgency for a strategic and thoughtful approach. Institutions that prioritize transparency, fairness and value in their fee strategies will not only safeguard their revenue, but also deepen consumer trust, ensuring a robust future in a competitive landscape.

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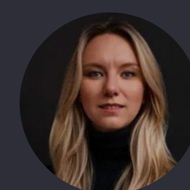

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References

[1] EY-Parthenon US Payments and Bank Fees Consumer Survey, June 2024.