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FEE INCOME

How to Drive Noninterest Fee Income and Delight Your Business Customers

Growing fee income is an important way for banks to diversify their base, protect themselves from interest rate volatility and ensure a steady stream of income. In a relatively stagnant interest rate environment, do you know how your bank compares to the market in attracting fee income? In 2017, you should begin to think of ways to benchmark your fee income against the market as a whole, see how you stack up and strive to increase this important revenue source—especially if you are a smaller bank. The following is a list of do's and don'ts when it comes to fee income.

Don't: Fall Behind Your Competition

Noninterest income has always been a markedly small portion of a bank's earnings. Historically, community banks have derived an even smaller proportion of income from fees. The Federal Deposit Insurance Corp.'s Quarterly Banking Survey shows that in the third quarter of 2016, the ratio of noninterest income to assets was 1.68 percent for banks above \$250 billion in assets, but only 1 percent for community banks.

Don't: Earn Fee Income by Punishing Your Customers

Think about the types of products driving this increase and what it means for your relationships with your customers. Fee income generated from customers is seen as a regressive tax—customers pay for basic services they wish they could get for free, and pay fees when they mismanage their accounts or loan obligations. In short, customers rarely feel good about paying fees to their bank.

For example, overdraft and nonsufficient funds fees are lucrative, accounting for \$2.5 billion in banking income nationwide in the first quarter of 2015 and representing about 5 percent of total noninterest income. But overdraft fees are notoriously unpopular with consumers and are closely monitored by regulators. While such fees can ensure stable income and guard against shocks in the market or failures in customer account management, they rarely increase customer stickiness. In fact, they often lead to customers losing trust in your institution.

Do: Make Money by Solving Customers' Problems

There is another way to think about fee income that can increase loyalty and provide a win-win for you and your customers. Indeed, banks—especially those that develop close relationships with their commercial customers—are in a unique position to do this. If you are struggling to increase your fee income as part of your overall revenue portfolio, it's time to think about new services that your customers need at a fair but competitive price.

You should start by looking at your commercial customer base, especially if you serve middle-market companies that struggle with payables. According to the Federal Reserve's most recent payments study, businesses continue to rely on checks despite the availability of alternative,

electronic payment methods. This reliance on paper checks is inefficient and costly for your commercial customers. Traditional manual accounts payable processes aren't working. Money is wasted on entry, routing and processing, and invoice processes are confusing and time-consuming.

Don't: Assume All Commercial Customers Have the Same Needs

Remember that not all companies struggle equally with their accounts payable processes. Large corporates often have in-house solutions that enable them to manage their payment processes efficiently. Middle-market companies, on the other hand, often manage a substantial volume of payables but have no easy way to automate their processes. Strive to work with your mid-sized commercial customers to solve these problems by offering commercial credit cards that provide fee income for you and convenience and rebates for your customers, and offering services that streamline and automate the accounts payable process so that your customers gain efficiencies and you earn revenue on fees for service.

Do: Find the Right Partners

Consider ways that you could team up with fintech providers to offer solutions to your midsized commercial customers that support multiple payment options that help them optimize their payables, maximize early pay discounts, manage working capital and earn credit card rebates and rewards. Your business customers, especially in the middle market, want streamlined accounts payable processes that give them visibility into financial data and cost savings in a secure and integrated platform.

If you find ways to provide services that save your business customers money, you will find that you've discovered a new way for your bank to make money, and you should begin to see your fee income climb toward the market average.



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