

The Cost of a Checking Account

Many bank customers have enjoyed free or very low cost transaction account services from their bank. Providing over 300 million transaction accounts comes at a considerable expense for banks. ***In fact, the cost of opening an account runs between \$150 and \$200¹ and the yearly cost of maintaining an account runs between \$250 and \$300.²*** These costs reflect the expense of processing transactions; providing monthly statements; investing in payment system technology and software; paying the cost of tellers, ATMs, and online banking; staffing call centers; complying with a myriad of regulations; ensuring privacy and data protection; and preventing fraud and covering fraud losses. Sherief Meleis, managing director of Novantas, estimates that about half of checking accounts are unprofitable in a “good year,” and that the coming regulatory and business environment changes could hike that percentage to 75 percent.³

Consider the many costs in providing transaction accounts:

- ***Processing Costs:*** The processing and infrastructure costs associated with 28 billion check transactions, 30 billion debit card transactions, and 17 billion ACH transactions each year are significant.⁴ In spite of the movement away from paper checks, the costs of clearing checks – and the infrastructure required – still remain.
- ***Technology Costs:*** There are significant technology costs involved to make transactions as efficient as possible. Banks are constantly investing in new technology to facilitate customer demands for electronic payments, including imaging software, remote deposit capture systems, and online and mobile-phone access. New electronic services provide new customer conveniences, but they do not replace existing services. For example, ATMs were once thought to be a replacement for tellers, but the reality was that customers wanted multiple ways to access their accounts. Thus, we have ATMs ***and*** tellers now. New systems and software applications are costly to implement and require considerable resources every year for maintenance and upgrades.
- ***Costs of Providing Convenient Access:*** Customers want convenient access to their money through many different channels. Thus, banks bear the costs of branches, tellers, ATM deployment and maintenance, debit card systems, and online and mobile-phone banking.
- ***Staff Costs:*** There are bank personnel in all aspects of transaction accounts, from the front-line personnel to all the back-room operations to preparing and mailing statements to providing efficient and accurate online banking. Moreover, call centers must handle large volumes of customer questions.
- ***Legal and Compliance Costs:*** Banks must comply with thousands of pages of regulations and other laws just to provide checking accounts. These cover advertisements, account opening requirements, statement disclosures, treatment of consumer complaints and claims, permissible transaction practices, fraud prevention, privacy, and data protection to name a few. ***And the list increases each year, and any change creates new costs.***
- ***Fraud Costs:*** Banks employ complex systems to thwart fraudsters attempting to pass bad checks, steal debit card information, and phish, spoof or skim accounts. In 2008 (the most recent data available), the industry suffered ***over \$1 billion in check fraud losses*** and, through capital investments in fraud prevention systems, avoided another \$11 billion in losses. ***Debit card losses reached an estimated \$788 million*** in 2008, rising significantly at smaller banks. Besides investments in software and technology, yearly deposit account fraud-related operating expenses ranged from \$1 million to \$10 million for a large bank, \$50,000 to \$250,000 for a mid-sized bank, and \$10,000 to \$50,000 for a small bank.⁵

¹ Robert C. Giltner, Velocity Solutions, Inc., Wilmington NC, BAI Retail Banking Solutions Live, May 19, 2010. Giltner estimates that it typically takes a year or so to break even on new accounts.

² Estimate by Celent, a unit of Marsh & McLennan Cos, May 2010, as reported in the Wall Street Journal, June 17, 2010, “The End is Near For Free Checking.”

³ “Banking Strategies: Retail Delivery Insights Special Edition,” March 11, 2009, BAI

⁴ Estimates based on: The 2007 Federal Reserve Payments Study, December 10, 2007.

⁵ *ABA Deposit Account Fraud Survey Report*, American Bankers Association, 2009.