Bank of America’s Debit Card Fee:  
*Corporate Strategy vs. Consumer Perception*

Case A
A Series of Unfortunate Events

It was a case of terrible timing. On September 27, 2011, Bank of America announced it would begin charging customers $5 per month to use debit cards, citing lost revenues.\(^1\) As a result of new legislation, the bank stood to lose several billion dollars in annual income, including an estimated $2 Billion in merchant processing fees, alone. In a year when Bank of America’s share prices were already down 57 percent, bank executives viewed the new debit card fees as a legitimate and necessary response to “the changing economics” of their debit card business.\(^2\) Unfortunately, the new fees came during a period when consumers were strongly apprehensive toward the financial service industry and the timing of Bank of America’s announcement could not have been worse. At almost any other time in history, the new fees could have met with reluctant consumer acceptance. But not this time.

Public discontent toward the financial sector had been building steadily for some years, yet was reaching its boiling point when Bank of America announced the $5 fee. It began with the 2007 housing market collapse, which drove foreclosures up from 1.2 million, in 2006, to 3.9 million, in 2011, and caused many angry critics to blame the banking industry for sanctioning dangerous subprime mortgages.\(^3\) Then came the financial crisis of 2008 and subsequent taxpayer-funded bank bailouts, which ignited fierce public controversy over the implications of banks that were “too big to fail”. Adding fuel to the fire was the widespread perception that some large banks used public bailout money to finance excessive executive compensation and luxurious corporate retreats.\(^4\) But bitter public sentiment was ultimately solidified by a perceived failure, on the part of Congress and a new President, to penalize the financial industry for it’s transgressions.\(^5\) By the fall of 2011, it seemed consumers had had enough. But Bank of America’s debit card fee may have been the straw that broke the camel’s back. Regardless of the bank’s significant losses, the announcement unleashed a fury of consumer backlash and negative media attention that would soon force the financial giant to a critical decision point.

An Explosive Climate

Bank of America’s decision to impose fees on debit card users came during very challenging economic times. Though three years had passed since the Great Recession of 2008, the economy, the stock market, and consumer confidence remained severely weakened. But the political climate was becoming even more complicated. Just ten days prior to the Bank of America announcement, protesters descended on lower Manhattan to express outrage toward concentrated wealth and power, under the banner, “Occupy Wall St”.\(^6\) Just blocks away from Bank of America’s headquarters, the protesters directed most of their anger at large banks and financial service providers. Throughout early October, the Occupy protests spread to over 951 cities, worldwide, and populist sentiment pervaded the online space.\(^7\) Just four days after Bank of America’s announcement, a twenty-two year old nanny, named Molly Katchpole, created an online petition demanding a reversal of the debit card fees, which
garnered 100,000 signatures in just two days and over 200,000 signatures within a week. The petition read:

To:
Brian T. Moynihan, President and CEO, Bank of America

I'm writing to express my deep concern over Bank of America's decision to charge customers $5 a month to use their debit cards when making purchases.

The American people bailed out Bank of America during a financial crisis the banks helped create. You paid zero dollars in federal income tax last year. And now your bank is profiting, raking in $2 billion in profits last quarter alone. How can you justify squeezing another $60 a year from your debit card customers? This is despicable.

American consumers can't afford these additional fees. We reject any claims by BofA that this latest fee is somehow necessary.

Please, do the right thing. Reverse your decision to charge customers $5 each month for using their debit cards to make purchases.

Sincerely,
[Your name]

Before long, Bank of America's name had become synonymous with corporate greed. In addition to viral online petitions, there were boycotts, protests, and even calls from the U.S. Senate floor, urging customers to “get the heck out of that bank”. By failing to comprehend the external climate and unfavorable timing, Bank of America had unintentionally stumbled into the center of a maelstrom of populist anger. Now they were faced with a very serious decision: proceed as planned and face a public relations nightmare or cancel the fee program, lose billions, and be forced to answer to shareholders. That decision was now in the hands of Brian Moynihan.

About Bank of America

By the fall of 2011, Brian Moynihan had been CEO of Bank of America for little more than 18 months. His rise to power was consolidated during the height of the economic crisis and many outsiders looked to him to restore stability to the banking world. In
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September of 2011, a Bloomberg Businessweek analysis referred to Moynihan as “The CEO [who] holds the fate of the U.S.’s largest bank—and the entire financial system—in his unproven hands.” But Moynihan was tough and extremely intelligent. He was also ambitious. Despite a challenging environment, Moynihan was determined to build a stronger Bank of America which could be resilient to the ups and downs of the business cycle. In fact, the scale and determination of Moynihan’s vision were not unlike that of Bank of America’s founder, Amadeo Gianinni.

In 1904, Gianinni started the Bank of Italy in San Francisco, California. At the time, Gianinni believed that there was a tremendous need for a financial institution that worked with the “little fellows”; hardworking immigrants to whom banks refused service. He built his business one customer at a time until, in 1928, the Bank of Italy merged with Los Angeles-based Bank of America and went on to consolidate several other holding company interests. Over the next 80 years, Bank of America grew, exponentially. As of October 2011, the company serviced approximately 57 million consumer and small business relationships, through approximately 5,700 branches. Today, Bank of America operates in 50 states and over 40 countries and provides a broad range of banking, investing, and asset management products and services to consumers, small businesses, and corporations of all sizes.

This was the Bank of America that Brian Moynihan inherited and this was the bank he believed could become “one of the most profitable companies on the planet.” But to achieve this goal, Moynihan would have to “run Bank of America the way banks were managed before the industry -- led by B of A -- embraced a strategy of growth at all costs”. That strategy had proven dangerous for Bank of America but even more dangerous for the American financial system.

**Evolution of the Financial Industry**

Even though the economy appeared healthy leading up to 2007, many analysts believed that the entire system rested on an unstable foundation. In fact, the economic climate of 2011 had its roots in events and key legislation that dated back decades.

In 1980, President Carter signed the Depository Institutions Deregulation and Monetary Control Act. The first in a series of financial deregulatory efforts, this policy reduced mandatory reserve requirements which set limits on the percentage of customer deposits available for lending. Two years later, President Reagan approved legislation that raised the ceiling on retail banks’ investment in nonresidential real estate from 20% to 40% of assets, further increasing their exposure to risk.

Other events contributed to the instability of the financial industry, as well. In 2000, President Clinton advocated that over-the-counter derivatives be exempt from regulation. Meanwhile Federal Reserve Chairman, Alan Greenspan, and his successor, Ben Bernanke, failed to curb the growth of toxic subprime mortgages during their tenures. And, from 2000-2008, President George W. Bush repeatedly rebuffed attempts from the Securities Exchange Commission (SEC) to regulate hedge
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funds. This multi-decade era of deregulation dramatically changed the landscape of 
banking, enabling a period of rapid financial sector growth and the formation of banks 
that many worried had become too big to fail.

But the most significant deregulations came from the Gramm-Leach-Bliley Financial 
Services Modernization Act, in 1999. Signed into law by President Clinton, this 
legislation superseded many of the provisions of the Glass-Steagall Act of 1933, which 
required investment banks to operate separately from commercial banks. The 
separation protected retail banking from risk, while still allowing investment institutions 
to pursue large positions in risky securities. But after Gramm-Leach-Bliley, financial 
institutions were granted the freedom to leverage high-risk investments against their full 
balance sheet, which exposed a much larger portion of consumer deposits to risk. The 
initial reward for assuming this risk was an exponential increase in financial institutions’ 
revenues, which fueled significant economic expansion.

U.S. banks aggressively pursued new opportunities that emerged from deregulatory 
efforts and, as a result, their profits soared. For example, from 1995-2005, Citibank 
profits increased by 326 percent. As profits and revenues grew, competition became 
fierce and a new era of banking commenced: the era of takeovers, mergers, and 
acquisitions. Over the course of eighteen years, 37 of the U.S.’s largest financial 
institutions consolidated into four: Bank of America, JP Morgan Chase, Citibank, and 
Wells Fargo. In 2008, 54 percent of U.S. financial assets were held by the ten largest 
financial institutions, compared to 20 percent, in 1990. And most of these large 
institutions were highly levered which, according to Katia D'Hulster of the World Bank, 
“is widely believed to have contributed to the global financial crisis.”

The additional leverage left banks highly sensitive to the negative effects of the U.S. 
housing market crash and the enormous size of these institutions magnified the effect of 
the crash on the overall economy. When the housing market bubble burst, financial 
institutions were thrust into distress, creating a chain-reaction that fueled the financial 
collapse of 2008 and subsequent recession. In response, lawmakers rushed to restore 
balance to the financial system, through a major government bailout program followed 
by a new bundle of regulations.

*The TARP bailouts*

In the fall of 2008 and 2009, Bank of America received $45 Billion from the treasury 
department’s Troubled Asset Relief Program (TARP). The eight largest U.S. banks 
were each required to accept this capital infusion for the sake of the entire U.S. financial 
system. Bank of America used the additional capital to restore the health of their 
distressed balance sheet and to finance the acquisition of Merrill Lynch. But, by the end 
of 2009, the bank had repaid its $45 billion TARP obligation, in full. However, that fact 
did not dissuade lawmakers from moving forward with new regulations.
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**The Legislative Response**

The Dodd Frank Wall Street Reform and Consumer Protection Act was enacted on July 21st, 2010 and took effect July 21st 2011. The bill included a broad spectrum of regulations aimed at increasing the constraints on a variety of banking operations, including insurance coverage, leverage ratios, and mortgage standards.24

Before Dodd Frank was brought to vote, Illinois Senator, Dick Durbin, proposed an amendment to further regulate bank operations. The Durbin Amendment applied to any bank with over $10 Billion in assets and focused specifically on interchange fees, which merchants pay banks to process debit card transactions.25

**Role of debit cards**

A debit card is a plastic card that provides cardholders access to their bank accounts, at the point of purchase. During a debit card transaction, the card relays a message to the cardholder’s bank, to withdraw funds from the payer’s account. Similar to credit cards, debit cards can be used as a substitute for cash, when making purchases. But, unlike credit cards, payments using a debit card are immediately transferred from the cardholder’s designated bank account. According to U.S. census data, there were 183 million debit cardholders, in 2009, who were collectively responsible for 38.5 Billion transactions.26

**How banks earn revenue through interchange fees**

Debit card issuers charge interchange fees for the processing of card-based transactions.27 In a typical debit card transaction, the card-issuing bank deducts the interchange fee from the amount it pays the acquiring bank, which services the merchant. The acquiring bank then pays the merchant the amount of the transaction less any fees.

Debit card interchange fees represent between 70 and 90 percent of payment card processing expenses, paid by merchants. The fees are set according to a complex pricing structure, which is based on the card type and brand, the region or jurisdiction, the merchant type and size, and the type of transaction. The total interchange fee market is estimated at $16 Billion.28

**The Durbin Amendment’s effect on interchange fees**

The Durbin Amendment directly targeted these interchange fees by mandating that the Federal Reserve establish guidelines for ensuring that the fees “be reasonable and proportional to the cost incurred by the issuer with respect to the transaction.”29 As required by the amendment, the Federal Reserve published Regulation II, which restricted interchange fees to approximately $0.21 per transaction or $0.24 per transaction for institutions that offered customers a fraud protection service. Prior to this legislation, the average interchange fee for debit transactions was $.44.30 This sharp
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decline in transaction fees led market analysts to estimate that the banking industry would suffer an $8 Billion reduction in revenues.\(^{31}\)

**Bank of America’s Perspective**

*Debit card fees as a revenue source*

Like all banks, Bank of America, generates earnings through the interest earned on loans (interest income), as well through fees for transactions and account services (non-interest income). The Durbin Amendment’s interchange fee caps were projected to reduce Bank of America’s non-interest income revenues by $1.9 Billion, annually, representing a 3.65 per cent annual reduction in non-interest income and a 1.67 percent reduction in overall revenue.\(^{32,33}\) To a publicly owned bank already concerned about earnings, this represented a staggering loss. But the $5 monthly debit card fee would have prevented these losses from ever being realized. To Bank of America’s leadership, the fee made perfect sense. And they weren’t alone.

Several other large banks had investigated instituting a similar fee. JPMorgan Chase had even implemented a $3 per month test fee for select accounts across two states, in order to study the plausibility of debit card fees.\(^{34}\) Wells Fargo conducted a similar study across four states. But after evaluating the results of their pilot programs, both JPMorgan Chase and Wells Fargo ultimately decided not to institute the new fees. Still, the option remained on the table.

*Our customers will understand*

From Bank of America’s perspective, replacing lost revenues was necessary for the company to continue offering a high level of service. They expected that customers, who valued their service, would appreciate the bank’s position.\(^{35}\) On October 5th, 2011, CEO Brian Moynihan told reporters that “the bank will talk to its customers, teammates and shareholders and ‘they’ll understand what we’re doing -- understand we have a right to make a profit.’”

*It’s about relationships*

The new debit card fees were waived for customers with over $20,000 in their accounts, and those who held either a Bank of America mortgage or a Merrill Lynch brokerage account.\(^{36}\) Moynihan believed that this would both discourage free-riders, who utilized Bank of America’s free accounts while maintaining more significant banking relationships, elsewhere, and encourage casual customers to deepen their relationship with the bank. “The fees are to get people to bring more relationships,” Moynihan told analysts. “So we’re comfortable that we’ll end up in a good dynamic there.”\(^{36}\) This sentiment was echoed by bank spokesman Jerry Dumbrowski, who told reporters, “We think there is a tremendous value in doing more business with us because we can bring significant economies of scale to the customer relationship.”
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They didn’t see it coming

Based on their comments, Bank of America’s senior leadership clearly did not anticipate the onslaught of consumer backlash that resulted from their debit card fee announcement. After all, the fees were a result of regulations beyond bank control and they believed customers would understand that. Furthermore, Bank of America had worked hard to earn public confidence by reducing risk in their portfolio and becoming one of the first big banks to repay their TARP funds, with interest. The bank honestly believed that these achievements, along with their excellent services, had earned them sufficient public goodwill. They were wrong.

Feeling the Pressure

Throughout October, public anger continued to build, and Bank of America came under fire from all directions. In addition to pressure from activists, Bank of America faced pressure from consumer groups, top lawmakers, and even from other banks.

On October 4, Senator Dick Durbin gave a speech on the senate floor describing Bank of America’s debit fee as “an outrage” and urging consumers to “find a bank that doesn’t gouge you.” Even President Barack Obama commented publicly on the fee announcement, calling the plan “not good business practice.” The President later added, “Banks can make money. [But] they can succeed, the old-fashioned way: by earning it.”

By late October, the New York Occupy Wall St demonstrations had grown to an estimated 15,000 people and Molly Katchpole’s petition had collected almost 300,000 signatures. Consumer advocacy groups planned “Move Your Money” events for the end of October, to encourage consumers to transfer their money from big banks to credit unions. One such group, the Progressive Change Campaign Committee, reported that over 21,000 Bank of America customers pledged to transfer their money as part of a mass bank exodus, to be held October 29. Then came the final blow: In late October, Wells Fargo, Chase, Regions and SunTrust all canceled plans to implement similar debit card fees, leaving Bank of America to face the public, alone.

Bank of America’s list of allies was growing shorter. Yet Brian Moynihan and top executives were still deeply invested in the debit card fee program. As late as October 29, they had not officially announced plans to rescind the fee. But many wondered how much longer they could withstand the pressure.

Questions

1. What was the most significant issue for Bank of America in this case?

2. What were the root causes of the strong public backlash? (Timing, Substance, Insensitivity, etc)
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3. Did Bank of America conduct enough market research prior to proposing the new $5 debit card fee? Did they listen to their customers?

4. Does Bank of America’s misjudgment of customer sentiment point to a company issue, industry issue, or general business environment issue?

5. How should Bank of America have balanced its corporate strategy with consumer sentiment and government regulations?

**Endnotes**


15. Tully, Shawn.


8
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18. Gilani, Shah


33. Bartko, John K.


37. Touryalai, Halah.


41. Katchpole, Molly


43. Mui, Ylan Q.
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Bank of America’s Retraction

After experiencing a sharp and sustained backlash from customers, lawmakers, media, and the general public, Bank of America finally decided to repeal its $5 per month debit card fee. The decision was made public on November 1, 2011, one month after the bank’s initial announcement.¹

In a statement to the press, David Darnell, Bank of America’s Co-Chief Operating Officer said, “We have listened to our customers very closely over the last few weeks and recognize their concern with our proposed debit usage fee. Our customers’ voices are most important to us. As a result, we are not currently charging the fee and will not be moving forward with any additional plans to do so.”¹

But was the damage already done? Bank of America had allowed public outrage to go unchecked for over a month. In addition to the negative publicity caused by protests and consumer petitions, there had been several well-organized “Move Your Money” events, in which thousands of consumers transferred their deposits to credit unions. During a conference call, in January of 2012, Chief Executive Brian Moynihan admitted that the bank experienced a 20 percent increase in closed accounts, during the last three months of 2011, which was attributable to the proposed debit fee.²

Bank of America’s debit card fee scandal also led to a drop in customer satisfaction.³ According to Todd Wallack of the Globe Newspaper Company, BoA ranked last among the big banks in a December, 2011 customer satisfaction survey.

Key Questions

1. Did the bank handle the retraction effectively? Could they have done more than simply issuing a statement?

2. After reversing its fee, what more can Bank of America do to restore its brand image and regain public confidence?

3. Did Bank of America wait too long before reversing its decision?

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