

The Quest for Deposits

The objective of Quest for Deposits is to provide insights into customer demand for core deposit services

- Understand customers with respect to their motivations and attitudes
- Profile their core deposit wallet and behaviors, including the preferred bundling of non-deposit products
- Understand their satisfaction with current bank value propositions and prioritize any gaps
- Understand their usage of particular products, the roles they play in the consumer's financial life, benefits sought, satisfaction with current provider
- Quantitatively understand how consumers trade off price versus product functions/features, service, convenience, and channel usage
- Understand how customers want to pay for their core deposit services

The study is based on proprietary quantitative results from a nationally representative sample aged 21-75

Segmentation
Approach

Sample and Methodology Used

Sample

- 4,511 completed surveys
- 3,523 of which also completed the choice model section

Subject Matter

- Attitudes, motivations, and behavior for consumer financial services, covering
 - Core deposit products (checking, premium checking, savings, MMDA, MMF)
 - Bundled purchase behavior for cards, HELOC, auto finance, mortgage, and investments

Survey Design

- We fielded a 24-page questionnaire, each containing 8 choice cards, mailed to households (questionnaire copies are included in Section 15)
 - Attitudes and motivations
 - Product profiling
 - Emerging product/service opportunities
 - Wallet sizing
 - Behavioral profiling
 - Satisfaction with current provider
 - Etc.

Supplier and Dates

- Synovate, July-August 2003

A more targeted approach to the retail deposit marketplace is justified

- Banks have a great franchise with respect to the core deposits business, especially if they are the primary deposit service provider
- However, satisfaction with banks is not very high. This is driven largely by fees and staff quality/effectiveness; there are clear opportunities to improve the franchise
- The extreme skews in demand characteristics for deposits suggests that the tailoring of products, pricing, and communication can improve the fit with customer needs and thus strengthen the overall franchise
- In particular, there is an opportunity to better meet customer needs by improving the precision with which relationship products are packaged and priced
 - With respect to products, there is a surprisingly strong preference among customers to bundle credit (both short and long term) with deposit products; generally, investment bundling is not significant opportunity
 - With respect to pricing, the current relationship products essentially offer tiered rate incentives. The research suggests that there are opportunities to develop more “utility market” relationship products that focus on greater transactional convenience and bundled credit
 - The primary deposit provider controls 80%-90% of the typical household deposit wallet

There is an opportunity to “tune” channel and sales configuration according to the segment mix and positioning of the bank

- In general, branch network convenience is defined as branches that are extremely local (closest) to “work and home.” Few segments greatly value city-wide, much less national networks of ATMs or branches
- 40% of the population is highly elastic to extended hours of operation, indicating an opportunity to “tune” hours of operations by individual branches according to segments served. The extended hour preference is strongest with the lower income consumer segments
- Of the wealthiest consumers, half want highly personalized service and half want just fast, efficient execution of their transactions. The implication is that relationship banking efforts should be applied only to selected high-potential customers (potentially opt-in)
- With respect to the sales and on-boarding processes, improvements are needed to better explain and manage new customer experience as well as to better match customers with an ever widening product line up
- From a demand-side perspective there is little difference in service requirements across segments; however, from a supply-side perspective it may still make sense to allocate resources based on the size of the opportunity

- In general, the wealthiest segments do not naturally associate banks with investment expertise
- Only one segment is differentiated by its strong preference for a large, national brand
- A few segments wish to have a “neighborhood” bank, others are less concerned with a bank being part of the community
- Preference for differentiated transactional convenience (online banking and bill payment, extensive ATM networks, etc.) appeals to only a few time starved or tech oriented segments
- Almost all segments are concerned about the transparency and appropriateness of fees, creating an opportunity across all segments to rationalize and/or better explain them

Banks have a great franchise; both large banks and smaller community banks have their unique strengths

Attitude towards Banks

Percent of Customers Agreeing to Attitudinal Statement

Customer Attitudes towards Banks	% Agree*
The financial expertise available to me at my bank is more than adequate to handle all my financial needs	71%
I would trust my bank for all my financial needs	62%
I don't have enough money for a financial advisor or broker to pay enough attention to me	67%
It's more important to me that I get high quality personal service than access to leading-edge financial expertise	66%

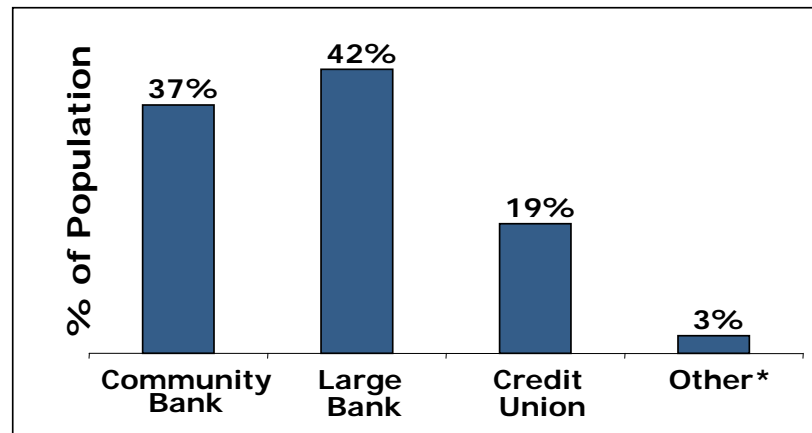
Customer Attitudes towards Large and Small Banks	% Agree*
Large banks have more convenient branches and ATMs compared to small banks	78%
Small banks work harder to keep their customers' business than large banks	77%

* Percent Agree includes: Agree Completely, Agree Strongly and Agree Somewhat

Banks that maintain the primary deposit relationship have a significant advantage

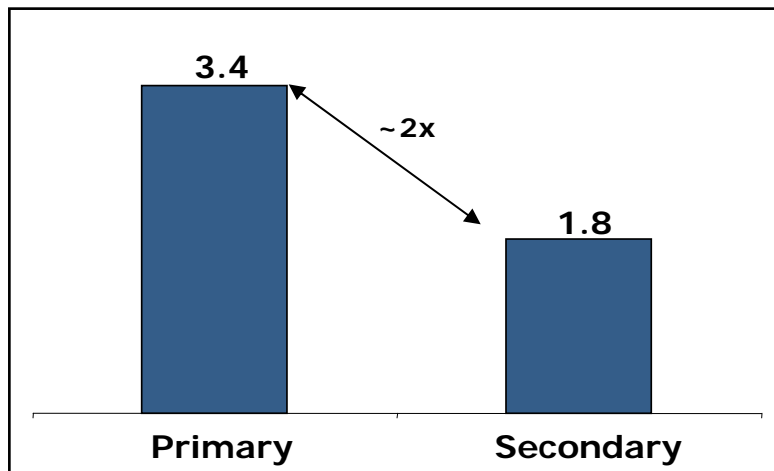
Primary Deposit Provider

Primary Deposit Provider

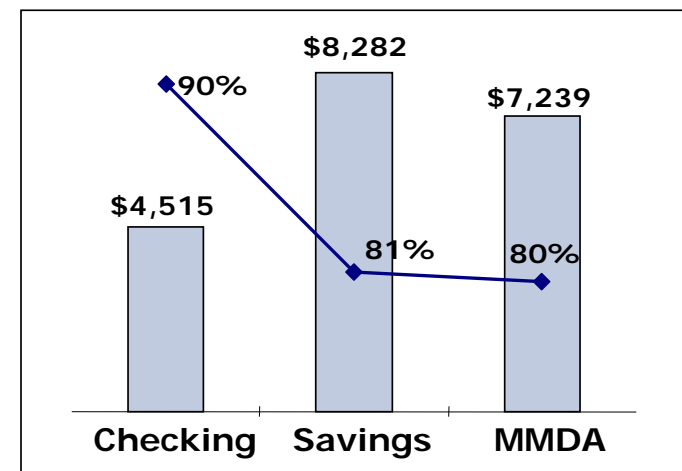


*Other includes brokerage firms, purely Internet banks, insurance companies, credit card companies and mutual fund companies.

Avg # of Products – Primary vs. Secondary Provider

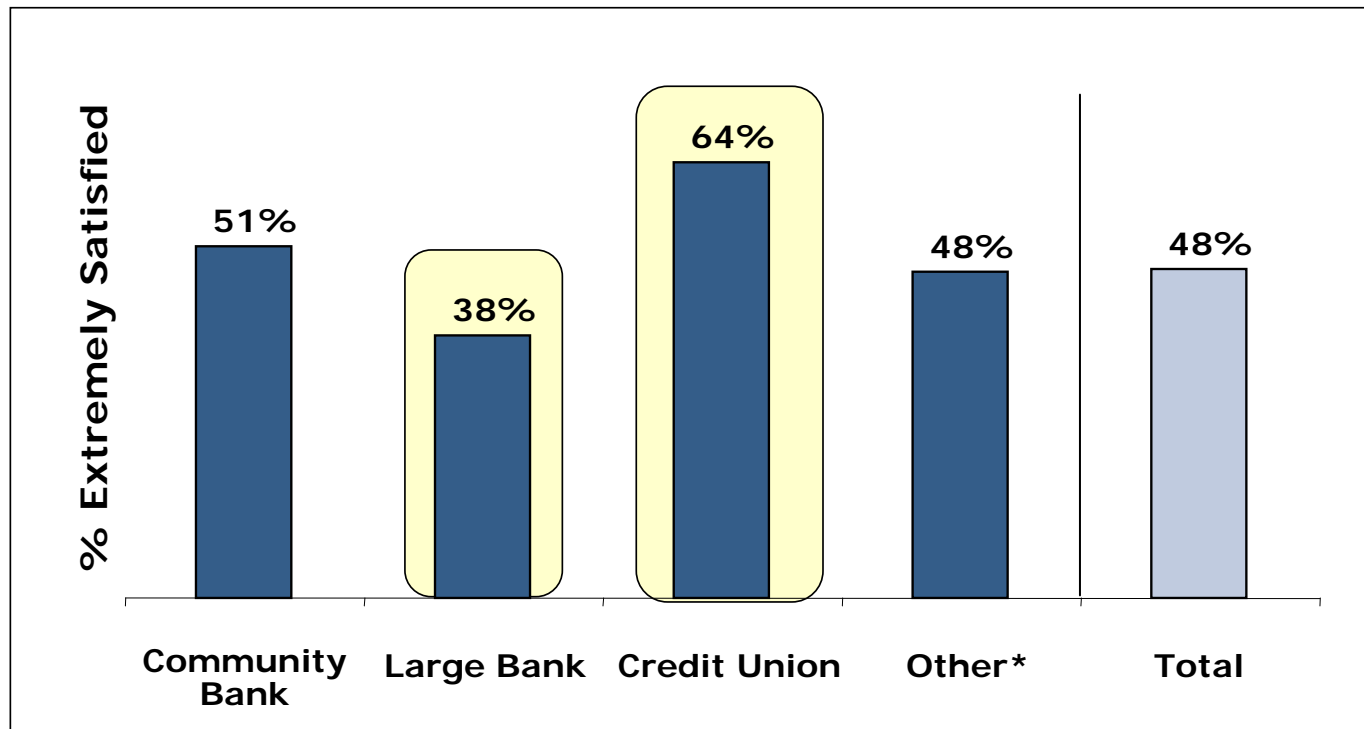


Avg Deposit Balances and Share of Wallet w/Primary Provider



However, only 38% of large bank customers are extremely satisfied with their primary banking relationship

% Satisfied with Banking Institution



*Other includes brokerage firms, purely Internet banks, insurance companies, credit card companies and mutual fund companies.

Fees and staff quality/effectiveness are the two most important gaps related to satisfaction with large banks

Gaps by Type of Institution

Top 15 Important Gaps by Type of Institution

Community Banks (Overall Gap = 1.3)	
Provides superior returns	2.23
Charges low fees	2.04
Does not surprise me w/ fees	1.89
Staff empowered to decide fees	1.39
Rewards amount of business brought them	1.37
Executes my transactions without any mistakes	1.34
Has simple, easy to understand fees	1.28
Branches open late in evening	1.19
Has branches at convenient locations	1.07
Knowledgeable, well trained staff	1.03
Employees authorized to resolve issues	1.02
Has staff that are efficient	0.97
Provides simple information on products and solutions	0.94
Products that provide value for money	0.89
Extra services such as coin counting	0.88

Large Banks (Overall Gap = 1.8)	
Charges low fees	3.09
Provides superior returns	2.96
Does not surprise me w/ fees	2.81
Staff empowered to decide fees	1.99
Rewards amount of business brought them	1.86
Has simple, easy to understand fees	1.79
Executes my transactions without any mistakes	1.75
Employees authorized to resolve issues	1.56
Has short lines in the branches	1.53
Knowledgeable, well trained staff	1.45
Products that provide value for money	1.40
Branches open late in evening	1.36
Has staff that are efficient	1.32
Extra services such as coin counting	1.29
Answers all my questions	1.19

Credit Unions (Overall Gap = 1.1)	
Provides superior returns	1.81
Has branches at convenient locations	1.61
Branches open late in evening	1.37
Has a large number of branches	1.30
Has a large number of ATMs	1.28
Rewards amount of business brought them	1.19
Staff empowered to decide fees	1.09
Charges low fees	1.08
Does not surprise me with fees	1.00
Branches open during weekends	0.98
Executes my transactions without any mistakes	0.84
ATMs that are safe and secure	0.81
Advice to get most of products owned	0.75
Employees authorized to resolve issues	0.72
Knowledgeable, well trained staff	0.68

Gaps = (Importance score – Delivery Score) * Importance Score

Banks can address at least some these shortfalls through more precise tailoring of value propositions

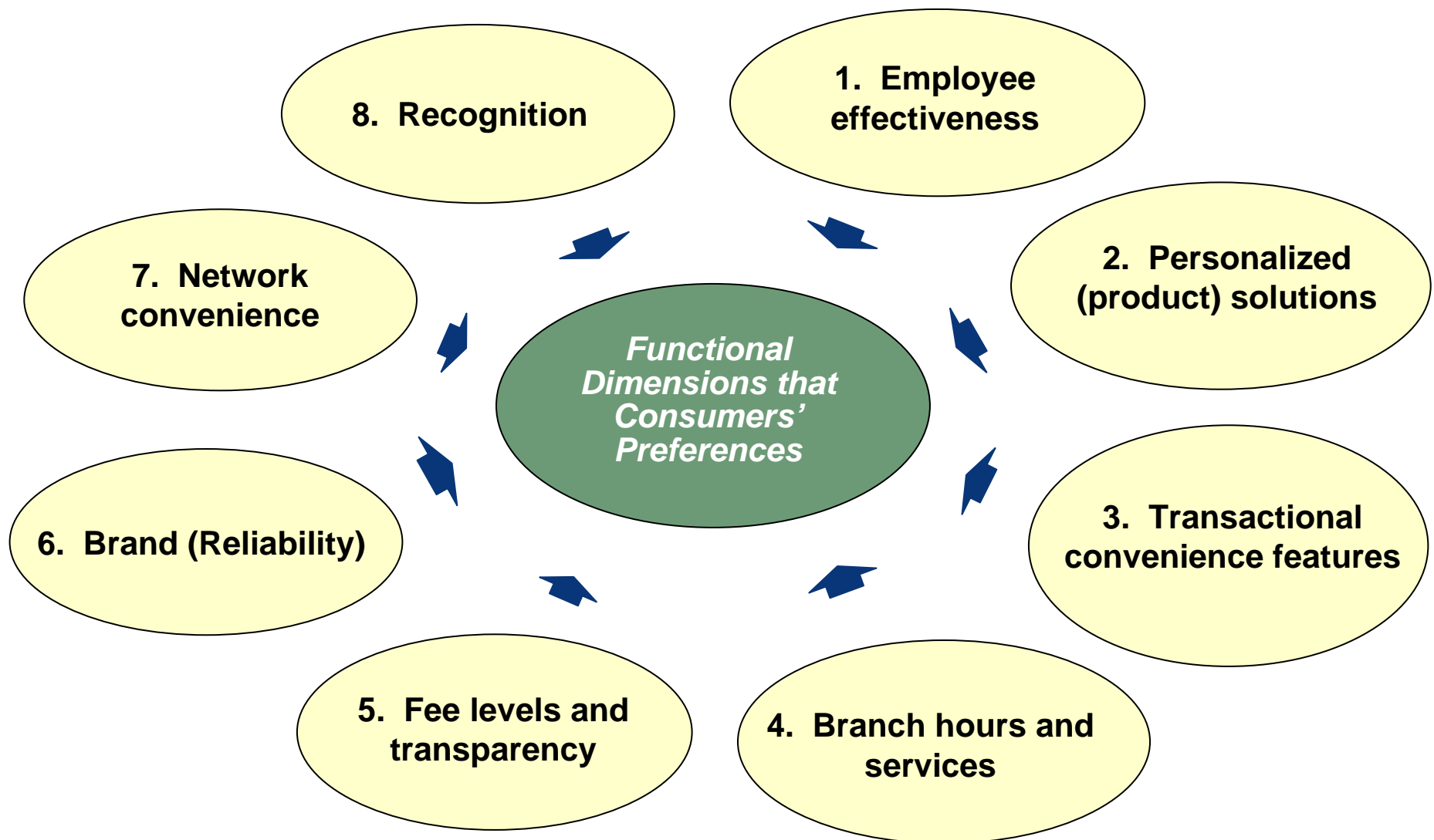
Opportunities Left on the Table

- Most banks draw broadly across the customer base
- Hidden within the averages are extreme skews in demand characteristics across the customer base
- By understanding these skews in preferences and tailoring products, pricing, sales/communication and service, banks can better meet their customers' needs and maximize their share of deposit balances
- A more targeted approach to the retail deposit marketplace is justified

The project identified six attitudinal dimensions that shape consumers' views of deposit services



In addition, eight functional dimensions shape consumers' views of deposit services



Based on these attitudinal and functional dimensions, the study identified six distinct segments of demand for deposit services

Segment	Characteristics
Minimalists	<ul style="list-style-type: none"> ▪ Economically challenged, time-starved consumers who are not engaged in their banking relationship ▪ Convenience-oriented and favor inexpensive, basic banking services
Skeptics	<ul style="list-style-type: none"> ▪ Mass market consumers who tend to be somewhat less educated/sophisticated and prefer branches and long operating hours ▪ Unwilling to share financial information with outsiders and use banks for a “safekeeping” function ▪ Desire simple products with low-fee, low min-balance deposits
Self-Servers	<ul style="list-style-type: none"> ▪ Younger, independent minded consumers with above average incomes and below average wealth ▪ Seek unlimited self-service transactions and aggressively-priced deposit products that are bundled with credit cards and other loans
Sophisticates	<ul style="list-style-type: none"> ▪ Wealthy, self-directed, pre-retirement consumers who understand their needs and options, and aggressively shop ▪ Look for best of breed products and quick, unpersonalized service; prefer keeping financial relationships separate and often require rewards for consolidation ▪ Heaviest users of investment products and online banking
Loyalists	<ul style="list-style-type: none"> ▪ Community and personal relationship oriented, loyal customers who believe that banks provide a fair value ▪ Desire relationship products (not necessarily best of breed) and convenient branches, extended hours of operation and personalized service
Traditionalists	<ul style="list-style-type: none"> ▪ Older, affluent, more likely to be retired; engaged in active management of financial affairs with desire for personalized service ▪ Relationship products that are fee-competitive for checking and provide good rates

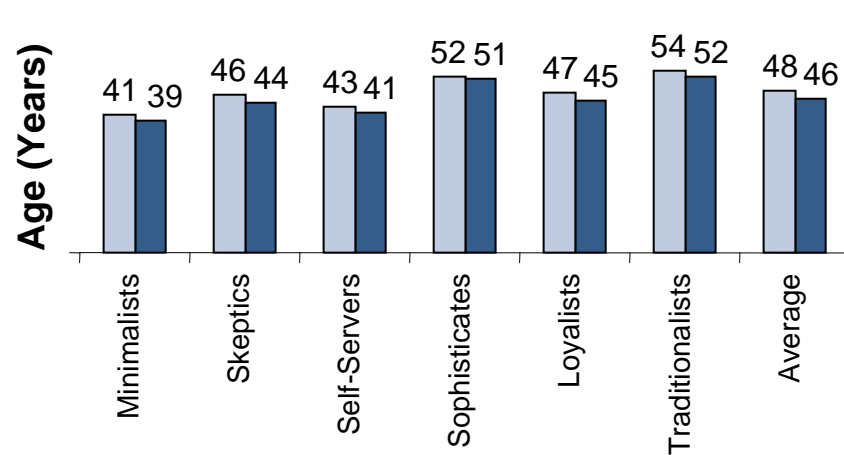
These segments are distinct across attitudinal and functional dimensions

Minimalists (17%)	Skeptics (17%)	Self-Servers (16%)	Sophisticates (17%)	Loyalists (17%)	Traditionalists (17%)
<ul style="list-style-type: none"> ▪ Tend to be younger (<40) with low / moderate incomes (<\$50k) 	<ul style="list-style-type: none"> ▪ Tend to be middle aged (30-50) with low incomes (<\$50k) 	<ul style="list-style-type: none"> ▪ Tend to be younger (<40) with low /moderate incomes (<\$50k) 	<ul style="list-style-type: none"> ▪ Tend to be older (50+) with high incomes (\$75k+) 	<ul style="list-style-type: none"> ▪ Tend to have moderate incomes (<\$75k) 	<ul style="list-style-type: none"> ▪ Tend to be older (60+) with diverse incomes
<ul style="list-style-type: none"> ▪ Feel that banks “nickel and dime” them ▪ Brand is not important ▪ Rather pay fees than keep higher balance in account ▪ Fee sensitive ▪ Saving for a home ▪ Do not enjoy reading financial magazines ▪ Unconcerned with product breadth ▪ Comfortable using the Internet for financial transactions 	<ul style="list-style-type: none"> ▪ Fee and minimum Balance sensitive ▪ Confused about financial options ▪ Would rather handle finances themselves ▪ Branch hours and service extremely important ▪ Saving for a home ▪ Risk averse ▪ Not tech savvy, prefer branches ▪ Open to consolidating balances 	<ul style="list-style-type: none"> ▪ Think bank fees are unfair ▪ Fee and rate sensitive ▪ Willing to change banks ▪ Heavy ATM users ▪ Tech savvy ▪ Require easy access to branch resources and info ▪ Brand not important 	<ul style="list-style-type: none"> ▪ Set for retirement ▪ Rate sensitive, not fee sensitive ▪ Prefer multiple financial relationships ▪ Want staff that are quick and reliable ▪ Tech savvy ▪ Willing to keep higher balances to avoid fees ▪ Less concerned about branch experience ▪ Enjoy reading financial magazines 	<ul style="list-style-type: none"> ▪ Not rate or fee sensitive ▪ Believe banks are trustworthy and provide fair value ▪ Like sense of community and neighborhood ▪ Not yet set for retirement ▪ Unwilling to change banks ▪ Recognition and service important ▪ Use ATMs and computers to save time ▪ Saving for a home ▪ Open to consolidating balances 	<ul style="list-style-type: none"> ▪ Believe banks provide fair value but seek to minimize fees and maximize rates ▪ Reputation of the bank important ▪ Rely heavily on broker for financial success ▪ In-person service important ▪ Enjoy reading financial magazines ▪ Not fee sensitive ▪ Rate sensitive ▪ Not tech savvy

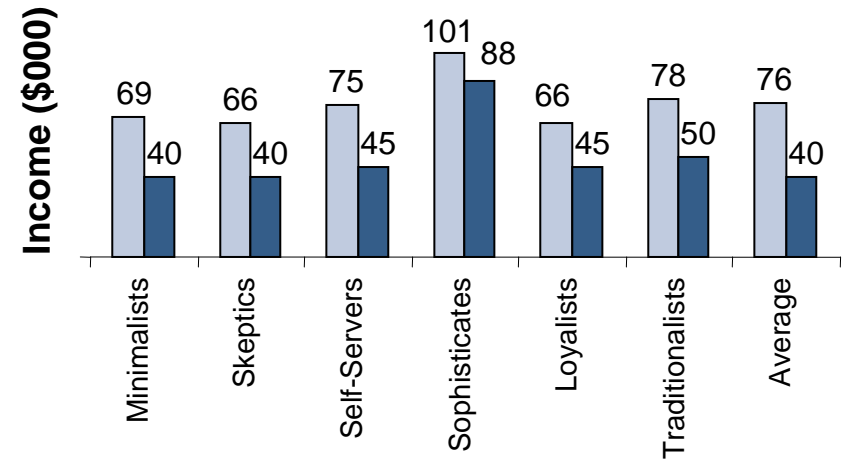
There are significant skews in income and investable assets across these segments

Segment Demographics

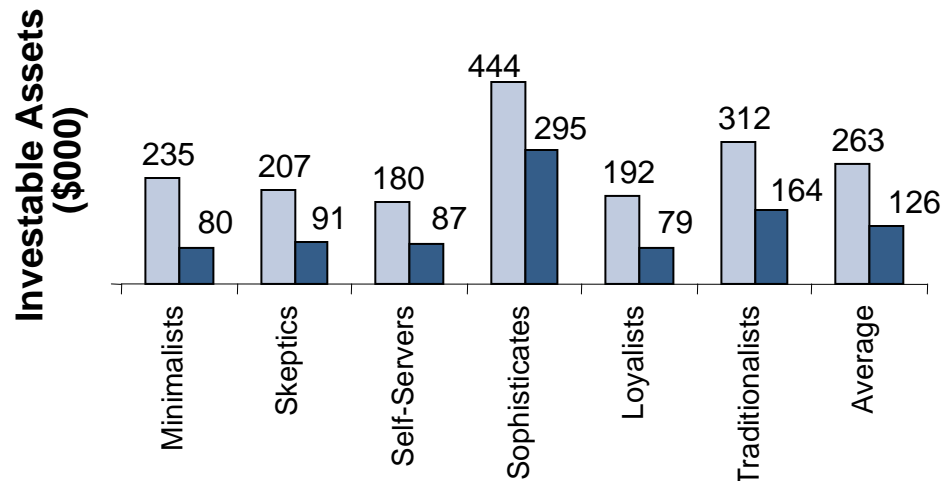
Average Age (mean and median)



Average Income (mean and median)



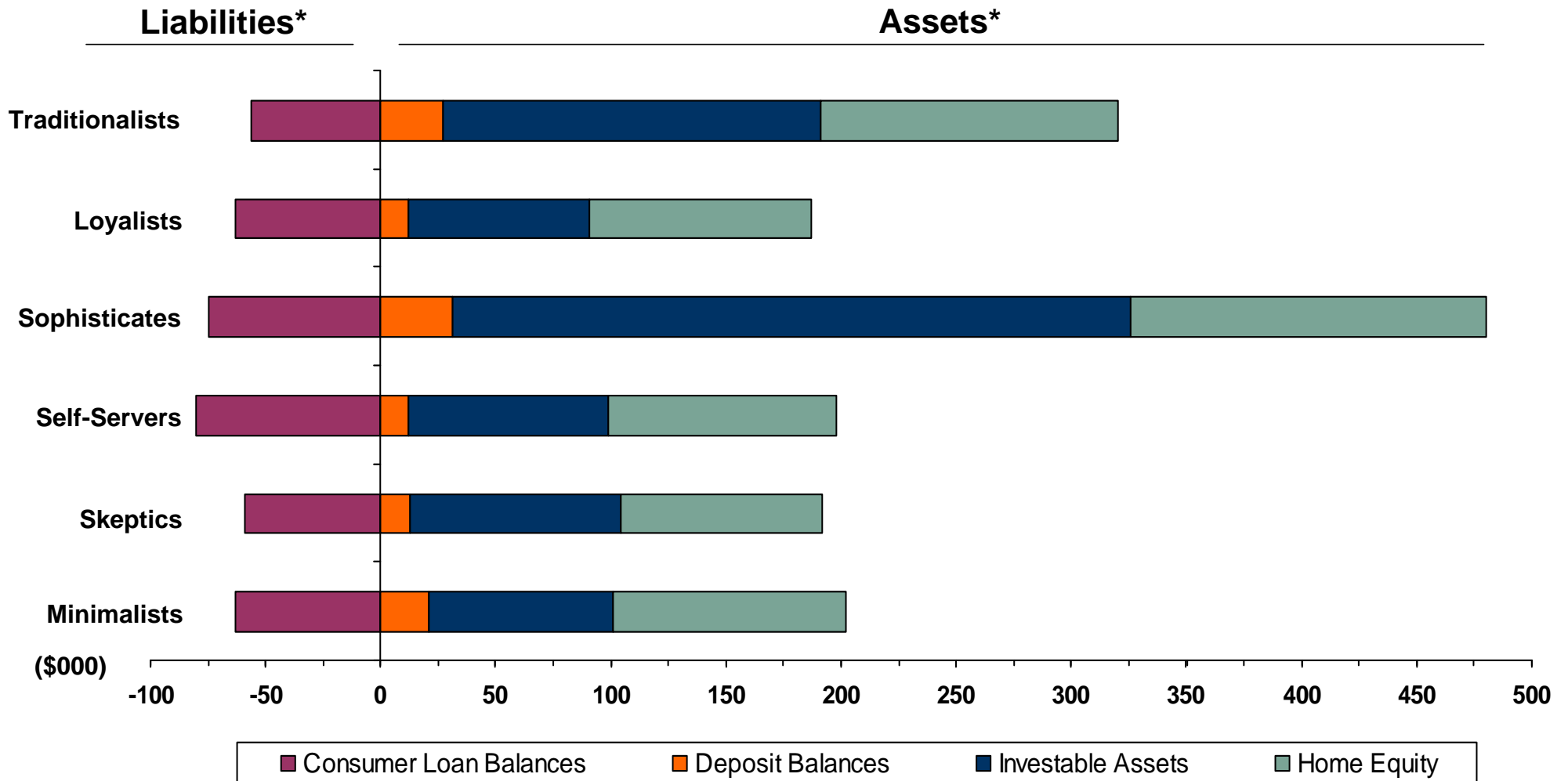
Average Investable Assets Excluding Equity in Home (mean and median)



Mean Median

Sophisticates and Traditionalists have large financial services wallets. The wallet sizes of the other four segments are significantly smaller

Segment
Financial
Wallet

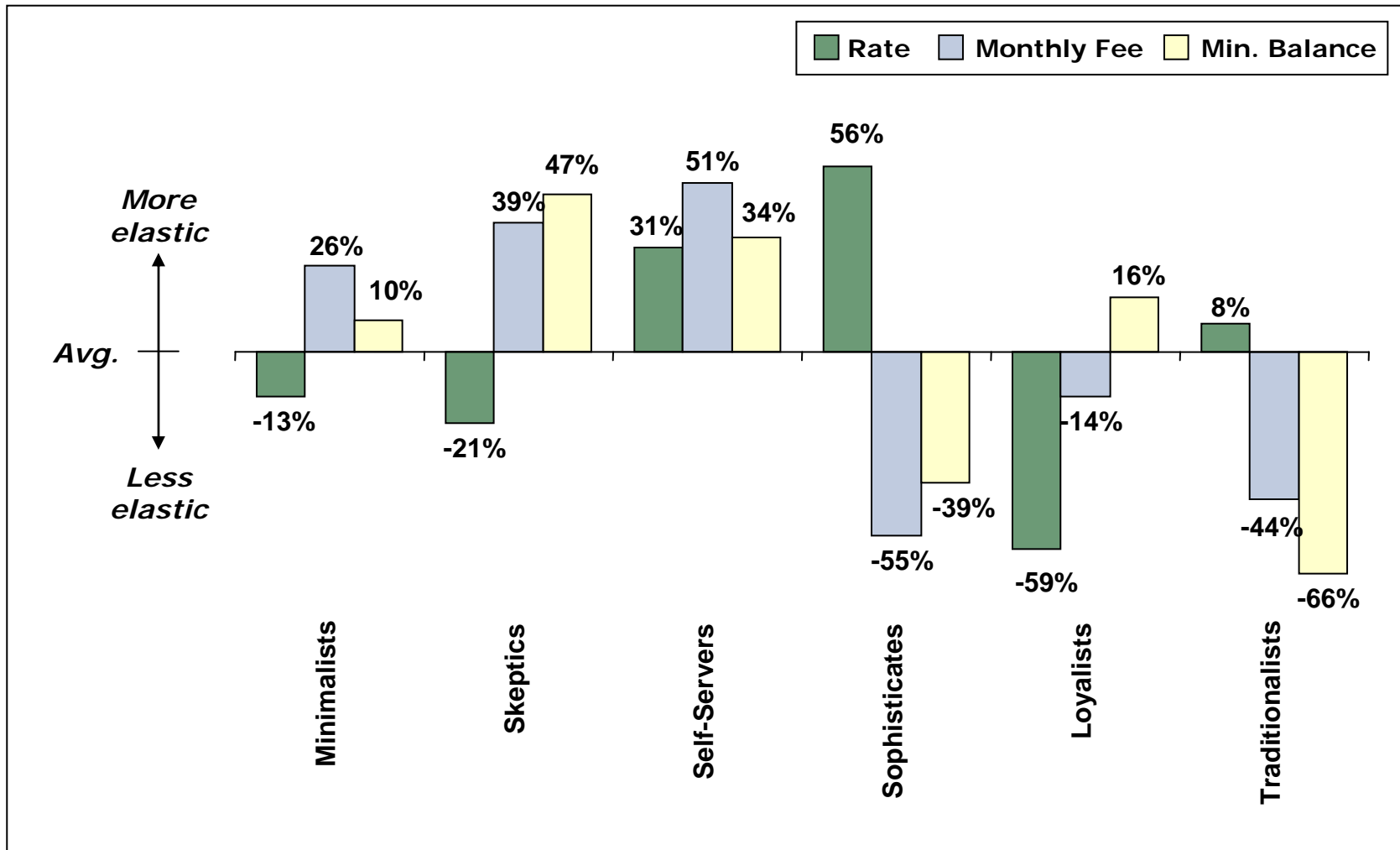


* Mean Assets and Liabilities

The segments exhibit widely different sensitivities to deposit rates, fees and minimum balance requirements

Segment Deposit Price Sensitivities

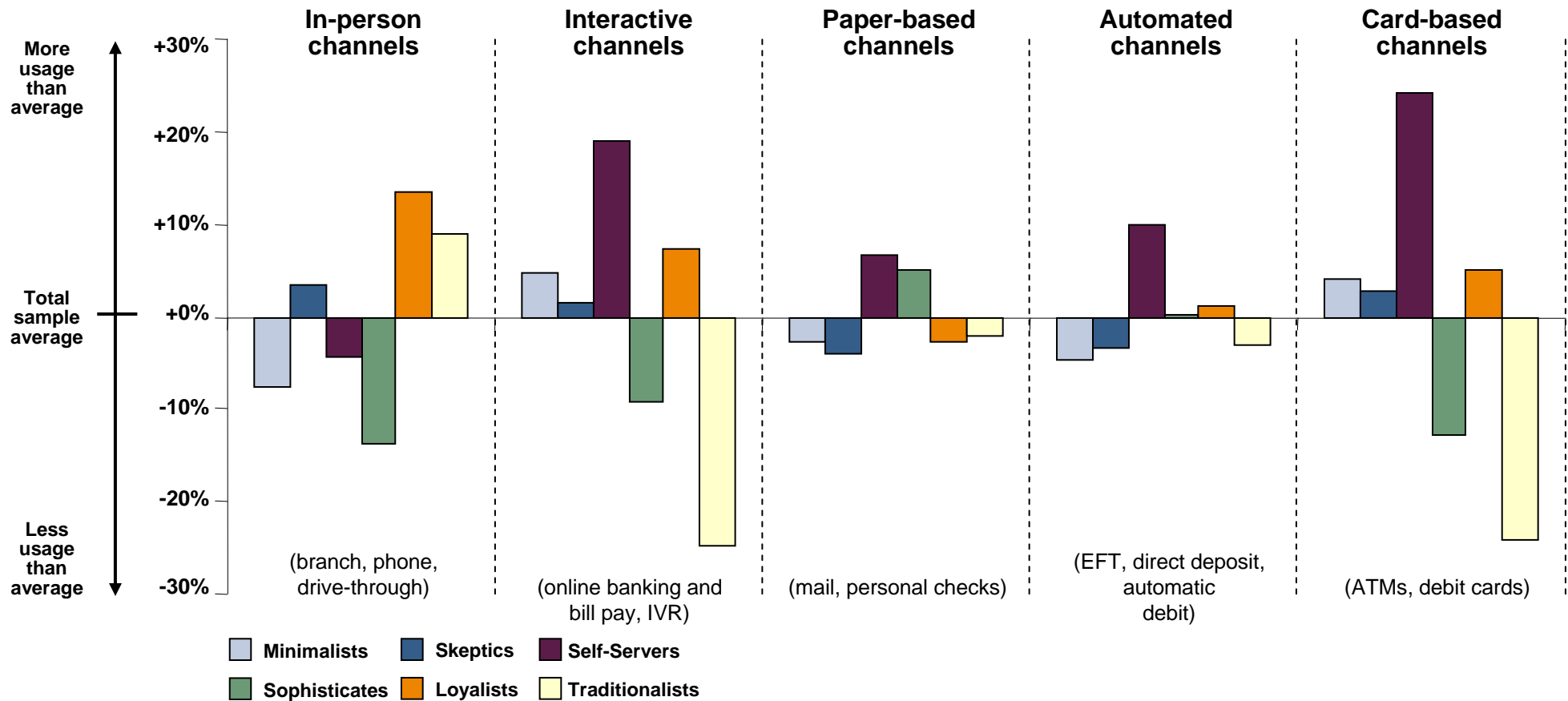
Segment Deposit Price Sensitivities



Each segment has a distinctive set of usage patterns, across channels

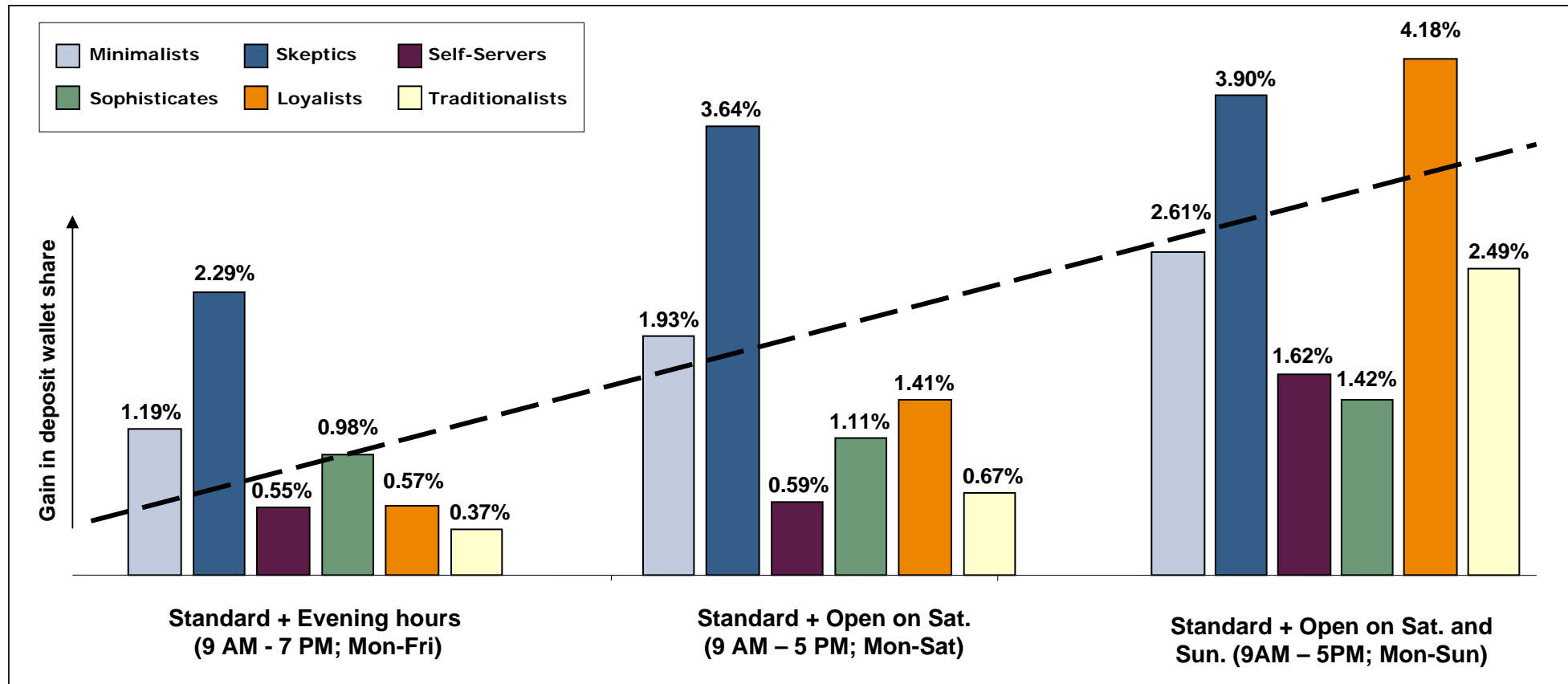
Self-Reported Transactions by Channel

Self-reported Monthly Transactions by Channel



Extended operating hours improve deposit share, especially with Minimalists, Skeptics and Loyalists

Branch Schedule (Base = Standard 9 AM – 5 PM; Mon-Fri)*



* Based on the Choice Modeling component of the survey, the bar charts indicate the % change in deposit wallet share (checking, savings, and MMDA) that can be influenced by changes in branch operating hours from the base of having a branch open from 9 AM – 5 PM, Monday through Friday.

- Branch hours of operation show a distinct correlation to deposit share for all segments
- The most sensitive segments are those generally associated with the utility market
- This suggests that extended hours are for the convenience of the utility market. The question, of course, is whether the small balances kept by these segments will compensate for the added operating expense