Rewriting the rules for deposit growth

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The next installment in deposit growth

YOU DON'T NEED ARTIFICIAL INTELLIGENCE—OR MUCH INTELLIGENCE, REALLY—to understand the financial flow chart banks face as they near the end of the final quarter of 2018. To wit: a) consumers want loans; b) banks want to give out those loans; c) deposits help fund those loans; d) it's time to attract new deposits...which everyone is pretty much trying to do at the same time.

Put another way, deposits are the fertilizer in the Garden of Banking and when there's a shortage, producing a robust crop of loans can tip towards a fruitless task.

Banks also have an ideal opportunity, capped by ideal timing, to reach underserved consumers and attract deposits on the way. Kenneth Patrick and Victoria Dougherty of Fiserv acknowledge that many financial institutions fixate on the risks of the underserved—from scant credit histories to repeat negative account balances—to protect themselves. But by placing the focus on protecting these consumers, banks can build financial health even as they cultivate healthy deposit traffic.

Finally, BAI contributor and former New York Times editor Jeanne Pinder examines how scrappy banks draw new maps to success in an environment of intense deposit competition. One way is through promoting demand deposit accounts, or DDAs. Since they don't bear interest, DDAs bypass the need to compete on rates and squeeze margins—while still giving some consumers a service they value.

Whatever 2019 brings to the deposit growth landscape, this much is certain: Things won't get any simpler and quick fixes won't work. The challenge of growing deposits requires due diligence, extra vigilance and constant cultivation. In this season of harvests, here's to reaping what we sow in a way that helps customers and financial institutions to grow.
For years, community and regional banks tossed proverbial pebbles to gain deposits as Goliath megabanks rolled out massive marketing campaigns. But in 2018, and into the new year, the Davids of the banking world may now have better slingshots.

Small- and mid-sized banks gained an opening to build deposits thanks to the Federal Reserve, which has throughout 2018 followed a course of consecutive interest rate hikes.

In September, it took rates up a quarter percentage point to a range of 2 to 2.25 percent, with a majority of central bankers in favor of a future increase. While the next Fed hikes largely depend upon the growth of the U.S. economy in coming months, the central bank notes that economic activity is rising “at a strong rate.”

That’s Fedspeak for a potential need to slow bank lending, raise rates more and curb inflation. And it’s good news for banking customers who’ve suffered from paltry yields on savings products since the crash of 2008.
According to Ken Tumin, editor of DepositAccounts, “smaller banks and credit unions have been offering much higher deposit rates than the megabanks. The higher deposit rates are seen in CD specials.”

For example, Tumin found in his recent survey CD specials from small/regional banks that included: Chemical Bank (Michigan) 17-month CD special, 2.75 percent APY; Reliance Bank (Missouri) 19-month CD special, 2.75 percent; and F&M Bank (Tennessee) 24-month CD special, 3.00 percent.

Tumin is also seeing higher rates from smaller banks in interest-bearing checking accounts. “Most reward checking accounts are free and reward customers when certain activity requirements are met. The activities typically include monthly debit card usage.”

In a nutshell, rising rates fuel the competition for deposits. A growing economy also accelerates lending, which can expand with increased deposits. Another competitive force comes via pressure traditional brick-and-mortar institutions face from online banks and roboadvisors—which don’t have (or need) costly bank branches.

What’s more, banks with less than $10 billion in deposits have found themselves lodged behind the eight ball when it comes to building deposits. In fact banks in this category have generally not grown their core deposits in the past three years, according to Darling and Associates.

That established, one notable exception in this trend popped up last year, when community banks reported the subsequent 12 months, according to Promontory Interfinancial Network’s Bank Executive Business Outlook Survey.

As for the lay of the battleground, millennials will grab a lion’s share of the attention—though the battle will largely be fought in cyberspace. In the latest BAI Banking Outlook survey, respondents name millennials as the top group likely to bank online for better rates, regardless of the type of institution (28 percent, compared to just 18 percent in 2017).

Meanwhile, as interest rates have inched up, smaller banks have boosted yields to attract deposit product customers. Some 13 of 20 of the highest-yielding products were offered by banks with less than $25 billion in assets, according to DepositAccounts, which tracks products were offered by banks with less than $25 billion in assets, according to DepositAccounts, which tracks

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But how do these strategies stack up when the largest banks can spend billions on promotion, technology and marketing? “Megabanks and digital banks may offer innovative technology, but they often struggle with engagement and loyalty,” Reilly notes. “Cultivating customer loyalty and engagement is an area smaller banks excel at. They also serve many locations where megabanks don’t have a presence, such rural and farming communities.”

Despite their local advantage, smaller banks still need to hustle in other ways. “I do think smaller banks need to invest more heavily in technology, prioritizing mobile banking features and tools,” Reilly points out.

“While smaller banks depend on their core banking software provider for basic digital banking technology, megabanks are building their own innovative platforms and starting to really distance themselves from local and regional banks.”

Here’s what Reilly suggests smaller banks do to ramp up the deposit competition:

- Special high-rate promotions, especially targeting existing customers (e.g. a higher rate checking product with higher minimum requirements marketed to existing customers that have free/basic checking).
- Cross channel marketing to existing customers. This can be done cost-effectively through print/electronic statements, website, social media, email and Google ads.
- Free gifts still open accounts (e.g. Fitbits and other high-tech devices).
- Google ads that target people who actively search for deposit products, demonstrate “in-market” Behavior or browse relevant websites.
- Delivering paid ads to people based on “life events” such as recent moves, marriages and graduations.
- Checking products that are completely fee free and/or designed for consumers who need a “second chance” account.
- Accepting deposit applications online.
- Referral incentives for signing up friends/family.

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In other words, the David banks may want to pay less attention to the Goliaths and more on to the turf wars they can win. For when it comes to deposit growth in 2019, they have ample reasons to look up—gain—and step up the game.
FINTECH’S POSITIVES FOR DELIVERING DEPOSITS

Creating deposit growth the old-fashioned way only goes so far

By Patrick Sanders

We’re not saying that customers these days are lazy. Really, we’re not. But maybe, just maybe, they’re feeling a little entitled. Okay. Maybe a lot entitled.

But really, you can’t blame them. As with every other aspect in today’s “get-it-now” society, customers want their transactional lives easy as pie: not just any pie, mind you, but one fed to them in a hammock right before a long nap. Turns out businesses are all too happy to oblige, as it puts them in a far better position to succeed.

A good fintech solution offers customers an experience as seamless as when someone orders a new pair of sneakers on Amazon
So if your financial institution wants to increase the amount that customer deposit, and at the same time solicit business from new prospective clients, the best thing you can do is make it simple. Super simple.

“Banks are in a great spot,” says Mike Kerins, founder and CEO of RobustWealth. “They have millions of customers and interact with them every day. And so if I’m sitting in their seat, I want to figure out how to leverage those interactions even more and make sure that someone else doesn’t come in and take those customers away.”

That involves creating tools that make banks and financial institutions run smoother—and delivering great mobile sites that give customers complete access to their accounts, no matter where they are. And in the age of big data, it also means knowing as much as you can about your customers so you’re ready to offer them a product, even before they know they need it.

To that end, fintechs offer a vast array of powerful tools. Banks, credit unions and other financial institutions can now:

- gather information about their customers’ needs, browsing habits and life events,
- use it to help customers open accounts, transfer funds, apply for loans and mortgages,
- provide investment options,
- handle complicated transactions and loans with speed.

“Banks is a data-heavy industry, particularly with loan facilitation,” says Trevor Dryer, CEO and co-founder of Mirador Financial. “Banks that implement lengthy, paper-based applications miss out on opportunities for customer engagement. By partnering with lending platforms that utilize predictive analytics algorithms, banks can streamline the constant customer data mining and decisioning processes.” And that means faster loan completion, “opening up more time for customer engagement and retention and leading to increased deposits.”

MAKE IT SEAMLESS AS IT SEEMS

Kerins believes a good fintech solution offers customers an experience as seamless as when someone orders a new pair of sneakers on Amazon—cited again and again as the ecommerce gold standard all banks should aspire to follow. RobustWealth is designed to help banks and investment advisors integrate multiple platforms into one suite that includes billing, account management, investment portfolios and automated rebalancing.

“We enable banks to offer a variety of products digitally including investment solutions to their customers,” Kerins says. “It means that a bank can deepen that customer relationship by including investment solutions and financial advice planning—in addition to their traditional banking relationship—so others don’t come in and offer investment services instead.”

David Wallace, global financial services marketing manager at SAS, says fintech can utilize artificial intelligence and machine learning to anticipate what customers need in the digital banking age.

“AI and machine learning can help banks follow customers in their journeys using mobile and web banking apps,” Wallace says. “These insights can enrich the banking transaction data banks have traditionally analyzed to provide real-time context and insight into customer needs.”

With a 360-degree view of customers and their changing needs, “AI and machine learning can also predict the timing and the content of communications customers will perceive as helpful to their financial well-being, instead of traditional offers for products that the customer either already has or has told the bank they do not want or need,” Wallace says.

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Happy customers means bigger deposits. Wallace says. “This positive experience makes it more likely that customers will stay with the bank, adopt additional products and services that grow deposits, and less likely they will move to other firms because of dissatisfaction.”

EDITORIAL ADVANTAGES

Even Financial, which focuses on connecting high-wealth customers with its network of clients, uses targeted editorial content on web portals such as The Penny Hoarder, says John Ventura, president of Even Financial. The company is currently testing products to attract depositors in money markets, high-yield accounts and CDs.

“We’ve been running and integrating our deposit offers with personal financial management platforms and applications,” Ventura says. “And in those environments we have the ability, in conjunction with those partners, to detect consumers who have large sums of money and have demonstrated a past need for finding a place to get the best returns.”

For Even, apps mean that “we can present that customer with a message that makes it clear they may want to place their money where they can earn higher interest,” he says. “And in that case, the customer will tap through and then see a number of different options to do that.”

The sweet spot for growing deposits, Kerins says, centers on anytime, anywhere, any-way customer interaction.

“Sometimes customers will log in because they have a financial problem or need investment advice and want to solve it online,” he says. “And other times they may want to chat with a banker.”

No matter the customer’s choice, “Banks are in an interesting spot because they have some things nobody else has,” Kerins says. “They have the customers. They have all these branches and offices. All they need is a couple more tools to enhance that relationship.”

And, of course, to keep it easy as pie—spoon-fed, bank-baked, anytime, anywhere pie. 

Based in Maryland, Patrick Sanders is an assistant managing editor for U.S. News & World Report and formerly worked as an editor for The Associated Press and at newspapers in West Virginia, Connecticut, Pennsylvania and Indiana.

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How to win underserved consumers... and turn them into well-served banking customers

While underserved consumers have come with risks, smart banks can leverage well-designed services to produce wins for all.

BY KENNETH PATRICK AND VICTORIA DOUGHERTY
While no two banking customers are exactly alike, financial institutions often treat them the same way—and at a cost. Customers and their financial institutions both feel a negative impact when a “one-size-fits-all” services philosophy fails to meet the needs of certain segments.

One such segment is the underserved. According to the Center for Financial Services Innovation (CFSI), more than half of American adults struggle financially at least some of the time. Consider these statistics:

» A recent study by CareerBuilder said 78 percent of consumers are living paycheck to paycheck and need help with cash flow.

» A Federal Reserve study said 42 percent of consumers couldn’t come up with $400 for an emergency expense such as a car repair.

» USA Today reported recently that 58 percent of millennials can’t make ends meet without financial help from family or friends.

To cope, about one in five consumers use alternative sources to meet their financial needs—instead of turning to their trusted banking relationship, according to the FDIC.

WHO ARE THESE UNDERSERVED CUSTOMERS?

Underserved customers have low credit scores, as well as low-to-moderate or volatile incomes. They also include small business owners who don’t qualify for business credit and can’t make ends meet while waiting to be paid.

Examples of underserved customers include:

» A single mom who works a part-time job while attending college. Her tuition will be withdrawn from her account tomorrow, but her child support check only arrived today.

» A construction worker who hasn’t been able to work for a week due to poor weather. His car payment is due in two days and he doesn’t have the funds.

» The owner of a small design firm waiting to get paid for a big job, but has to make his payroll today.

Often these consumers turn to alternative financial services providers for short-term solutions because financial institutions don’t offer similar solutions.

SO WHY AREN’T FINANCIAL INSTITUTIONS SERVING THIS SEGMENT?

Financial institutions aren’t charitable organizations. They have shareholders who expect them to operate at a profit. So financial institutions have historically had to make painful decisions on whether to offer some products to all account holders. And those who may need the products and services the most are today excluded from qualifying for them: consumers without a credit history, or with poor credit and repayment history, prior banking losses or a recurring negative account balance.

When consumers turn to alternative providers, they generally pay more in fees than they would at their financial institution. They also often receive lesser services. Clearly, if financial institutions could lower their risk in providing these services to underserved consumers, both would benefit.

WHICH TOOLS ARE AVAILABLE TO CREATE ‘WELL-SERVED’ CUSTOMERS?

To build and retain relationships with these customers—and help keep their financial health intact—financial institutions must empower underserved consumers with tools and services that provide point-in-time awareness and a range of liquidity options to help them anticipate and avoid problems.

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Typically, financial institutions have offered reactive solutions such as overdraft protection, usually based on each customer’s ability to repay. But financial institutions can—and should—provide proactive services to prevent deficits. This can help the customer in times of short-term financial need and minimize the risk to the financial institution.

These include:

1. Notification services
   Just by giving these segments point-in-time awareness of events—such as alerts for upcoming transactions and low-balance situations—financial institutions help account holders avoid negative impacts to their financial health.

2. Accelerated funds availability
   By providing immediate access to deposited funds at the teller, ATM or via the mobile channel, this service protects the customer and bank from the risk of returned items.

3. Small-dollar, short-term deposit-based loans
   By offering short-term lines of credit or loans (generally under $1,000) payable within 90 days, financial institutions can help customers bridge their liquidity needs in a quick, convenient way. These loans or lines of credit are primarily qualified on deposit account history.

   It isn’t enough to provide just one of these services. Today’s underserved consumers and small business owners require a range of forward-thinking services to fully meet their financial needs. And while credit access remains an important focus for small businesses, it represents only a piece of the full picture of small business financial health.

   Broader opportunities exist to address the full range of small business financial stressors and needs, such as limited time for financial management, cash flow volatility and barriers to startup funding.
WHAT'S IN IT FOR FINANCIAL INSTITUTIONS?

According to CFSI, underserved consumers spent $173.2 billion on fees and interest in 2016 across five financial product categories, including single payment credit, short-term credit, long-term credit, payments/deposit account and other products/services. This revenue opportunity can move some of that share of wallet back to the institution—but it's not the only benefit. Some of the most-needed services are not yet mainstream, and the resulting market differentiation could drive new account acquisition. Existing account retention and increased balances can also serve to match deposit growth goals.

By marketing a suite of services that help underserved consumers and small businesses bolster their financial health, financial institutions can gain a competitive advantage. The ultimate goal: By providing these additional needed services, they turn underserved customers into well-served, loyal customers. And to that end, the mutual benefits of reaching the underserved cannot be overemphasized.

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From deposit competition to determined direction

Ultra-low interest rates are history and the road ahead unmapped. But some scrappy banks have drawn new maps to success.

BY JEANNE PINDER

Call it the slowwwwww squeeeeeeze: Competition for deposits has produced tremendous force—the kind steamroller drivers would envy—as big banks, fintechs and smaller banks feel the pressure to collect the money they badly need to fund loans.

And as the Federal Reserve continues to raise interest rates, so rates on savings accounts and CDs have moved higher than in years. Competing for those depositors, to put mildly, has become fierce.

“Nearly nine out of ten banks have a funding gap, meaning loans in their market are anticipated to grow faster than deposits,” says Anne High, senior bank strategist, bank intelligence at Fiserv. “As a result, deposit costs are advancing and we project they will increase further.”

“The winners will be those institutions that can offer their customers something more than a rate: rather a bank that they trust and want to be with.”
Is this a crisis for banks? Or about to be a crisis?
Greg Wempe, chief client officer at Kasasa, thinks that for community banks, the picture isn’t as dire as some might think. “Some are still flush with deposits, so they could actually benefit from seeing some of those more interest-sensitive deposits—which are the most expensive for them to keep on the books—leave their balance sheets,” Wempe says. That group is shrinking, though. “For community banks that have seen their loan demand reignited and need deposits to continue to fuel that flame, having to fight for those deposits could prove problematic,” he says.

Crisis no, dilemma yes, says Lindsay Lawrence, chief operating officer of California’s First Foundation Bank. “The challenge, especially for community banks, is that we still see that the large institutions aren’t adjusting. This causes all of the community banks to become extraordinarily competitive.”

Yet Lawrence, who oversees First Foundation’s deposit banking activities, adds this: “I also see an opportunity. Now that rates have moved so much and the big banks are still so low, the hope and potential winning strategy is that we will start to displace those big bank clients and get them to finally move.”

“At this time, renewed focus on deposit generation is wise,” High notes. “Competition in this cycle is likely to be much different than the last time banks faced this type of an environment, because of the ease with which customers can now shop rates nationwide.”

FOR CONSUMERS, WHAT RATES BEYOND RATE
Among banks big and small, who’s succeeding and what do their winning strategies look like?
“The winners will be those institutions that can offer their customers something more than a rate: rather a bank that they trust and want to be with,” Lawrence contends. “That really is going to be the winning solution, because everyone will be rate competitive. It’s being there for your clients and doing the right thing for them every time.”

High of Fiserv says: “One key to attracting more deposits is deepening customer relationships. This can include utilizing analytics to better understand your customers, what share of wallet you own and where to prioritize cross-sell opportunities. An example of low-hanging fruit would include the promotion of additional account services to current loan-only clients.”

Fiserv is an advisor to the Korean-American Open Bank, a Los Angeles-based institution that grew from $206 million in 2013 to $901 million at the end of 2017. A new CEO, Min Jung Kim, was convinced that Open Bank could better serve small and medium-sized businesses in the Korean-American community.

You could also say that Open Bank is growing deposits at double-digit levels through faith in its business—literally. A blog post describes how the bank went from one branch in 2012 to eight branches today, “with a vision rooted in faith-based values to serve as a steward to its communities, customers and employees.” The website even quotes Matthew 5:16: “Let your light so shine before men that they may see your good works and glorify your Father who is in heaven.”

COMPETITION IN THIS CYCLE IS LIKELY TO BE MUCH DIFFERENT THAN THE LAST TIME BANKS FACED THIS TYPE OF AN ENVIRONMENT, BECAUSE OF THE EASE WITH WHICH CUSTOMERS CAN NOW SHOP RATES NATIONWIDE.”

ANNE HIGH, SENIOR BANK STRATEGIST, BANK INTELLIGENCE, FISERV

HIGH TIME FOR LESSONS FROM HIGH-TECH LEADERS
Joe Salesky at CBMMind says a winning strategy combines product and ease of communications. “At the core, are you easy to do business with? Is it easy to open an account or develop a broader relationship, as easy as buying something on Amazon? The consumer responds to both value and convenience,” he notes.

First Bank in the Carolinas offers “a terrific example of a community bank focused on organic growth in their communities,” Salesky says. The bank has a single set of documents to e-sign and onboard customers, which makes it simple and fast.

“Get the right product,” he stresses. “Apple doesn’t want you to get just any product, they want the right product for you. It’s not as much selling as fitting to the right products.”

Then there is Silver State Schools Credit Union in Nevada, which has racked up roughly two dozen quarters of consistent growth. “It’s a tremendous example of growth through service, value in their offerings, and a brand that is known for this,” he says. “Silver State has done this with a classic focus on the community.”

Wempe also suggests a sound strategy through demand deposit accounts, or DDAs. “Traditional deposit tools—CDs, money market accounts [MMAs], savings—are purely margin plays,” he says. “Given that margin is the problem, the only way these can work is through volume.”

Larger volumes require more competitive rates, which further squeezes margins. That said, “The oft-overlooked beauty of DDAs is that unlike CDs, MMAs and savings accounts, they bring in both deposits and non-interest income,” he says. “When your interest margin starts to compress, your only opportunity is to look to the non-interest side of the books, and that is where DDAs and the deposits they bring with them really shine.”

Are there any historical points that can suggest bold alternate courses of action? That depends—especially when we’re making history even as you get ready to make your next banking transaction.

“Rates have gone up and rates have gone down throughout modern history but we’ve never been down for ten straight years and then just started up,” Lawrence points out. “We just simply don’t know because it’s a bit of an unprecedented time.”

Wempe agrees. “Anyone looking at historical behavior as an indicator for how to address this problem today will run into two big issues.” First, historical data won’t reflect “the influence of fintech and non-traditional bank or credit union players now competing in this space”; and second, there is “the unbelievable increase in regulatory influence on lending.”

Wempe’s conclusion? “Said plainly, there’s no map from someone who has done this before.” Or if you prefer, this slowwwwwww squeeze—crawling at steamroller speed—lacks precedent, defies prediction and demands proactivity.

Jeanne Pinder is the founder of ClearHealthCosts.com, an award-winning startup bringing transparency to the health care marketplace. She was an editor, reporter and human resources executive at The New York Times for close to 25 years, and has also worked at the Des Moines Register, Associated Press and Grinnell Herald-Register.