BankersHub
Getting from Here to There

Newsletter Article

February, 2016

WILL "DEPOSIT ATROPHY" STRIKE YOUR INSTITUTION?

By Neil Stanley

ABOUT THE AUTHOR

Neil Stanley is CEO/Founder of The CorePoint, an Omaha, NE based consulting firm, offering a web-based retail deposit pricing and sales platform. In addition to running Bank Performance Strategies, Neil has also served as an Executive for a number of financial institutions.

Email: Neil@TheCorePoint.com

The surge in non-interest-bearing deposits during and immediately after the Great Recession diminished the value of deposit gathering activities. With depositors' flight to safety and low interest rates, bankers saw a "peace-dividend" in their interest expense due to the ceasefire regarding deposits. With industrywide surpluses it appeared to most bankers that they had no immediate reasons to maintain a competitive posture for deposits.

Is the industry about to wish it had kept a bit more of a "standing army"?

Long Stretch of Surplus

For many years, quarter after quarter, FDIC data shows that loan demand was less than deposit growth. Bankers couldn't effectively deploy the funds they had. Even though much of the deposit growth was non-interest-bearing, the deposits put stress on the banks' capital positions.

Bankers would declare that they had too many deposits.

Simultaneous with the surplus liquidity and competitive posture toward attracting earning assets, interest margins declined. Tighter margins reduce the already thin margin for error if bankers attempt to use interest rates alone to garner new deposits. The historically low level of interest rates, declining net interest margins, and surplus liquidity became the new normal for banking.

Like a military unit that has not seen action for many years while technologies evolve, personnel change, and the competitive landscape adjusts, previously successful approaches are at best hypotheses for effective solutions to problems that have not been engaged for a decade.

Deposit campaign capabilities can be expected to be sluggish and out-of-shape.

Without proper exploration and preparations, it is entirely unreasonable to expect that deposit gathering can resume efficient operations after such a protracted recess while there have been so many changes.

What Changed During the Flush Days?

Stop and reflect just how much society, and banking with it, has evolved in so short a time:

- **Technology leaped:** iPhones didn't exist when many deposit strategies were developed. (The Great Recession hit in late 2007, by one measure, after some gestation; the first iPhones went on sale in mid-2007.)
- **Anywhere can be "local":** Viable competitive alternatives from banks that don't have a physically local presence. Socially acceptable norms about doing business without access to local representatives evolved.
- **Disruption caught on:** Non-bank competitive alternatives boomed and blossomed. "Disruptors" have been changing what financial products look like.
- **Customer expectations:** The bar was raised regarding access, convenience, and service.
- **Generations changing:** Banker competencies changed as past leadership left and retired.
- **Regulatory shifts:** New liquidity regulations have changed the rules, especially for larger banks
- **Tools evolved:** New deposit strategy services like FICO, used for optimizing deposit pricing, were launched for the biggest banks.

Strategy Inventory Got Stale

Meanwhile, in the face of this and related changes, what happened in banking?

A recent Google search of "Deposit Gathering Strategies" produced a list of responses that referenced material sources dating back to 2005. The ideas found included: extending office hours, extending deposit cut-off times, utilizing customer contact programs, running open houses, offering free bill-pay, developing a website that features your deposit offers on every page.

Seriously!

The average age of the sources referenced was 6.3 years. The most recent source was published in 2013. That begs the question: How out-of-date is the financial services industry regarding attracting and retaining profitable deposits in anything other than an ultra-low interest rate environment?

Don't Believe It? Look Inside Your Own Institution

Think a Google search is an inappropriate way to assess today's bank strategies? Fair enough.

Test the atrophy in your organization.

It is easy, just go to an ALCO meeting and ask deposit managers how they would grow deposits today. If all you hear is noise about interest rates, you have atrophy.

Ask a banker what they can do to attract more deposit funds and you will often find some version of "If we pay more, we can get more."

They have just defined a supply curve.

There is no strategy in recognizing that the market will respond with more volume if higher prices are offered.

Unless bankers can produce a coherent funding program that differentiates the value of their offerings to today's highly-informed and capable depositors, the "pay more to get more" approach will likely be quite painful to put into practice.

Just picture deposit customers sitting in front of one of your retail bankers Google searching deposit interest rates on their iPhones.

That's today's reality.

Conquering Deposit Atrophy: A Checklist

I suggest several important steps to reviving the effectiveness of deposit campaign capabilities. Most importantly, don't wait until you are out of funding to launch a serious deposit growth campaign.

A checklist of best practices that remain necessary:

1. Consistently attract and retain all the non-interest bearing deposits possible.
2. Offer and promote fairly priced interest-bearing non-maturity accounts.
3. Adopt funds transfer pricing for proper cost accounting.
4. Consistently communicate success metrics results for all stakeholders—volume, profitability, and duration.
5. Adjust early withdrawal penalties.
6. Utilize bump-rate options for time deposits.
7. Equip and train sales staff.
8. Inform and coach sales staff

Some simple, but innovative processes that bring your offerings up-to-date:

1. Use software to dollarize your offerings, that is, express percentages as dollar-denominated returns on deposits.
2. Produce customized maturity dates for time deposits.
3. Display comparative investment alternatives in terms of dollars at maturity.
4. Substitute a savings account with a CD yield rather than lose the money to another financial institution.
5. Time and define promotional specials by utilizing maturity schedu
6. Refinance conventional CDs for depositor financial windfall when interest rates rise.

Time to Get in Gear

Let's state what should be obvious, but perhaps has been forgotten during the flush times: A market's deposit dollars are finite.

So when the available funds are all deployed, it will be too late and too critical to start experimenting with untested deposit ideas.

So, to eliminate atrophy in deposit campaign capabilities, each bank's leaders need to champion the vigorous exploration and exercise of the processes and capabilities outlined above immediately. Staff must apply the common best practices from the first list above and explore, select, and implement some of the innovative processes that apply current technology.

Treat the depositor with the level of engagement that they have come to expect broadly in today's economy. Look for opportunities where customers attain value while simultaneously producing value for your bank.

Coming Soon to a Computer Near You!

Click on the Topic to Learn More and Register