

Deposit Growth & Retention Strategies in a Falling Rate Environment

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This session will cover:

- How deposit value increased as rates rose
- Why deposit value is at risk, and what to do about it
- How marketers need to rethink their approach to deposits

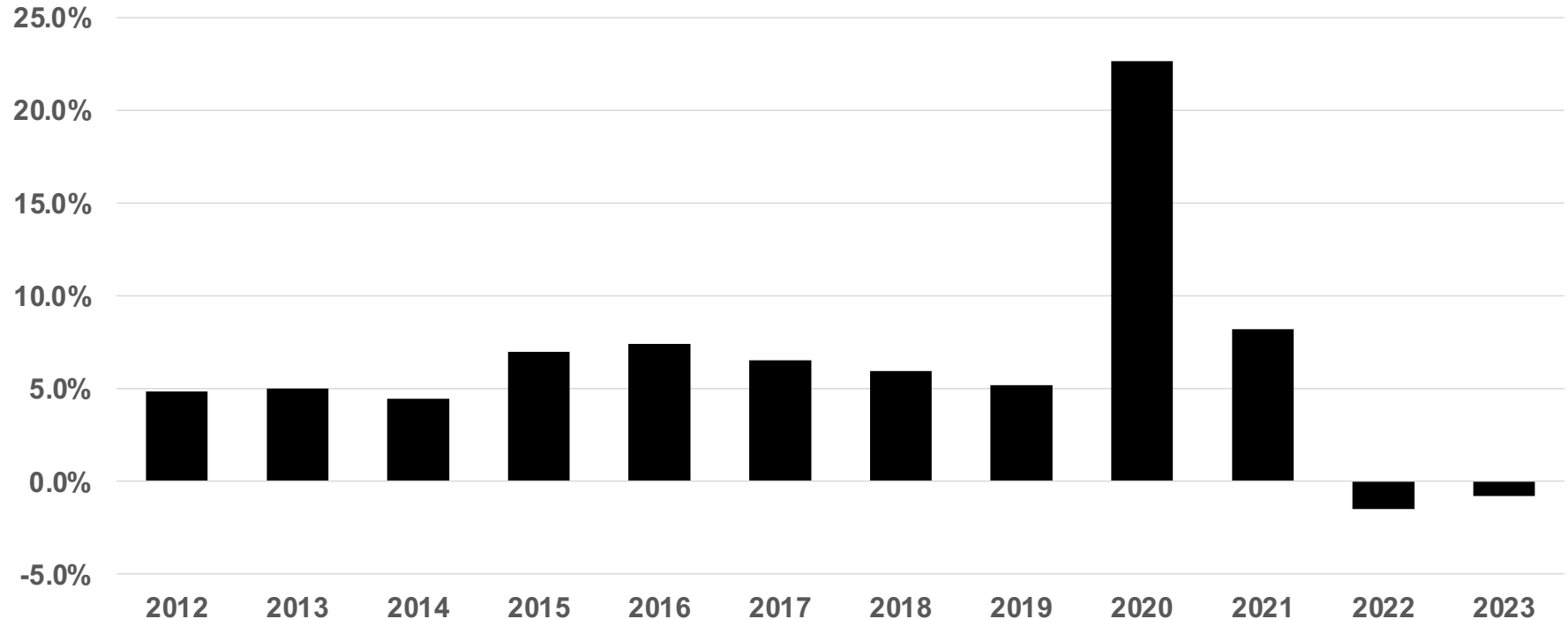
Deposit levels decreased and value increased as rates rose – deposits continue to be a top priority for most FIs

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Retail deposits used to grow no matter what – until 2020!

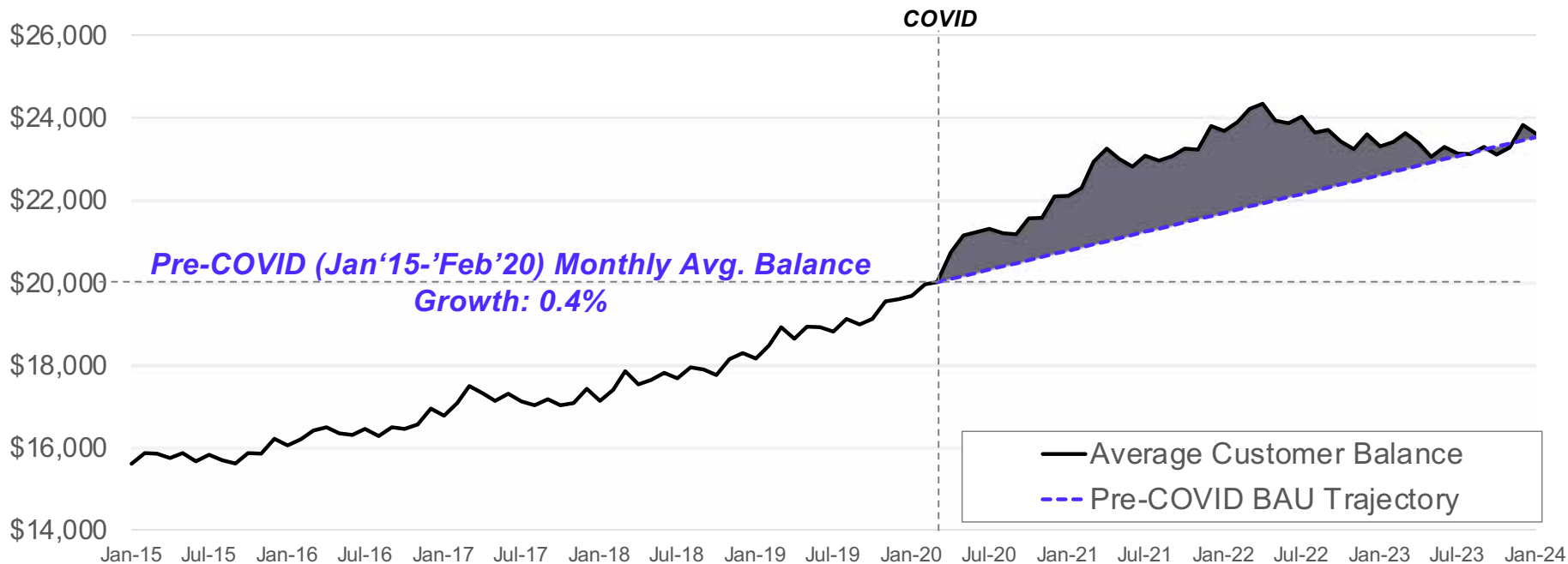
Total Year/Year Retail Deposit Growth



Source(s): FDIC Call Reports, Curinos Consumer Deposits Analyzer

Consumer deposits are down, but now aligned to pre-COVID trend

Monthly Average Consumer Balance | All Branch Products | Jan '19 – Mar '24



Source(s): Curinos Consumer Deposit Analyzer | Note(s): Simple averages displayed. * All Banks Set has been updated in 2024 to include more banks than prior given new additions to Analyzer benchmarks, and methodology for Pre-Covid trend has been updated to provide a more accurate portrayal of the overall industry trend given now different number of banks in peerset Pre vs Post Covid. Projection of Pre-COVID BAU growth assumes seasonal monthly average growth from the prior 5-year period continues had Covid not occurred

But we're not out of the woods yet – growth will remain slow

Curinos 2024 Deposits Forecast

Overall Consumer Deposits: 0 – 3%

Traditional FIs: (3) – 0%

Digital FIs: 10-16%

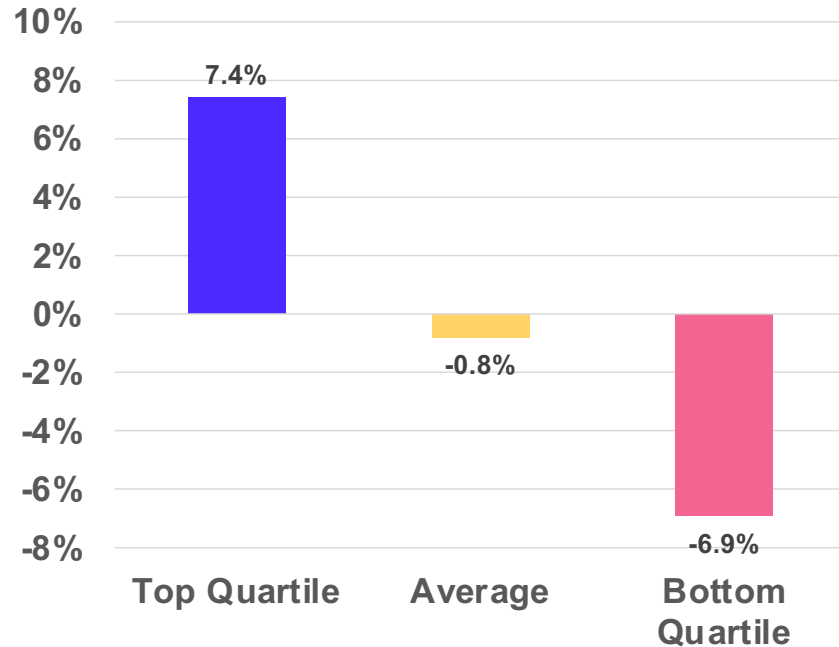
**Bottom Quartile:
(7)-(2)%**

**Top Quartile:
(3)-8%**

Some FIs have grown, but it's typically taken lots of rate

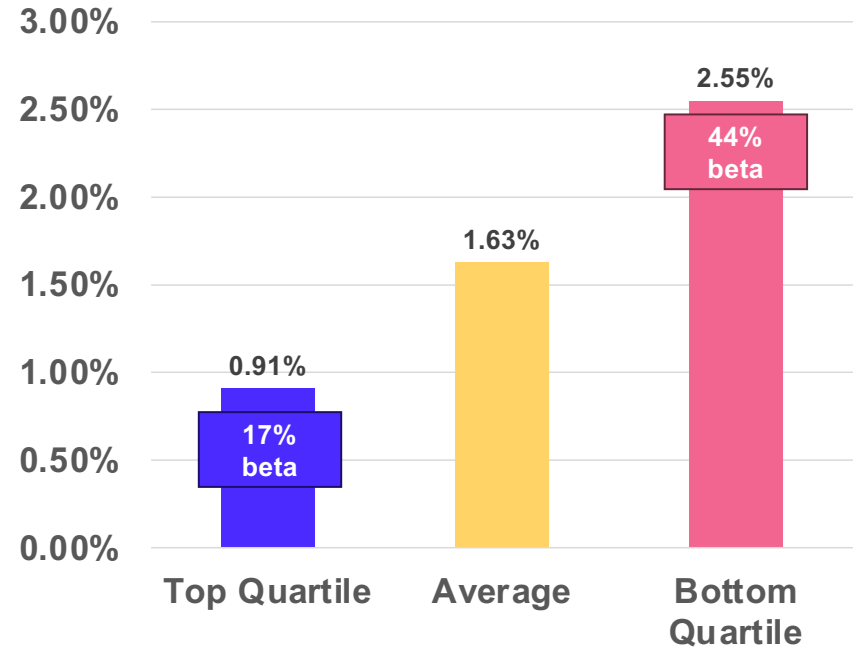
CONSUMER DEPOSIT GROWTH

All products, Dec '22 – Dec '23



CONSUMER INTEREST EXPENSE

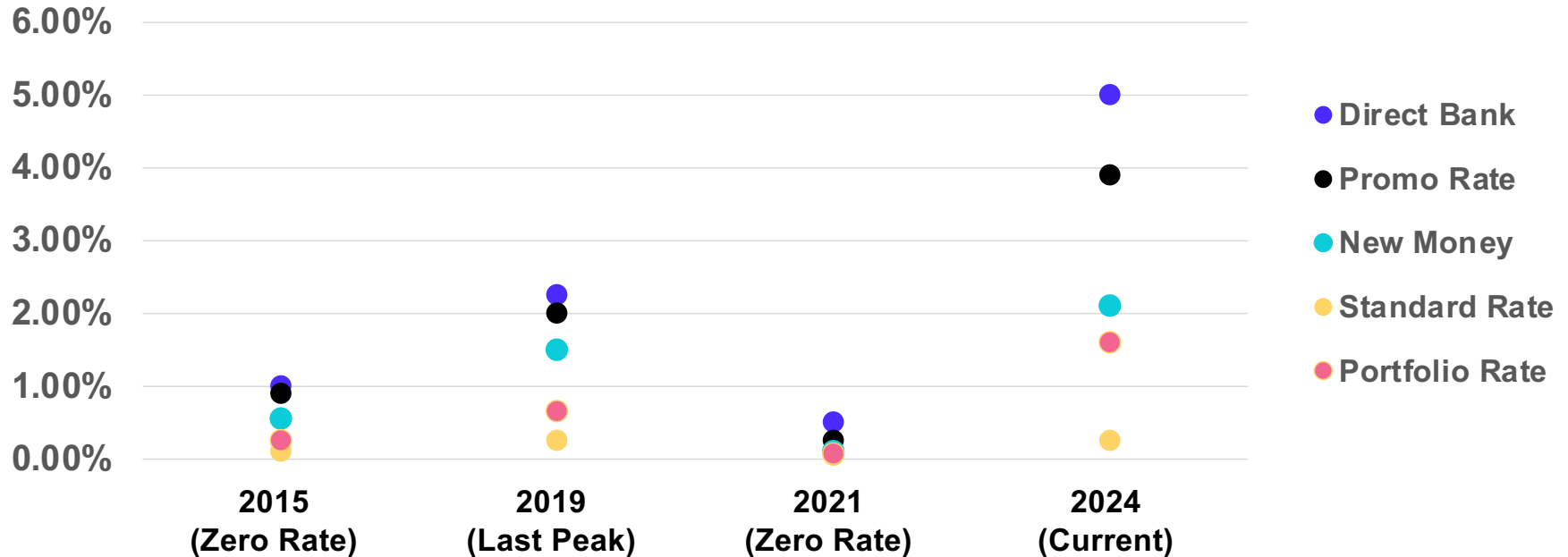
All products, through the cycle to Feb '24



Source: Curinos Consumer Deposit Analyzer

Rate dispersion has driven value, but added complexity

Savings/MMDA Rates



Source: Curinos Retail Deposit Rate Data, Curinos Consumer Deposit Analyzer

Deposit value has increased largely because elasticity is not linear

Typical Deposit Price Elasticity of Demand



Source: Curinos Analysis

Case study: What NOT to do

AverageSavings

1.00% APR

AverageMMDA

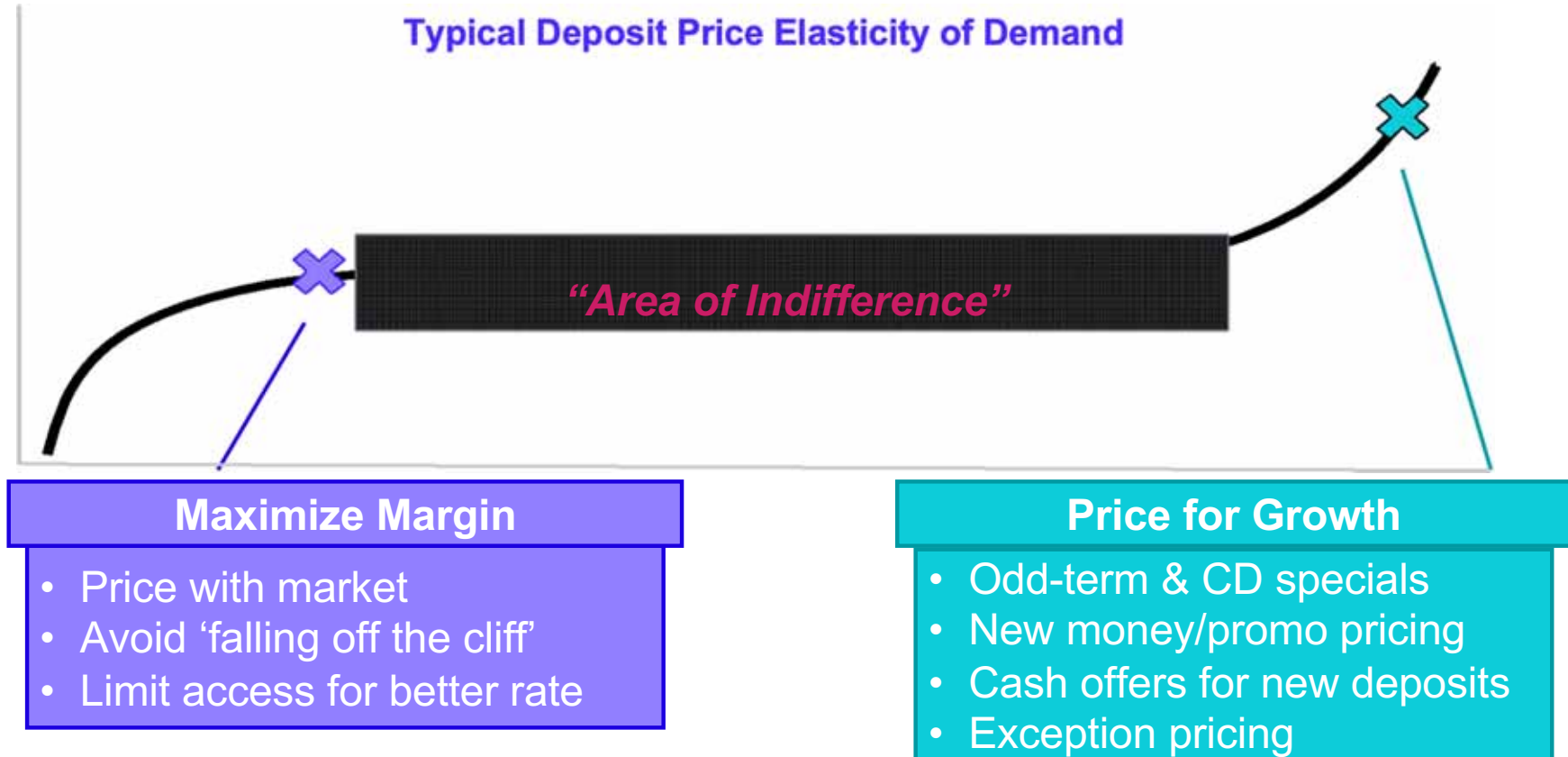
2.50% APR

Come to AverageBank where we pay above average rates to anyone, anytime

Why it won't work

- **Low acquisition** – Offer too low to attract new deposits
- **Repricing risk** – Higher rates will still drive existing client switch
- **Common pitfall** – “We want to be above average but not near top of market” is common, but often the *worst position to be*

So what has worked to drive value as rates rose?



Source: Curinos Analysis

As rates plateau, deposit value
is at risk – new plays are
needed to win

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Since the Fed stopped increasing, deposit costs have gone up:

48bp

Deposit cost increase since last Fed
increase July 2023

\$4.8MM cost per \$1B deposits

Maturing CDs

CDs acquired at 3.00% maturing into a 5.00% rate environment

Churn within Book

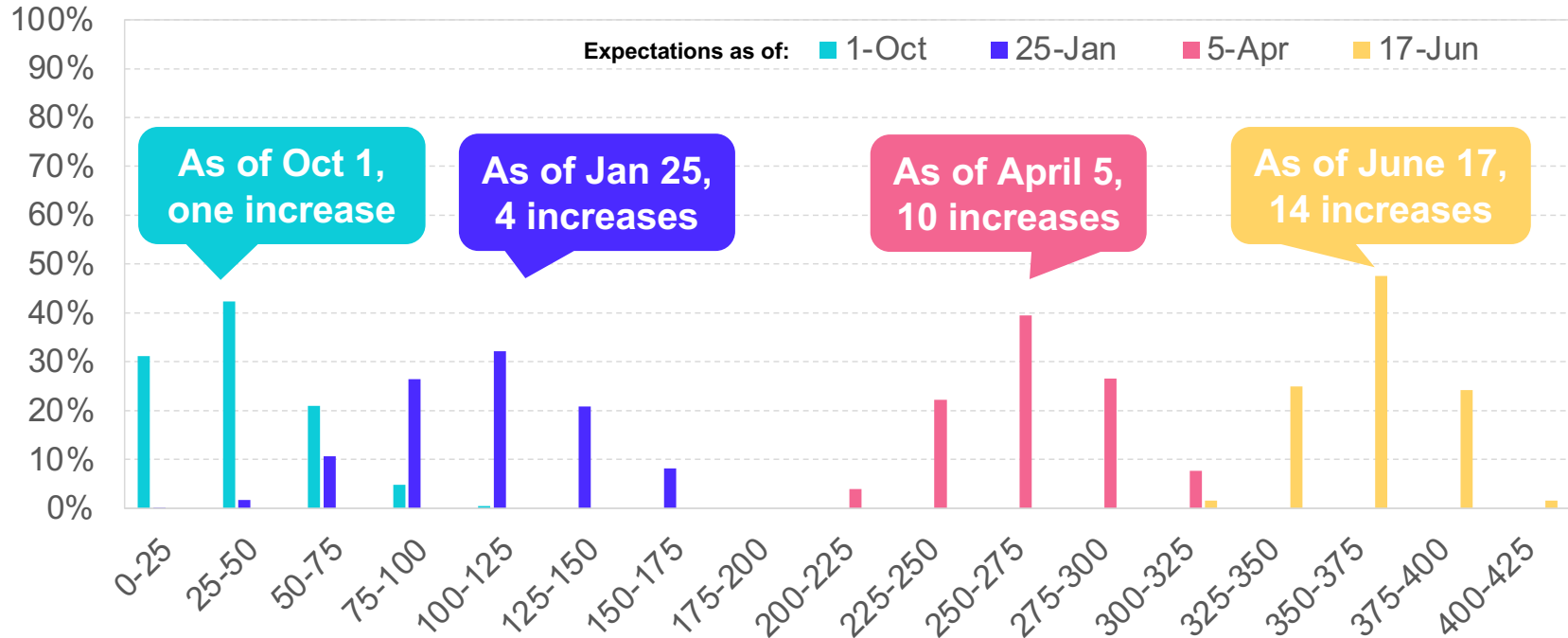
Checking & Savings switching to MMDA and CDs

Attrition Replacement

Money leaving book at 1.60% replaced by acquisition at 3.00%+

Falling rates will provide some relief, but when?

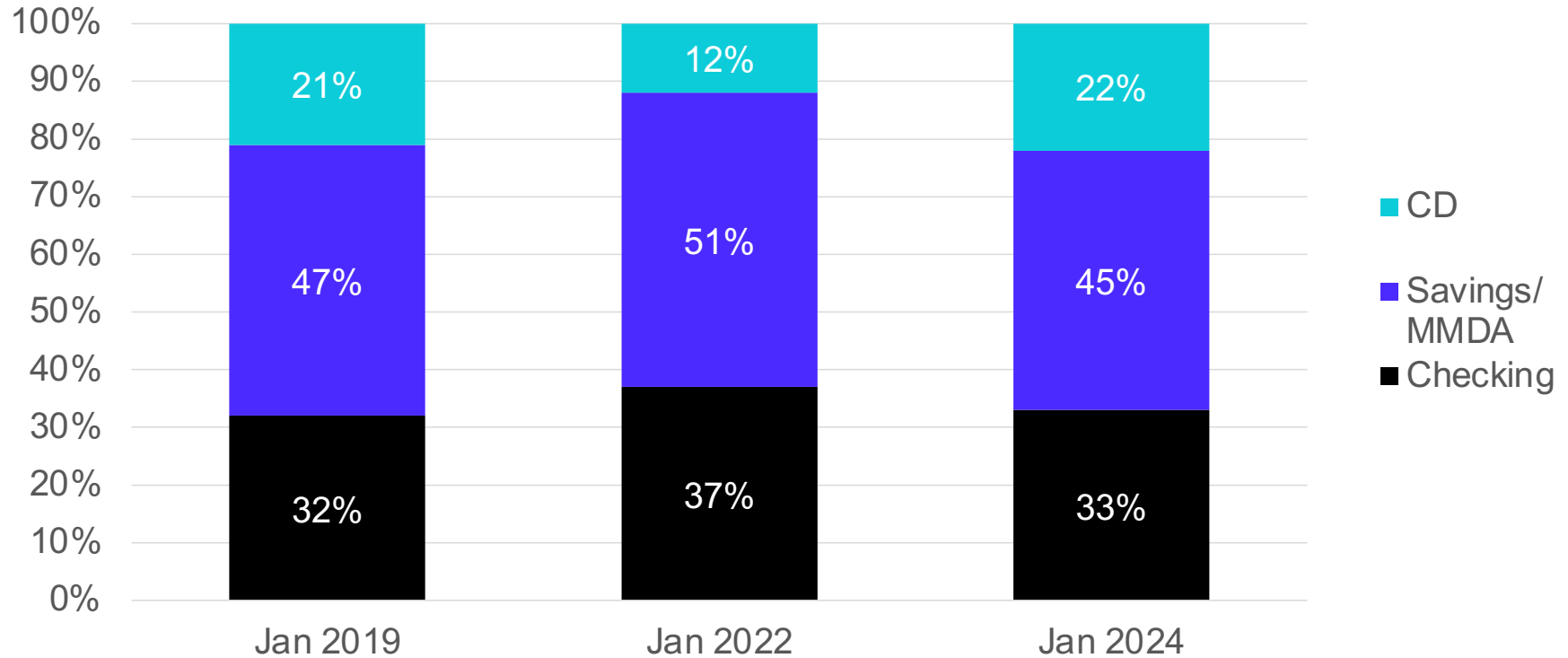
Market Expectations for December 14, 2023 Meeting



Source(s): CME Ratewatch

Expect Savings to regain share on CDs

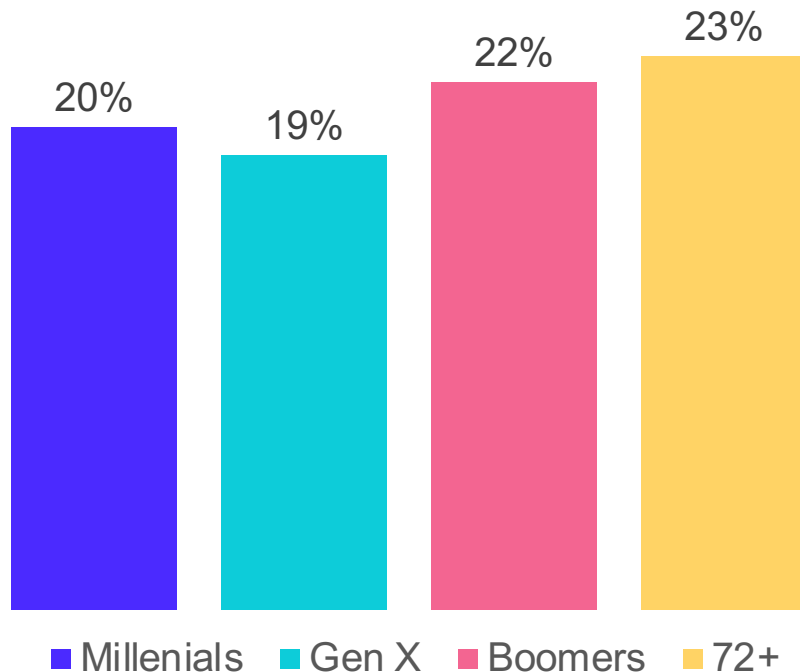
Consumer Deposit Mix



Source: Curinos Consumer Deposit Analyzer

...But CDs won't go away, even for younger consumers

CD Ownership, \$2000+ in Total Savings



**20% of
millennials with
savings have CDs**

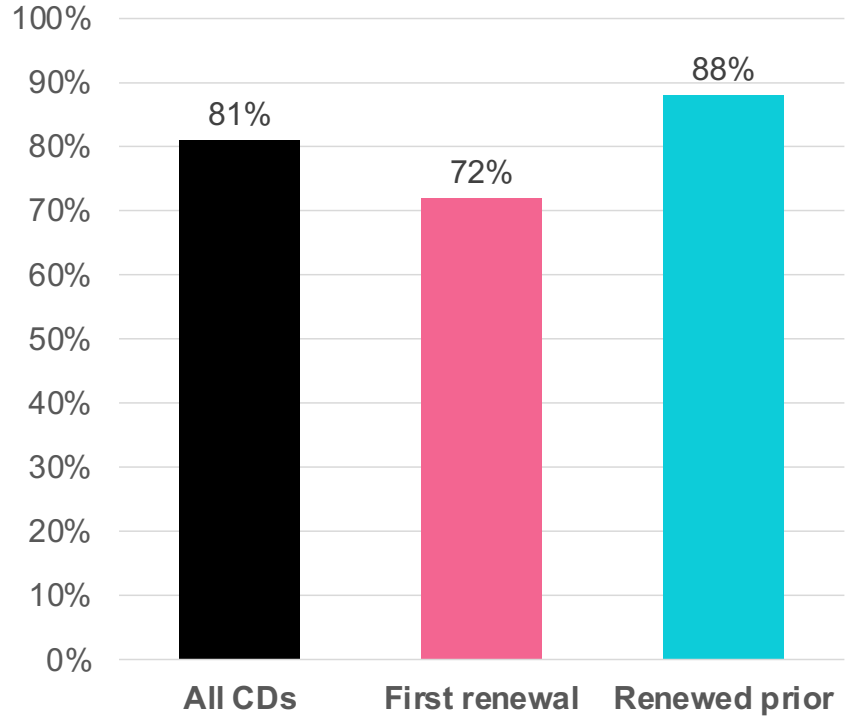
For consumers with over
\$2K in balance, there is an
**even distribution of CDs
among generations**

Source: Curinos Customer Knowledge | 2019 CBA Consumer Savings & Motivations Research (N=3,007) *sample weighted on age and savings balance

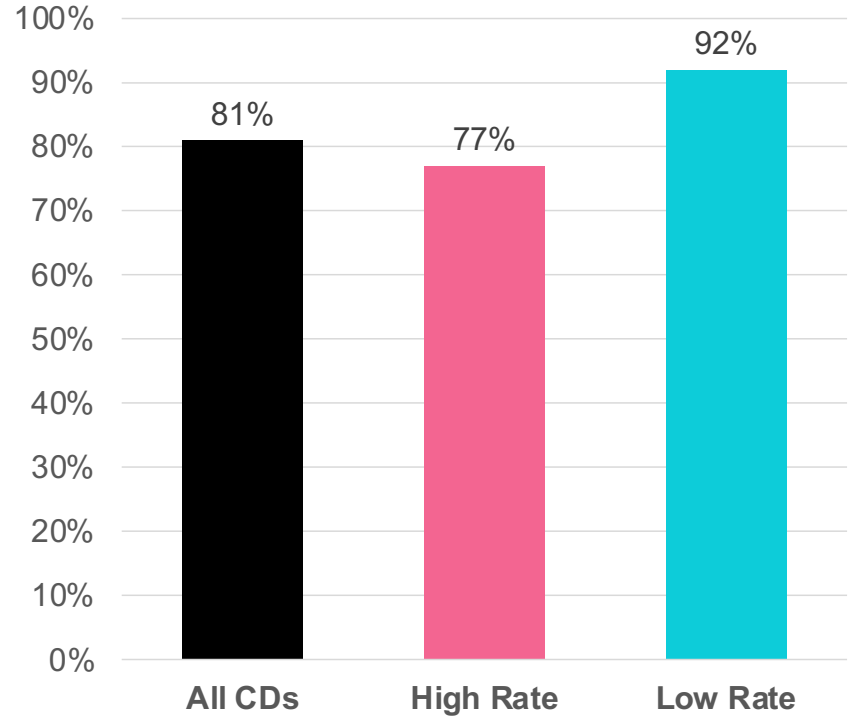
¹ respondent who have at least \$2,000 in total savings balance

CD retention risk will decrease, but careful management is key

Total Balance Retention after Maturity



Total Balance Retention after Maturity



Source: Curinos Analysis, Curinos Retail Deposit Analyzer | High rate defined as greater than the industry average rate for each 6-month period | Low rate defined as smaller than the industry average rate for each 6-month period | Simple average used to protect participant anonymity.

When rates do fall, three principles for success

Lower Less Elastic First

Identify less rate sensitive products, tiers, and consumer segments to make lower risk moves first

- **Lower balance tiers**
- **Non-top of market rates**
- **Multi-renewal CDs**

Go with the Flow

In a rising rate environment, moving up first brings an advantage; as rates fall, the first movers may see outflows

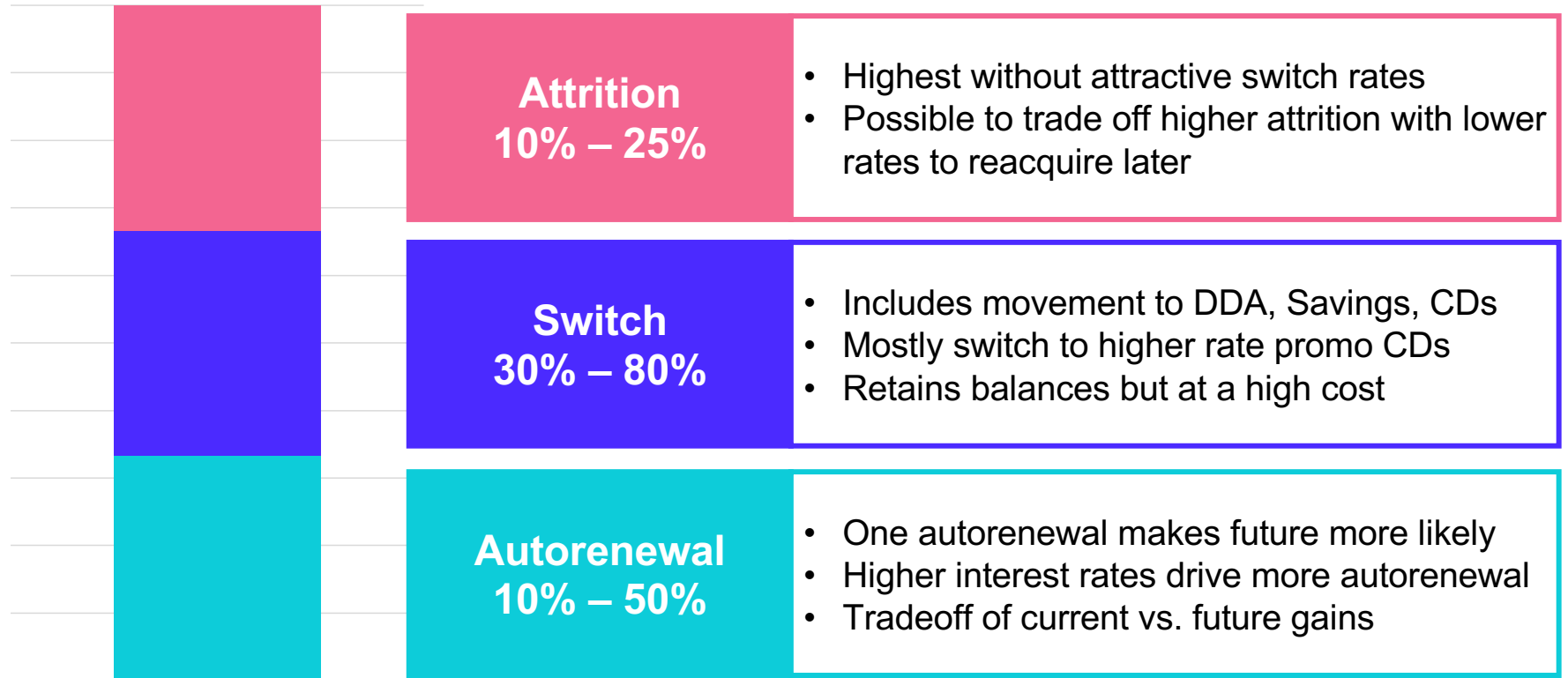
- **Move high visibility rates with the market, not before**
- **Digital first FIs have disproportionate risk**

Have a Backup Option

Rate sensitive consumers are likely to need an option to switch into as rates are lowered

- **Savings retention offer**
- **Odd-term CD**
- **Exception pricing**

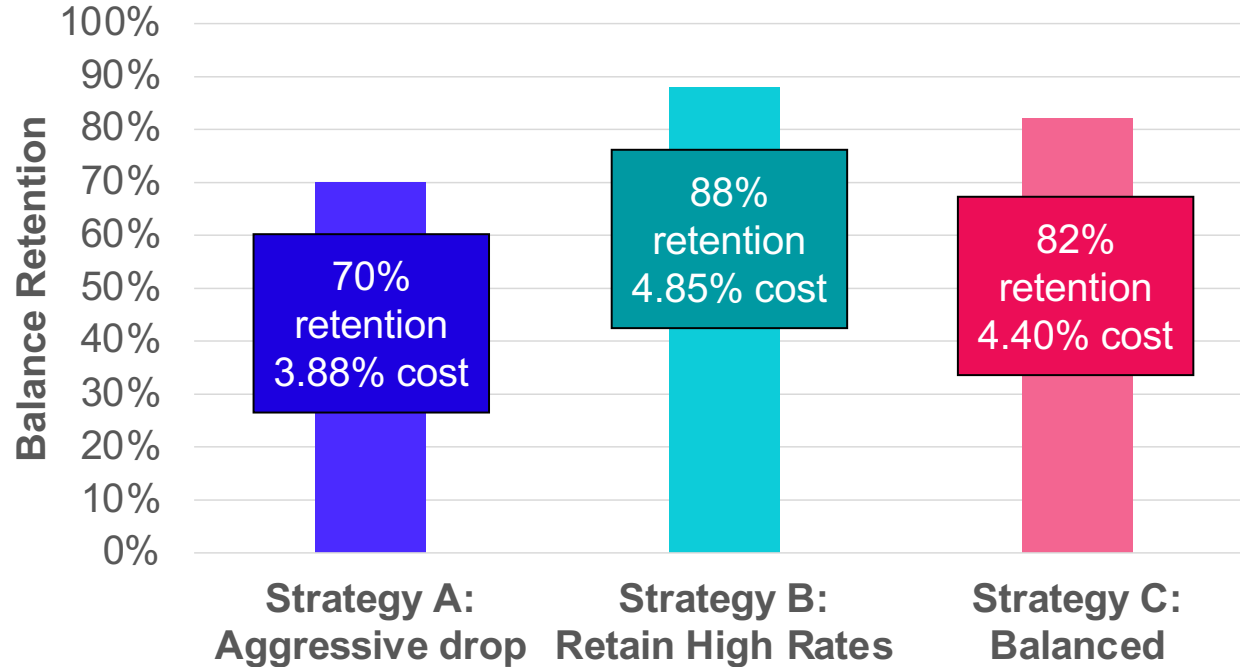
There are multiple paths to success on CDs



Source: Curinos Consumer Deposit Analyzer

Case study – pricing can lead to significant results changes

CD Renewal Scenarios



- Extremes can often be more efficient than aiming for balance
- Runoff now and reacquiring later can be another option
- Increase efficiency by rotating terms and balancing autorenew and promo rates

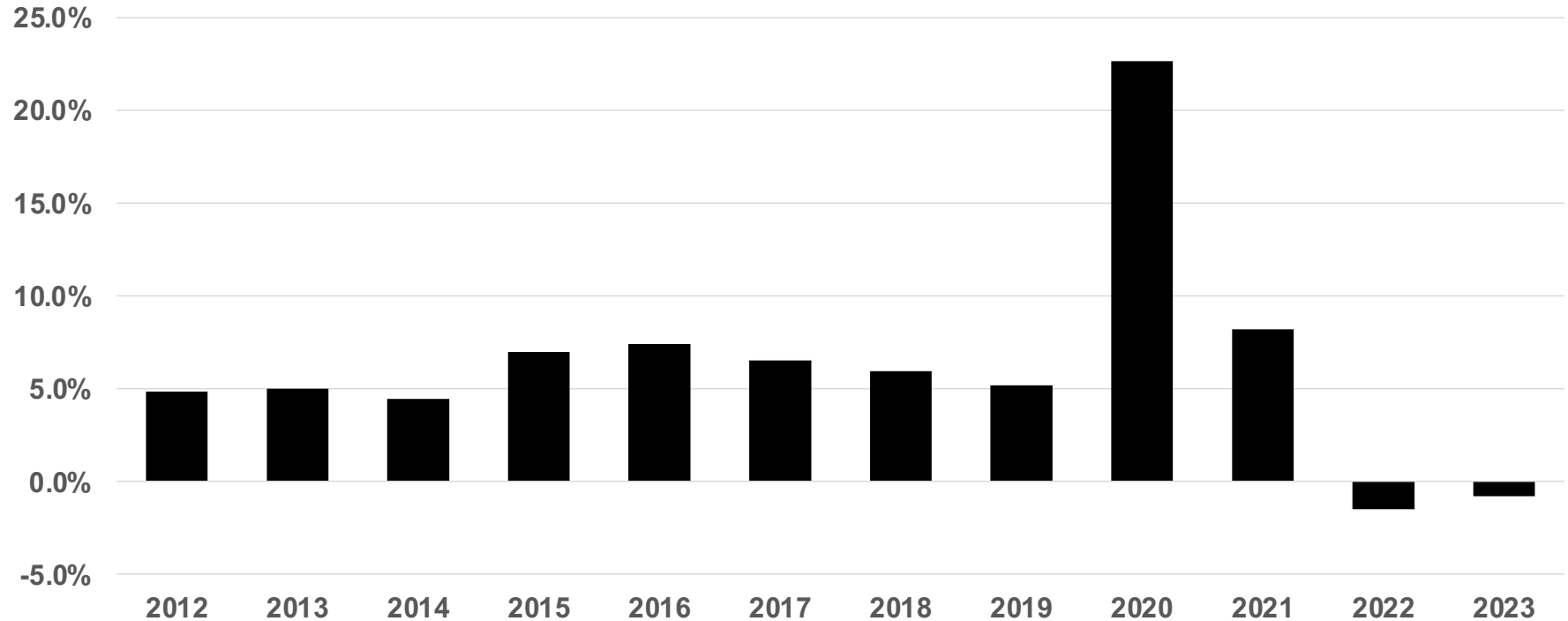
Marketing can no longer just
be about widgets – measuring
deposit quality is critical

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Deposits used to just walk in the door, so why spend marketing?

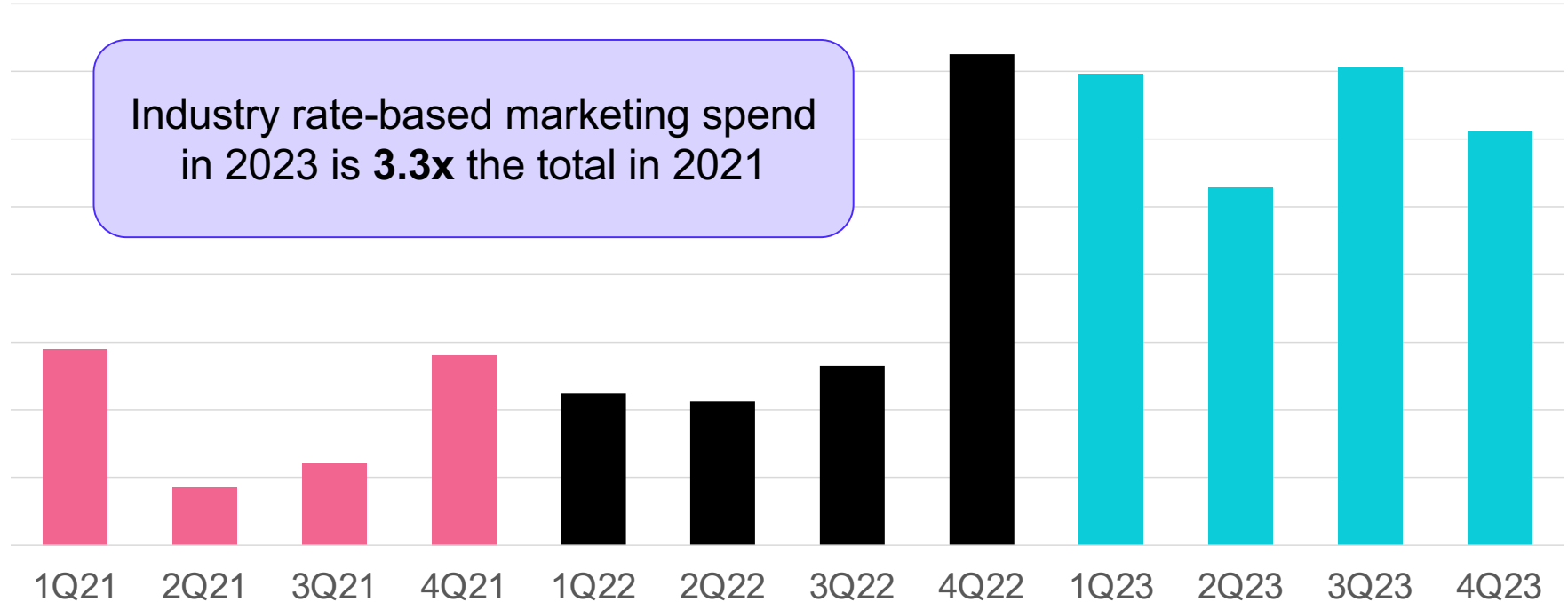
Total Year/Year Retail Deposit Growth



Source(s): FDIC Call Reports, Curinos Consumer Deposits Analyzer

FIs are now spending more on rate-based marketing...

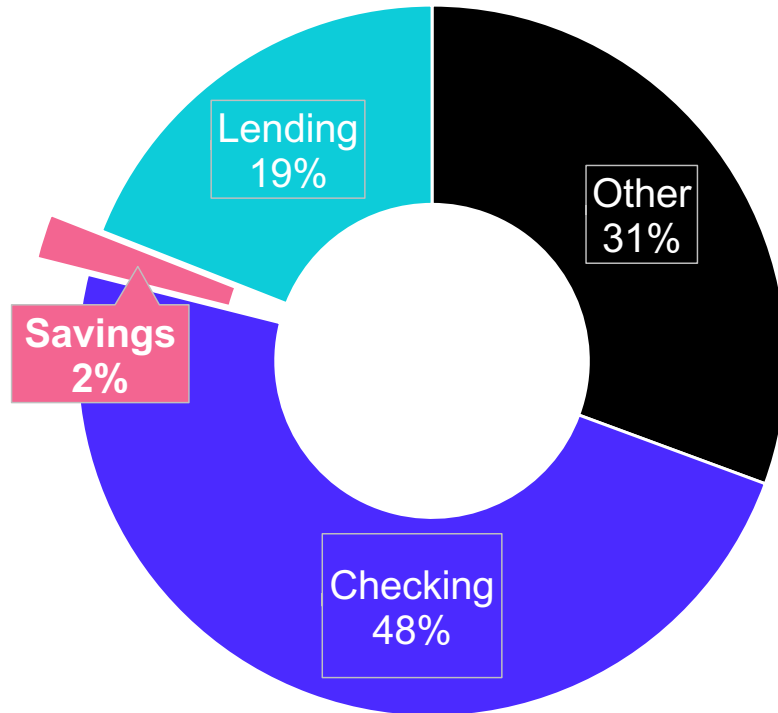
INDUSTRY SAVINGS/CD MARKETING SPEND (2021 – 2023)



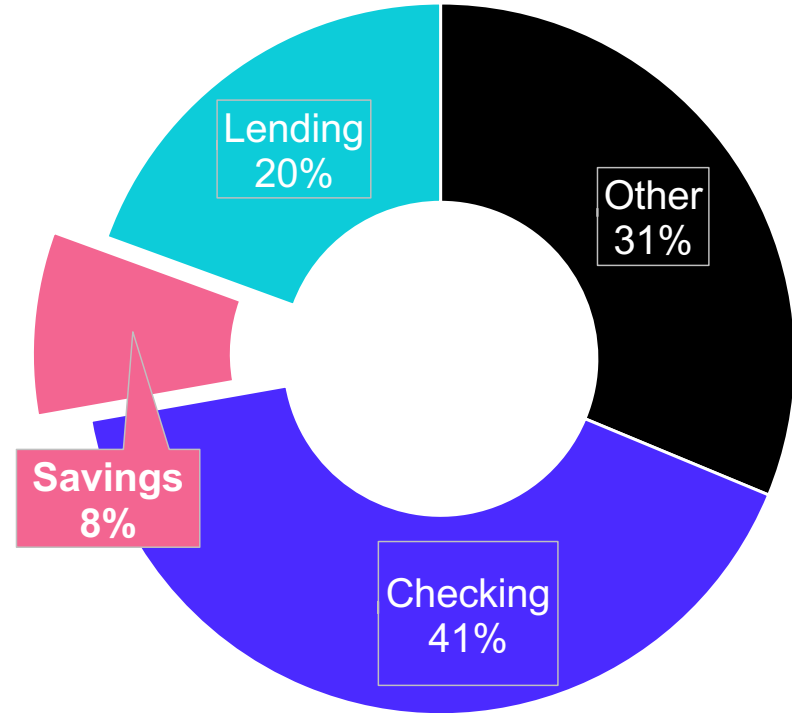
Source(s): Curinos Marketing Analyzer, Kantar, Comperemedia

...But rate-based spend is still a small portion of total marketing

2021 Industry Marketing Spend



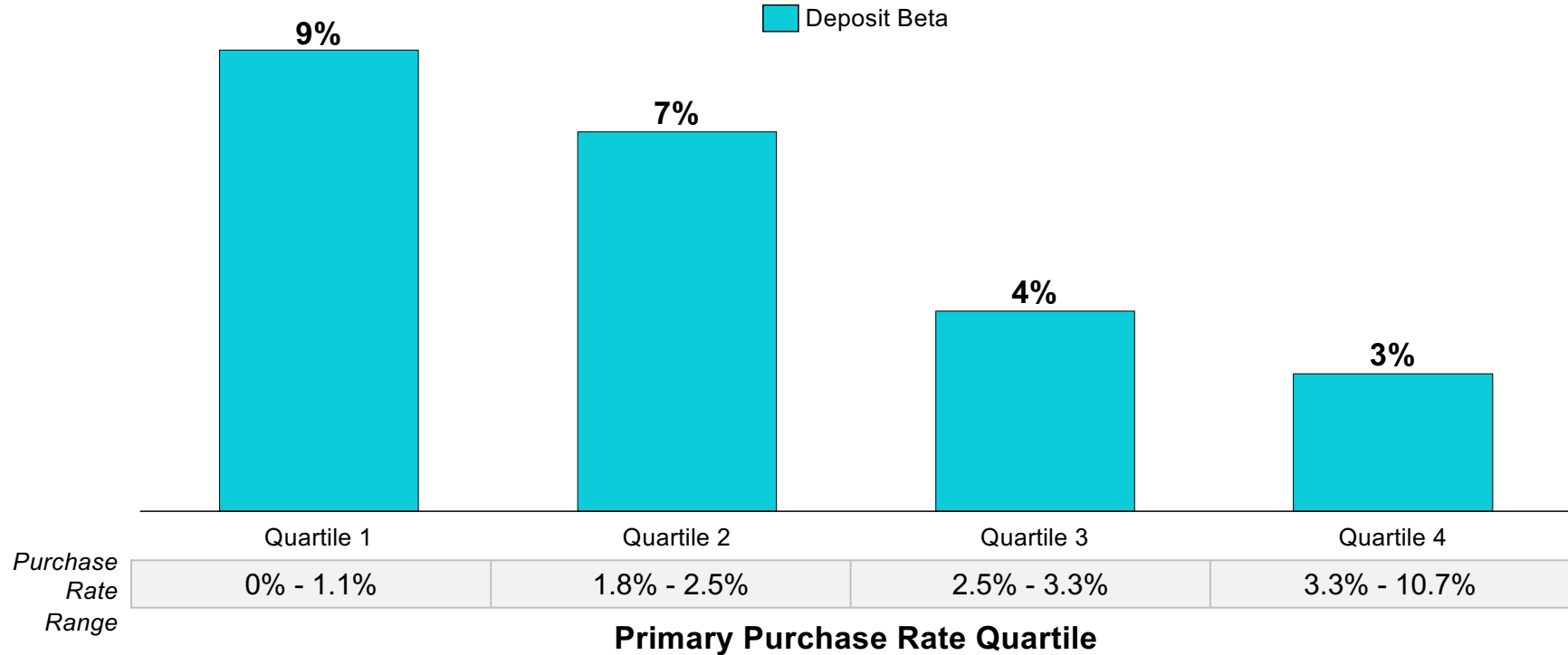
2023 Marketing Spend



Source(s): Curinos Marketing Analyzer, Kantar, Comperemedia

Primacy remains critical, and allows for lower rates on deposits

DEPOSIT BETA BY PRIMARY PURCHASE RATE QUARTILE (2023)



Source: Curinos Analysis, Curinos CDA/Pricetek, Curinos US Shopper Survey 2022

One way to measure value – Marginal Cost of Funds (mCOF)

$$\text{mCOF} = \frac{\text{Promo Interest Cost} + \text{Repricing Interest Cost} + \text{Marketing Expense}}{\text{New Balances} - \text{Lost Balances}}$$

Case Study: Marketing measurement must change too

The Old Way: CPA

Client A
\$300 CPA
\$300 marketing spend

Client B
\$500 CPA
\$500 marketing spend

Better: Cost per Deposit \$

Client A
1.50% per \$
\$300 marketing spend
\$20k new deposits

Client B
1.00% per \$
\$500 marketing spend
\$50k new deposits

Best: Marginal Cost (mCOF)

Client A
4.00% mCOF
\$300 marketing spend
\$20k new deposits
\$5k repriced

Client B
6.00% mCOF
\$500 marketing spend
\$50k new deposits
\$50k repriced

There are real differences between good and bad performance

Metric	Top Quartile	Bottom Quartile
Repricing	40% \$4 repriced for each \$6 new	70% \$7 repriced for each \$3 new
Retention	80% Remaining after 1 year	50% Remaining after 1 year
mCOF	<5.00%	8.00 – 14.00%
Impact on Portfolio Expense	75 – 150 bp	

How do you get to the top quartile?

- Thoughtful product and **promotion design**
- **New money requirements** and tracking on promotions
- Measurement and **optimization of price elasticity**
- **Clear communication** of non-rate value
- **Targeting the right people** with the right offers

ACTION ITEM #1

Double down on analytics.
Take advantage of elasticity differences and plan for multiple scenarios.

ACTION ITEM #2

**Shift tactical playbooks.
Emphasize MMDA and cash
offers, build scenarios, and
work towards
personalization.**

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ACTION ITEM #3

Measure quality, not widgets. Account for repricing and retention, make sure you're getting valuable deposits.

Thank you!

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