Whitepaper

Winning the Battle for Deposits: Why the Best Defense Is a Good Offense

In this whitepaper, explore approaches for deposit growth and retention in today's competitive banking environment, including how to:

- **Use analytics to precisely target marketing efforts and identify high-potential customer segments**
- **Manage deposit rate competition to maintain customer loyalty without compromising profitability**
- **Cultivate deeper banking relationships through comprehensive product offerings and enhanced service models**

The only certainty in life is change. This age-old adage doesn't just apply to life, it applies to banking, too. Economies are cyclical. Rate environments can change dramatically, and markets don't always react in the most predictable ways. Still, financial institutions will always need deposits.

Anytime interest rates rise, competition for deposits intensifies as consumers look for the best rates for their money. Today's Americans have no qualms about moving their money around, and individuals have more choices for their deposit relationships than ever before between digital neobanks, fintechs, and traditional financial institutions. In fact, FDIC data shows that the average American holds **5.3 bank accounts**.

When deposit competition is fierce, what can community financial institutions do to defend and grow their deposit base? And how can they accomplish this cost-effectively?

Conventional growth tactics often hinge on paying a premium for new deposits, yet can fuel rate wars that send depositors on the move. Even financial institutions with a strong deposit base must be defensive, as their existing account holders will likely be exposed to lucrative offers, higher yields, and new product offers.

The most successful financial institutions—those attracting deposits without negatively impacting their bottom lines—use data to inform their growth strategy. By leveraging data to inform deposit marketing, financial institutions can pinpoint the best opportunities to increase wallet share with current customers and carefully target prospective customers with offers aligned with the institution's growth goals.

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Begin With a Baseline

Executing a successful marketing campaign is no easy feat in any industry, especially banking, and it's no surprise that many financial institutions partner with a consulting firm or marketing agency to support their growth goals.

Community banks and credit unions face the challenge of picking the right partner. Winning the battle for deposits requires a team with the right expertise and a thoughtful execution strategy that starts with data.

Formulating an effective deposit strategy begins with clearly understanding your financial institution's current state. You can't expect to reach your destination without knowing where your institution is starting from.

An effective marketing strategy begins with benchmarking. Gaining a benchmark measure of your financial institution's current standing is crucial for knowing which key performance indicators to focus on and where the growth opportunities are. While this step may seem obvious at first glance, many financial institutions, particularly smaller ones, don't have a clear and accurate view of how their deposit base has shifted over the last few years. However, getting a baseline measure of your deposit base lays the foundation for a successful growth strategy.

Benchmarking your bank's performance will help your team identify appropriate metrics to achieve success. Not only does this help your team focus on the bank's most important goals and objectives, but it also ensures that campaign performance can be accurately measured and optimized once it's up and running. Measuring success accurately is nearly impossible without specific, targeted KPIs unique to your bank's growth goals.

Remember that many partners can tell you what data shows but cannot explain what your financial institution should do about it. A group with the right expertise will understand, present, and explain how to take your institution from its current state to its ideal state.

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A Deeper Dive

Beyond looking at deposits at a specific time (e.g., the end of the fiscal year's first quarter), financial institutions need to understand where there are opportunities for growth, what their strengths and weaknesses are, and what threats and opportunities they might have in comparision to competition. From there, leadership can develop a plan to mitigate churn and drive deposit growth with the right relationships and products.

This involves drilling into the balance sheet and analyzing it against customer relationships to learn which deposits are most likely to leave, what are the opportunities to grow deposits cost-effectively, which customers are ikely to have deposits elsewhere, and other insightful metrics.

By intersecting your view of customer relationships against your balance sheet, bank leaders can better understand which households are driving current value, future value, and even near-term risk in the portfolio, affecting the balance sheet. Consider the following questions to help frame the conversation:

- **How concentrated are your deposits? Do 4% of households control 50% of deposits, or do 2% control 65%?**
- **What is your single-service concentration, particularly in high-balance liquid accounts, that could move their money anytime?**
- **Are your high-deposit households anchored with core checking and lending products at a normative level?**
- **What percentage of your high-deposit checking households have their savings somewhere else?**
- **Are your checking and money market balances underfunded? By how much?**

An experienced partner will reveal these insights and determine how concentrated an institution's deposits are and with whom. Even better is when a consultant or marketing partner can compare these insights with an institution's peers, giving the bank or credit union a clear view of their current market share and what's possible. This level of analysis uncovers opportunities to boost growth in certain products and services, as well as address risks or threats to the existing deposit base.

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Potential Pitfalls

Navigate the challenges of competitive rate matching, the high costs associated with acquiring new deposits, and the intricacies of collaborating with marketing experts who may lack banking sector insight.

1 Copying Your Competitor's Rates

Some customers will inevitably move their deposits to other financial institutions offering above-market rates. Repricing existing deposits to keep up with the bank down the street is unlikely to keep these customers loyal long term.

If a customer is ready to jump for a few extra basis points, another financial institution is going to be willing to pay it. The key to sustained, profitable growth is not chasing rates, but cultivating deep, loyal customer relationships.

2 Paying a Premium for Net New Deposits

Many financial institutions also make the mistake of paying premiums only for new deposits.

They might pay as much as 100 extra basis points to attract new deposits. However, by offering current customers just 25 extra basis points, they could accomplish the same goal in terms of deposit growth while keeping the cost of funds more manageable.

This demonstrates the power of data to drive decisions about your deposit growth strategy. When data informs the strategy, bank leaders don't have to gamble with the cost of funds to attract deposits.

However, that's only half the battle, which brings us to the next common pitfall.

3 Banking on Marketers Without Banking Expertise

Many banks, especially community banks, lack the in-house expertise or bandwidth to thoroughly analyze deposit data and then use that analysis to drive their marketing campaigns. Instead, they often outsource this work to a consulting firm or marketing agency.

Yet, not every agency can make sense of the data and use it to find ways to maximize revenue and relationship growth through effective marketing campaigns—all while navigating the financial services industry's complex compliance requirements.

Some consultants may offer thorough deposit analysis but lack sufficient marketing expertise. And some marketing firms may be able to devise campaigns to attract net new deposits, but at what cost? Very few agencies or consultants have the analytical and banking expertise, backed by strong marketing experience, to design and execute campaigns that meaningfully impact the financial institution's bottom line.

Achieving profitable growth isn't just about running the right ads or using the right copy. It's much deeper than that, which means a partner with financial services expertise is critical. Otherwise, you risk losing out on ROI.

Financial institutions need a partner who can help them surgically select target audiences and present the appropriate value propositions to these groups. The average ad agency can't do this.

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Predictive Data & Targeted Marketing

Financial institutions must be proactive about keeping and growing deposits. This is where strategic marketing campaigns powered by data analytics make a difference. Using marketing to retain unprofitable customers isn't ideal, nor is cross-selling to a highly-profitable yet disinterested customer. At worst, an irrelevant offer may drive a customer to the competitor down the street.

Predictive analytics plays an important role here. This type of analysis can identify customers suited to deposit or borrow more money with the bank, increasing the number of customers providing ROI. From there, these drivers can be used to assess the impact of new opportunities and determine which offer would be most compelling for a given customer. For households with just one deposit product, predictive analytics will shed light on the customer's capacity and propensity to purchase more.

Recency is an indicator of a customer's propensity to add on a new product or service because when customers recently demonstrate a specific financial behavior, it's easier to predict their next action.

For instance, a customer who recently took out a loan with the bank is more likely to open a new checking account with said bank. Or, when a customer is approved for a mortgage, the existing mortgage relationship indicates a higher propensity for that customer to take out a home equity loan or line of credit.

Other data points that can reveal opportunities include product usage, relationship tenure, life stage, etc. A bank can use analytics to determine whether a certain product would be a good fit for a niche demographic. Consider a customer in their mid-thirties who makes a certain income and has held checking and savings accounts for over a decade. If recurring payments suggest this customer has a credit card elsewhere, the bank may use the opportunity to promote its credit card. Nurturing deeper and more loyal customer relationships is key for long-term success. It's much

While visually compelling marketing collateral is undoubtedly important, it's also crucial to have the ability to target specific audiences with precision. Reaching the right individuals with the right message at the right time through the right channel—whether it's via email, social media, or display ads.

easier (and less expensive) to sell a new product to an existing client than to acquire a new customer. It's also more impactful. Increasing customer retention by a mere 5% can increase profits from 25% to 95%, according to **Outbound Engine**.

Analytics are clearly powerful, but they are only half of the equation. Getting your marketing right is also essential. Financial institution leaders should consider whether their existing marketing agency or in-house team can access and leverage this level of analytics to create campaigns that yield results. Generating tangible results takes more than witty copy and sleek graphics.

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Market conditions change quickly—

Can Your Growth Strategy Keep Up?

There is one more secret to driving profitable deposit growth: agility. If a bank's destination is deposit growth, data analytics are like the wheels on the car and the marketing campaign is the engine. Agility is the steering wheel. Even if a bank has great tires and a powerful engine, what good is it if you can't steer to get where you're going? What if there's an unforeseen obstacle in the way?

Financial institutions should be prepared to adjust campaigns and offers as needed to optimize results based on performance. By tracking performance, campaigns can be tweaked and optimized based on what's working and what's not working. Institutions should follow response rates from the campaigns and the cost per acquisition. How many new deposits were gained from an offer versus how many were moved or repriced?

Consider whether your bank can do this. Does your institution have the tools, resources, talent and time to collect and analyze marketing results data? Is your team able to accurately interpret it and take action on it?

A marketing partner who can offer granular tracking on campaign performance is great. What's even better? A partner who can explain how their institution's campaign performance compares to their industry peers who are targeting similar audiences. Are competitors more successful in certain areas? Why? Truly valuable partners will be able to answer these questions and explain what could be improved.

Making adjustments swiftly is also crucial. Financial institutions can't afford to take weeks analyzing data and meeting with marketing partners to devise a plan. The same goes for measuring performance and fine-tuning. Working with a partner who can deliver on both the data analytics front and the targeted marketing front ensures faster go-to-market times that yield results.

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Stop Gambling on Your Growth Strategy

Using data analytics to inform marketing campaign decision-making is a proven way to generate deposits and build stronger, more profitable customer relationships.

As an example of this approach, HarborOne Bank, a $4.7 billion savings bank in Massachusetts, **generated an additional $148 million in deposits.** By applying data analytics to marketing, HarborOne realized more opportunities to improve customer retention, maximize lead generation potential, and drive market share growth. In addition, households contacted through the campaign showed 3% greater retention rates than a randomized control group, equating to 2,216 incrementally retained households in the program's first full year.

Financial institutions of all sizes are paying close attention to deposit growth strategies—from investing in online account opening tools to increasing savings rates to launching digital brands to reach new markets. However, these efforts can be costly, and ROI on such initiatives is constrained without strong data analytics and the right marketing support.

Working with a partner with deep expertise in data analytics and targeted multi-channel marketing eliminates the guesswork from deposit growth. Financial institutions that prioritize this will be positioned for profitability in any economic climate.

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Why Choose Baker Hill & Infusion Marketing Group

Together, Baker Hill and Infusion Marketing Group are helping financial institutions of all sizes level up their deposit marketing strategies.

Want to generate deposits and cultivate deeper, more profitable customer relationships?

Schedule a consultation today.

Baker Hill is in the business of evolving loan origination by combining expertise in technology with expertise in banking. Built on decades of walking alongside banks and credit unions as they provide vital resources to their communities, Baker Hill NextGen® is a configurable, single platform SaaS solution for commercial, small business, consumer loan origination, and risk management that grows along with you as your business needs change. Baker Hill is lending evolved. For more information, visit **www.bakerhill.com**.

Infusion's mission is to help community banks and credit unions thrive by using data analytics and omni-channel/digital marketing programs to profitably grow relationships, assets, and deposits. The Infusion process uses a unique industry normative database with over 10 billion data points to help you uncover new opportunities for growth and then realize those opportunities through pay for performance campaigns where we literally put our money where our analytics are.

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