

Survive and Thrive: Deposit Growth Strategies for 2010 and Beyond

By David Bue, Senior Manager

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Many financial institutions are challenged with funding concerns, deposit growth issues, and new customer acquisition dilemmas. For decades, most institutions have been focused on growing their loan portfolio and leveraging their existing deposit base. Today, however, many financial institutions are more concerned about retaining and growing core deposits, and they have good reason for this concern.

The financial landscape has changed dramatically. An ever-changing regulatory climate, rapid financial innovations, broad acceptance of the Internet, and a competitive environment open to all sorts of non-local financial service companies have led to widespread concerns over funding and liquidity. To make matters worse, many financial institutions are faced with an aging customer base and an inability to attract a new, younger generation of customers. Indeed, the days when financial institutions could rely on growing their deposit base by having customers simply walk in the door to open accounts and deposit funds based on the convenience of the location is a thing of the past. Banking is much more competitive and complicated today. Customer buying patterns continue to adapt and emerge as banking infrastructure changes. As a result, financial institutions need to approach deposit growth and funding in a more strategic manner.

In recent years, many financial institutions have turned to a variety of funding alternatives to compensate for their inability to grow core deposits. Many have used a combination of Federal Home Loan Bank (FHLB) advances and other borrowings, as well as brokered deposits. Although these types of funding sources were previously used as liquidity sources of last resort, the increased reliance on these types of funds now presents a new set of issues and risks regarding balance sheet management. This funding is also often more expensive than core deposits and has led to the erosion of net interest margins. In addition, these funding sources can carry increased interest rate risk, along with a heightened level of criticism by regulators. As a result, in order to limit the risks associated with these nontraditional funding sources, many institutions are finding it necessary to refocus on core deposit growth as the primary driver of future success.

Despite this industry-wide challenge, financial institutions often talk about the importance of core deposit growth, but generally do not take the steps necessary to address deposit gathering in a strategic and consistent fashion. At the same time, many bankers admit they are not confident they have the right strategies in place to achieve their core deposit goals. Unfortunately, experience shows that many institutions still employ a relatively outdated approach to manage their deposit growth efforts. A strong deposit philosophy will help financial institutions more efficiently generate core deposits while also improving profitability.

Indeed, core deposits are critical. Not only are they stable, low cost funds, but they are also the basis of the banking relationship. To this day, most customers consider "their bank" as the one where their

primary checking account resides. Not only is the simple checking account very profitable, it is often the product that is most likely to bind a customer to the institution. As a result, many financial institutions have found that the key is to sell "sticky" services that have high retention rates and provide logical cross-selling opportunities. They have also zeroed in on having a direct deposit relationship with that primary account in an effort to improve retention.

Now, more than ever, financial institutions must adopt new ways to grow their core deposit base. In fact, to successfully compete in today's challenging business climate, every financial institution should have a comprehensive deposit growth strategy in place, and senior management must ensure the strategy is focused and measurable. Furthermore, financial institutions need to work smarter to attract new customers through proactive deposit growth strategies. They must provide innovative products and engage customers through multiple channels. They must also address how they plan to serve their customers when, where, and how they want to be served. In addition, financial institutions need to manage all aspects of the customer life cycle, including acquisition, onboarding, and retention.

Effective core deposit growth strategies should outline not only how the organization is going to attract new deposits but also how it plans to retain its existing deposits. Banking today is not about how many customers and deposits you acquire but what you retain. It's absolutely critical for financial institutions to fix their "leaky bucket" by developing improved customer service tactics, customer retention tools, and account closing procedures.

It is also critical to develop a solid business development strategy around top deposit prospects in the marketplace. In doing so, financial institutions should review customer demographics, generational banking patterns, and the impact on their future deposit base and opportunities.

In our work with financial institutions across the country, we have identified 10 traits of financial institutions with highly effective deposit growth cultures:

1. They have a deposit growth mentality throughout the organization.
2. They have a customer centric model that focuses on providing outstanding customer service.
3. They coach their team members for success.
4. They have sales/growth goals for all employees and offices/locations and teams.
5. They have incentive compensation tied to strategic deposit growth initiatives.
6. They build and develop their teams with a mix of people who generally like to "play offense."

7. They have a competitive arsenal of products and services, AND they know how to deliver those products and service to their customers.
8. They have a well-defined deposit growth business development plan.
9. They clearly communicate who they are and how they are different from their competition.
10. They have a highly engaged, well-trained team that likes to have fun!

The bottom line is that core deposit growth is critical. A combination of the traits listed above will help financial institutions grow and retain core deposits and likely lead to more profitability in all areas of the business. Developing and implementing solid deposit growth strategies will be critical for successful financial institutions going forward.

About the Author

David Bue brings successful financial leadership experience to Wipfli and our clients. David has nearly 20 years of experience in the financial services industry, and he leverages his experience to provide effective, common sense advice that helps clients achieve their desired goals. To learn more, please contact David at dbue@wipfli.com.

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