WINNING THE BATTLE FOR DEPOSITS

EFFECTIVE STRATEGIES
TO WIN NEW ACCOUNTS,
RE-ACQUIRE INACTIVE ACCOUNTS
& ENGAGE CURRENT ACCOUNT HOLDERS

INTRODUCTION

Capturing new accounts and optimizing growth in your current relationships in the digital age doesn't have to be difficult or costly. What's important is knowing your account holders, their banking preferences and how to effectively use data and automation to drive growth without requiring additional resources or budgetary increases.

This eBook covers the current challenges and trends in deposit growth, the importance of catering to the needs of Generation Z (Gen Z) and Generation Alpha (Gen Alpha) while still considering older generations, and strategies for enhancing your account holder journey through a holistic approach driven by strategic partnerships.

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CHAPTER ONE

THE STATE OF DEPOSITS

The deposit landscape has shifted recently. As financial institutions face an inflationary economy, higher interest rates and changing consumer behaviors, understanding the current state of deposits is essential.

KEY CHALLENGES

Building strong relationships within their communities is central to the mission of community banks and credit unions. However, there are many new hurdles to clear:

Need for Low-Cost Deposits: Financial institutions must attract low-cost deposits to stay profitable, but higher interest rates have led consumers to move their money from traditional checking accounts to higher-yielding accounts and certificates of deposit (CDs).

Revenue Diversification: Community banks and credit unions feel pressured to find additional revenue streams beyond traditional checking accounts in today's regulatory climate. This is complicated by the prevalence of loan-only or checking-only relationships, which limit the ability to cross-sell.

High Account Holder Churn: Attrition remains a problem, with too many account holders leaving after initially opening a checking account (often intentionally gaming the system by taking the costly incentive offer with them).

Digital Engagement Flaws: Digital transformation remains a key focus for community financial institutions, but many struggle with true engagement. According to a January 2024 report, only 44% of institutions had transformed their end-to-end digital account opening processes, and 17% said they'd need 1-3 more years to do so. Digital onboarding is similarly lagging, with just 41% of financial institutions having transformed this process.[1]

TRENDS IN DEPOSIT GROWTH AND ACQUISITION

In 2023, events like the Silicon Valley Bank collapse saw a significant withdrawal of deposits from regional banks. The flight of funds and inflationary pressure on the middle class are two ongoing issues affecting smaller banks and credit unions.

It's not surprising that deposit growth has become a top priority for financial institutions. Marketing teams at banks and credit unions listed deposit/checking growth as the number one priority in 2024, followed closely by account acquisition and deepening relationships.[2] However, the reality of deposit growth is complex. New account acquisition strategies often focus only on the initial account-opening phase without putting as much effort into ongoing engagement and developing primary banking relationships.

WEAKNESSES IN CURRENT STRATEGIES

Three flaws stand out in deposit acquisition and retention strategies across the industry:

#1

Digital onboarding is not meeting the frictionless expectations of digital natives.

#2

Limited engagement efforts by financial institutions lead to weak retention rates.

#3

Simple checking accounts aren't earning primary status, making them less profitable.

OPPORTUNITIES FOR GROWTH

On the brighter side, community banks and credit unions have several opportunities to differentiate themselves and grow their deposits:

1. **Engagement Over Onboarding:** The narrative around account acquisition needs to shift. Don't just bring in new accounts — continue developing the relationship. Tactics like targeted marketing, personalized communications and referral programs can help institutions build stronger relationships.
2. **Focus on Re-Engagement:** Re-acquiring and re-engaging existing account holders can often be more cost-effective than constantly seeking new account holders. Despite the potential, only 30% of banking executives recently surveyed engaged in new account holder referral initiatives, and only 33% shifted their marketing and advertising strategies, representing an untapped opportunity.[3]
3. **Leveraging Technology and Third-Party Solutions:** With over 75% of firms already employing third-party solutions to improve account opening, engagement and more, community banks and credit unions have the opportunity to reach tech-savvy younger generations.[4] Prioritizing investments in data analytics, artificial intelligence and digital banking solutions can lead to more personalized, seamless experiences — essential for competing with larger banks and digital-only challengers.
4. **Capitalize on Local Agility:** The top priority of 2024 for financial institutions has been to improve the consumers' digital experience.[5] Nobody is better positioned to do so than community banks and credit unions, who have their pulse on the wants and needs of their account holder base and possess the ability to make decisions and pivot quickly — two of their strongest advantages over megabanks.

Strategic Priorities of Financial Institutions

#1 - Improve the digital experience of account holders

#2 - Reduce operating costs

#3 - Update legacy operating systems

Source: Digital Banking Report

42%

of bankers list **DIGITAL BANKING SOLUTIONS** as their top IT spending priority

Source: Stephens 2024 Survey: IT Spend

The writing on the wall is clear: acquiring new accounts is not enough.

Community banks and credit unions must find new ways to continuously engage and develop relationships to ensure accounts remain active and profitable.

CHAPTER 1 REFERENCES

1, 4, 5: *2024 Retail Banking Trends and Priorities*, January 2024

2: *State of Financial Marketing*, November 2023

3: *2024 M&A Bank Survey*