VELOCITY SOLUTIONS®

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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VELOCITY SOLUTIONS®

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*

CHAPTER TWO

SERVING A GENERATIONALLY DIVERSE ACCOUNT HOLDER BASE

Along with the evolving industry landscape comes the challenge of meeting the diverse needs of account holders spanning multiple generations. In recent years, Gen Z and Gen Alpha have seen increased influence, and they are poised to reshape the future of banking. These digital natives present both a challenge and an opportunity for financial institutions, requiring innovative strategies to attract and retain their business.

UNDERSTANDING GEN Z AND GEN ALPHA

Gen Z, born between 1997 and 2012, has already become a significant market force. With an estimated spending power of $360 billion in the U.S. alone, they are a generation that cannot be ignored.[6] Hot on their heels is Gen Alpha, born from 2013 onward. Though younger, this group wields considerable influence, with $24 billion in direct spending power and the ability to influence $500 billion in family purchases annually.[7] As Gen Alpha matures, they will soon enter the workforce, bringing them even more financial power and unique banking preferences.

The preferences of these two generations demand a departure from traditional banking approaches. To stay relevant, a more agile, technologically advanced strategy is needed.

"With 4 million digital-first Gen Z-ers projected to open bank accounts annually until 2026 [...] and 2-billion-strong Gen Alpha right around the corner, there is no going back to traditional banking. Gen Z has laid the blueprint, and Gen Alpha will take it to the next level."

– CUNA Strategic Services partner Goalsetter

THE FINANCIAL HABITS AND PREFERENCES OF DIGITAL NATIVES

Gen Z and Gen Alpha have grown up in a world dominated by smartphones, tablets and an ever-present internet. As a result, they're accustomed to seamless digital experiences in every aspect of life, from shopping to socializing — and banking is no exception.

GEN Z

This generation is known for being picky spenders who conduct extensive research before making any financial decision. They seek the best deals but aren't willing to sacrifice quality. Gen Z consumers manage an average of 2.5 to 3.5 financial accounts each, often spreading their banking activity across multiple apps and platforms.[8]

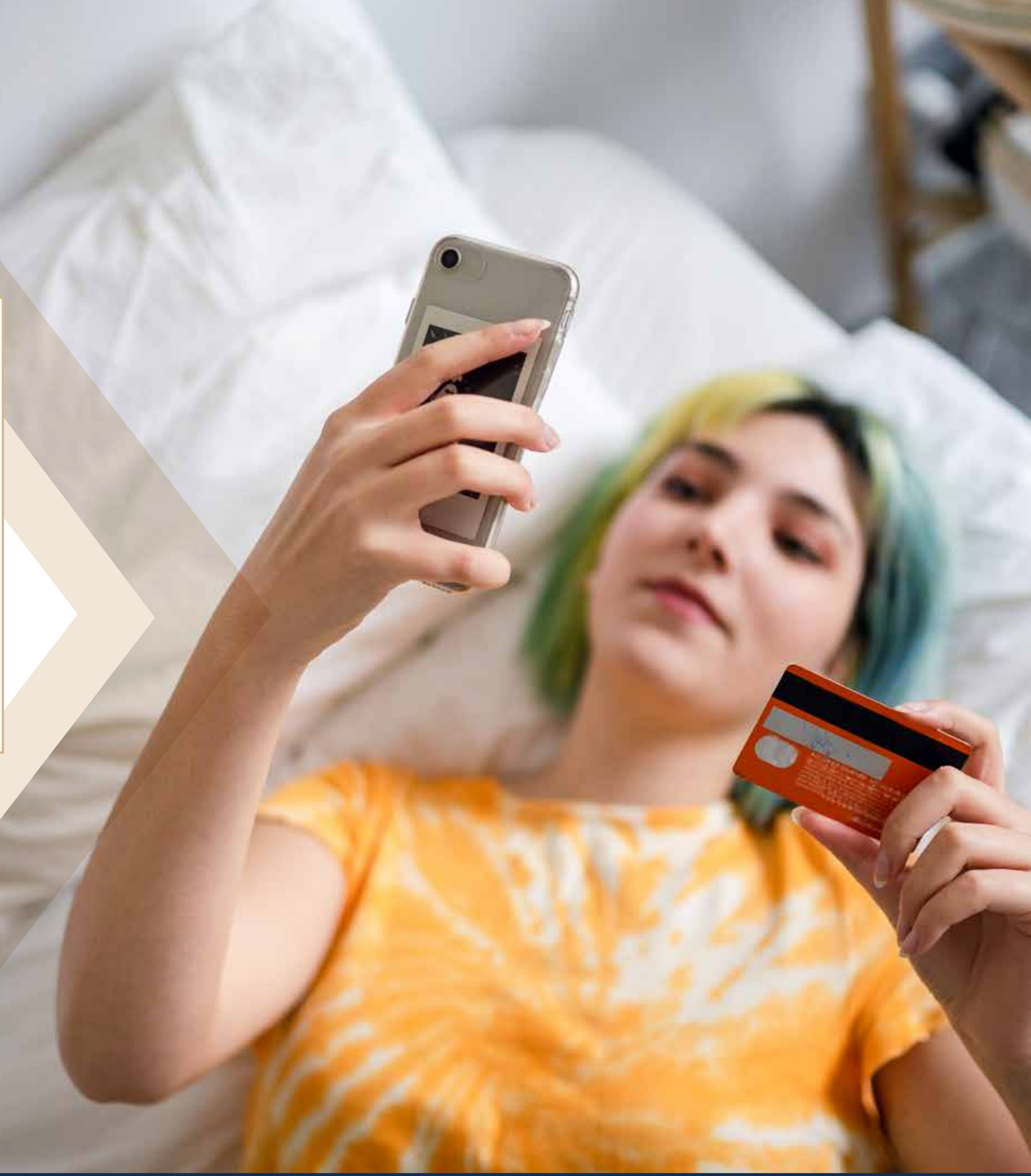
GEN ALPHA

As the first true digital natives, Generation Alpha has never known a world without mobile devices or constant connectivity. Their financial preferences are still taking shape, but they've already demonstrated a strong desire for customized, frictionless financial products and services. As they start earning and managing their own money, the demand for seamless digital experiences will only grow.

Industry experts say younger consumers don't fully understand or buy into the concept of a primary financial institution (PFI).[9] With apps for everything at their fingertips, and neobanks and fintech marketing directly via mobile devices, it's easy for Gen Z and soon, Gen Alpha to pick the loudest, cheapest and/or trendiest provider for the service they need at the moment they need it. If a bank or credit union isn't marketing online and through social media, it won't even be a contender in the deposit battle.

By focusing on engagement, taking advantage of technology and building trust, community financial institutions can bridge the gap between generations and position themselves as the primary financial partner for these generations — ensuring long-term growth and sustainability in a rapidly changing industry.

> If a bank or credit union isn't marketing online and through social media, it won't even be a contender in the deposit battle.



BUT DON'T FORGET ABOUT BABY BOOMERS, GEN X AND MILLENNIALS

While digital strategies can make or break your relationships with the younger generations, don't forget to factor in the needs and preferences of your other account holders:

BABY BOOMERS

Born 1946-1964

Population: 70.1 million

- Trust & security are top concerns
- Complex navigation, intricate design and small text sizes are common digital barriers
- 10,000+ retire every day*

GEN X

Born 1965-1980

Population: 65.4 million

- Takes a wait-and-see approach when it comes to new tech
- 49% have not written a check in the past year*
- 80% believe you can have more than one PFI**

MILLENNIALS

Born 1981-1996

Population: 72.7 million

- 30% plan to grow their number of financial providers in the next 12 months***
- Primarily define their PFI as the one where they do the most online/mobile banking
- 65% say personal product recommendations are very important

Sources:
** Banking Habits That Define Gen X*
*** The Power of Primacy*
**** Generational Trends in Digital Banking Study*

CHAPTER 2 REFERENCES

6: *The picky buying habits of Gen Z consumers*

7: *Understanding the Emerging Purchasing Power of Generation Alpha*

8: *The Power of Primacy*

9: *Turning 2024's Industry Challenges into Opportunities for Growth*

EMBRACING STRATEGIC DATA USE

Data is one of the most powerful tools available to financial institutions. Banks around the world rated improving data as the most important retail banking trend of 2024. However, while over **70% of financial marketers emphasized the importance of data analytics,** only half apply these insights consistently, indicating significant unexplored potential.[10]

This gap reflects a missed opportunity to drive more personalized banking experiences — something 74% of consumers across generations desire. Yet only 22% say their financial institutions regularly anticipate their needs.[11]

While checking accounts remain the top product or service of focus in the near future, only 43% of financial institutions planned to increase their marketing budget for marketing/data analytics.[12] Not investing in data analytics can negatively impact the entire financial institution. That's because leveraging data intelligence across all departments enables more informed decision-making, streamlines operations, enhances account holder experiences and drives overall growth — including, of course, deposits.

Data isn't just a tool for gaining a competitive edge — it will shape your entire retail strategy, defining how you compete and succeed.

WHAT CAN DATA DO FOR YOU?

Banks and credit unions should be leveraging their data to:

» Offer personalized banking experiences
» Improve the account holder journey
» Glean marketing insights and adjust as needed
» Mitigate risks
» Optimize sales efforts
» Understand their account holders as individuals
» Adapt to regulatory changes

"It's about bringing the right account holders in the door."

– Bob Sterner, National Account Manager, Velocity Solutions

Leading corporate and commercial banks use advanced data analytics to help Relationship Managers:

» Identify likely-to-convert prospects
» Assess consumer potential
» Recommend products
» Pinpoint likely-to-churn accounts
» Price multiple products at the same time
» Set targets based on consumer potential
» Monitor sales execution
» Identify behavior tied to high performance

Data intelligence can be applied in these ways to retail banking, as well.

Source: McKinsey & Company

Community banks and credit unions have an overwhelming amount of data available, but most lack the time, technology and resources to turn that information into actionable insights. And some outside fintech partnerships leave much to be desired. They implement their set-it-and-forget-it solution without helping their clients tap into the wealth of valuable data at their disposal — reinforcing the importance of choosing the right partner.

In short, turning data into meaningful knowledge is a must to get the most out of resources, increase operational efficiency, gain a competitive edge and ultimately win the battle for deposits.

CHAPTER 3 REFERENCES

10, 12: *State of Financial Marketing,* November 2023

11: *2024 Q2-Harris Poll Report*

44%

of financial institutions **use 3rd party vendors whenever possible** to deliver the best solutions at speed and scale.

Source: Digital Banking Report

DATA IS THE ANSWER

74%

of people across generations want more personalized banking experiences, **but only 22% say they regularly feel like their financial institutions anticipate their needs.**

Source: 2024 Q2-Harris Poll Report

PROVEN PATHS TO SUCCESS

To win the battle for deposits, a holistic approach is required. Focusing solely on the number of accounts opened is not enough; success hinges on the profitability, engagement and long-term value of the relationships built.

To achieve this, community banks and credit unions should create a seamless ecosystem where every step of the account holder journey — acquisition, onboarding, engagement and retention — is optimized for growth and sustainability.

TOP 7 CONSEQUENCES OF NOT GETTING THE RELATIONSHIP

#1

Non-Activated Accounts

Onboarding efforts should continue as long as it takes after opening

#2

Profits Won't Grow

Only active & engaged account holders drive profits

#3

Wasted Dollars

Inactive accounts cost you money

#4

Cross-Selling Efforts Fail

You can't grow a relationship you don't have

#5

Marketing Efforts Fail

Because customers are not engaged

#6

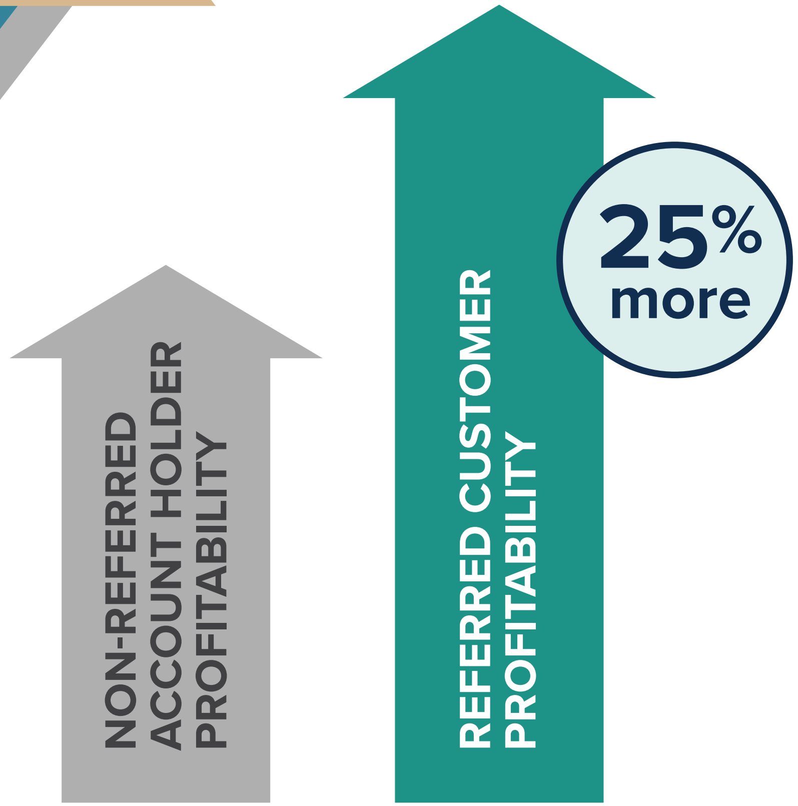
Data Decay

Inactive accounts do not generate transactional data needed for analysis

#7

High Attrition Rates

20%-40%: Average first-year attrition rate of the top 100 FIs



Referred account holders are 25% more profitable to a bank than a non-referred account holder.

Source: Referral Programs and Customer Value

TRENDS IN DEPOSIT GROWTH AND ACQUISITION

Acquiring new account holders is vital, but simply opening accounts doesn't guarantee long-term profitability. Customer acquisition costs (CAC) are rising, with banks spending between $200 and $450 per account. But as many as 80% of new accounts contribute little long-term value.[13] Therefore, financial institutions must focus on acquiring the right account holders — those who are more likely to stay, use multiple products and contribute meaningfully to the bottom line.

Referral programs are an effective acquisition strategy because referred account holders tend to be:

» More profitable
» More loyal, with a higher lifetime value
» More likely to refer other high-value individuals, creating a positive cycle

Plus, 39% of people are more likely to refer friends or family when given an incentive, making referral programs a cost-effective way to grow organically.[14]

ONBOARDING: SETTING THE STAGE FOR ENGAGEMENT

Onboarding is a critical phase where many financial institutions lose valuable momentum. Nearly 34% of newly acquired accounts churn within the first year, with 70% remaining inactive after just 90 days.[15] An effective early onboarding strategy is crucial — engaging new account holders immediately and ensuring they see value in the relationship.

Automating onboarding processes like sending personalized welcome messages or offering step-by-step guides on using account features can help reduce friction. The goal is to ensure that every new account holder feels welcomed and informed from the start.

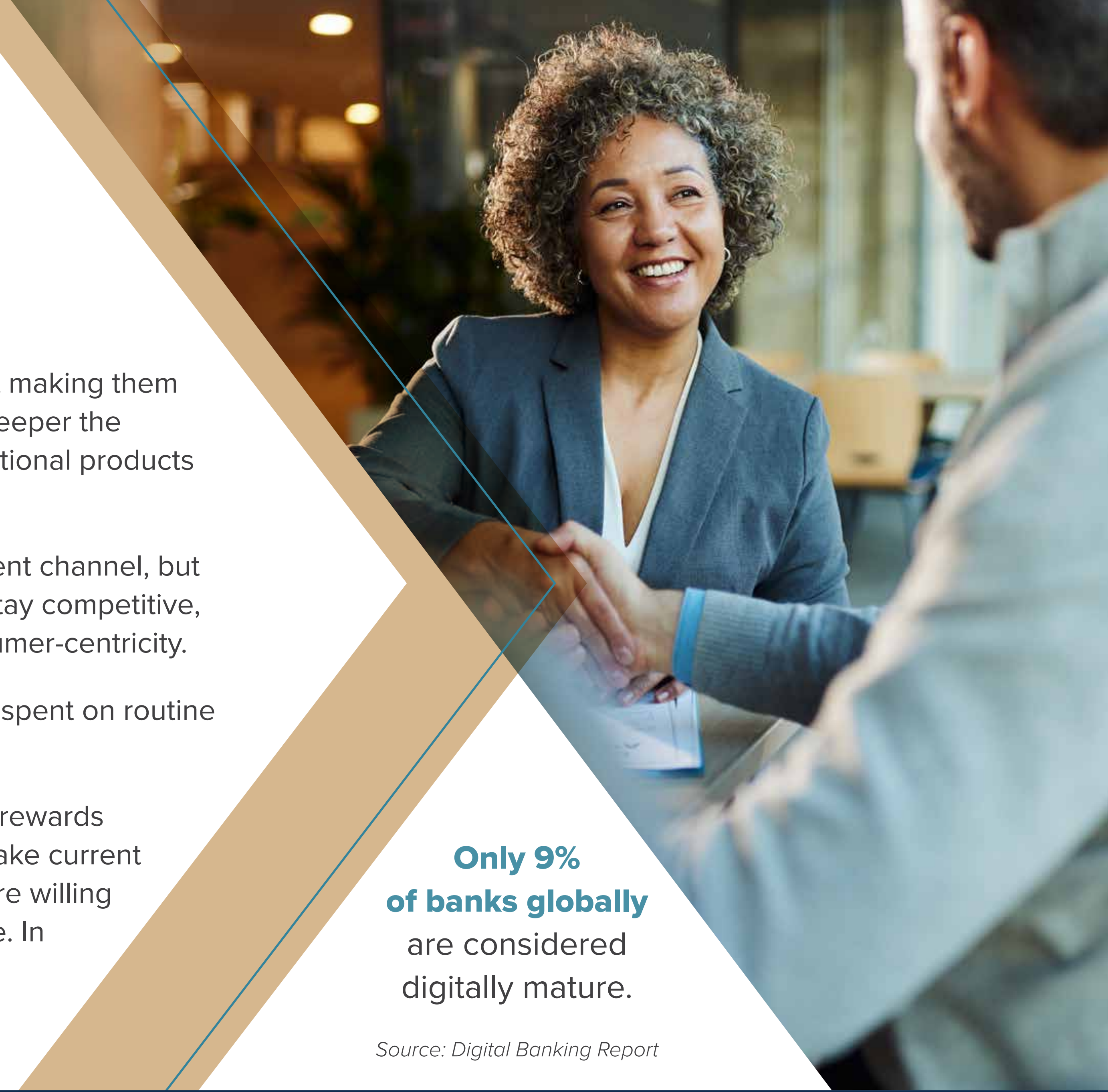
ENGAGEMENT: BUILDING LONG-TERM RELATIONSHIPS

Engagement isn't just about keeping account holders; it's about making them active, loyal bank or credit union ecosystem participants. The deeper the engagement, the more likely an account holder is to adopt additional products and services — and the more likely they are to remain loyal.

Digital touchpoints have become the most important engagement channel, but only 9% of banks globally are considered digitally mature.[16] To stay competitive, financial institutions must prioritize both digital agility and consumer-centricity.

Digital solutions that automate processes can reduce staff time spent on routine tasks, allowing them to focus on other areas of importance.

For example, implementing a fully automated, tiered debit card rewards program is an easy way to create a new revenue source and make current relationships stickier without any extra work. Account holders are willing to pay a monthly fee for benefits and services they find valuable. In the process, this increases loyalty, moves the card to the top-of-wallet position and helps solidify PFI status.



Only 9% of banks globally are considered digitally mature.

Source: Digital Banking Report

RETENTION: KEEPING RELATIONSHIPS FOR LIFE

Retention requires continuous effort. Financial institutions must go beyond standard banking services to offer personalized, proactive communication that engages account holders. Experiences tailored to individual preferences can go a long way, while rewards and loyalty programs provide tangible reasons for account holders to stay.

Proactive communication, whether through personalized notifications or regular check-ins, builds trust and keeps the institution top-of-mind. Additionally, cross-selling based on an account holder's specific needs can help maximize the value of existing relationships.

TAKING A HOLISTIC APPROACH

Winning the battle for deposits demands an integrated strategy that looks beyond acquisition. Financial institutions must consider the entire ecosystem, ensuring that every touchpoint — from the moment an account holder opens an account to years down the line — is optimized for engagement and profitability. By investing in data intelligence, automation and consumer-centric strategies, community banks and credit unions can drive sustainable growth, deepen relationships and win long-lasting loyalty.

Partnering with experts who can deliver solutions with a history of achieving all these goals will improve the effectiveness of acquisition marketing dollars, engage new and existing account holders, and form sticky, loyal relationships — often without the need for any additional resources.

CHECKLIST FOR BUILDING RELATIONSHIPS & EARNING DEPOSITS

- Let the data drive account acquisition.
- Use your current relationships to acquire new ones through referrals.
- Engage early, often & for the life of the account.
- Win the transaction war.
- Focus on the # of relationship devices (tiers of debit cards).
- Have an integrated, automated incentive strategy.
- Find a partner, not a series of vendors.

CHAPTER 4 REFERENCES

13, 16: *The Power of Primacy*

14: *The Value of Bank Referrals and How to Get Them*

15: *2024 Retail Banking Trends and Priorities,* January 2024

FINDING THE RIGHT PARTNER

Most community banks and credit unions can't rely on in-house resources alone for the tools and expertise it takes to coordinate a seamless, ongoing strategy for the account holder journey. Growing long-term relationships every step of the way involves[17]:

» **Targeted Marketing:** Getting effective messages in front of the right people based on data-driven insights.

» **Simplified Onboarding:** Ensuring a seamless, frictionless and continuous onboarding process.

» **Superior Engagement:** Providing ongoing value beyond traditional banking through personalized offers and communications.

» **Advanced Data & Automation:** Using data and business intelligence to suggest relevant products to account holders at the right time and optimizing processes with automation.

Finding a third-party fintech partner who brings expertise in all these areas to support the retail account ecosystem is essential. Selecting the right partner can increase efficiency and profitability while delivering the superior experiences that today's tech-savvy consumers demand, without taxing existing internal resources.

TOP WAYS FINANCIAL INSTITUTIONS USE THIRD-PARTY VENDORS

#1 Unified digital banking platform

#2 Security & fraud management

#3 Digital account opening & onboarding

Source: Digital Banking Report

WHAT TO LOOK FOR IN A PARTNER

Choosing the right partner goes beyond selecting vendors who offer specific tools. The best partners should work with the financial institution to meet and exceed its long-term goals and offer:

- **Proven Expertise in Financial Services:** Look for a partner with experience in serving community financial institutions — especially those familiar with the nuances of banking regulations and compliance, security needs, technology and consumer behaviors.
- **Seamless Integration with Existing Systems:** A partner's solutions should be able to integrate with current platforms and enhance them without causing major disruptions.
- **Data-Driven Insights:** A strong partner will help manage data and provide actionable insights regularly to guide marketing strategies and account holder engagement.
- **End-to-End Support:** Ideally, a partner should support all stages of the account holder journey — acquisition, onboarding, engagement and retention. This comprehensive approach helps ensure consistency, profitability and long-term success.

THE POWER OF PARTNERSHIP

Staying competitive and winning the battle for deposits hinges on partnering with the right third-party experts to understand and serve account holders' generational preferences. As competition from fintech and big banks grows, strategic partnerships can help community banks and credit unions remain agile and focused on their account holders, without the need for steep budget increases or additional staff.

CHAPTER 5 REFERENCE

17: *The Power of Primacy*

Increase the revenue, longevity and lifetime value of your accounts with The Retail Performance Engine™ from Velocity Solutions — the industry's only complete solution to automate and optimize every stage of the checking account lifecycle.

With an average return on investment (ROI) of 5-to-1 for acquisition (with a guaranteed ROI of 3-to-1) and 3-to-1 for ongoing engagement (with a guaranteed 2-to-1 ROI), Velocity has a proven, data-driven approach that can digitally transform your account holder relationship strategy.

VELOCITY SOLUTIONS®

CONTACT US TODAY FOR A FREE OVERVIEW OF OUR CONSUMER JOURNEY ECOSYSTEM SOLUTIONS.

COMPLETE LIST OF REFERENCES

1, 4, 5, 15: *2024 Retail Banking Trends and Priorities,* January 2024
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3: *2024 M&A Bank Survey*
6: *The picky buying habits of Gen Z consumers*
7: *Understanding the Emerging Purchasing Power of Generation Alpha*
8, 13, 16, 17: *The Power of Primacy*
9: *Turning 2024's Industry Challenges into Opportunities for Growth*
11: *2024 Q2-Harris Poll Report*
14: *The Value of Bank Referrals and How to Get Them*

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ABOUT VELOCITY SOLUTIONS, LLC

Founded in 1995 and servicing the transaction accounts of over 30 million consumers and business owners, Velocity Solutions is the leading technology solutions provider that drives revenue, service and compliance for community banks and credit unions. Our Velocity Intelligent Platform® powers all of Velocity's solutions, using machine-led intelligence that delivers powerful analytics, manages risk and drives revenue, loans, account holder engagement and non-interest income to our client financial institutions.