STICKY IS THE NEW SWEET SPOT

How To Attract and Keep Long-Term Deposits

plinqit®

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Long-Term Deposits

Grow stickier, long-term deposits by improving customer relationships.

Consumers and financial institutions alike are feeling anxiety right now.

65% of consumers are worried about inflation, and they have good reason to be. Many have taken on more debt to cover rising costs, bringing the consumer debt total to over $16.9 trillion in the first quarter of 2023 – an increase of more than $1 trillion since last year.

Two-thirds of U.S. consumers are concerned about inflation

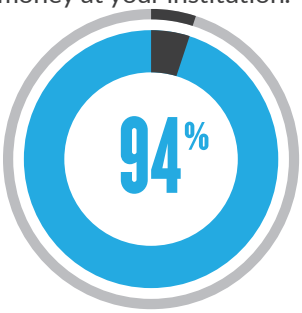
Meanwhile, financial institutions (FIs) are feeling pressure from two directions. When consumers borrow more and save less, it decreases the institution's reserves. As long as the Federal Reserve Board keeps interest rates high to curb inflation, borrowing to make up the difference is expensive.

of FI leaders say deposit competition has heightened

Attracting more consumer deposits is theoretically the perfect solution. But it's not an easy one. In a recent IntraFi survey, **88%** of bank executives say deposit competition got worse over the course of 2022, and they only expect it to get more challenging midway through 2023.

An obvious (but limited) option - offering higher-interest products

When you need to increase your reserves fast, most banks see offering high-interest CDs (certificates of deposit) as the most obvious solution. Promoting the best available deal to potential customers is sure to entice some to park their money at your institution.



of FIs say they're upping rates on deposits

of FIs increased rates on all deposits

Indeed, IntraFi found that **94%** of bank executives were increasing rates on deposits in some manner, and **36%** hiked rates on all deposits. But if every financial institution has the same idea, everyone ends up stuck in a CD rate war that's bad for the entire industry.

4 reasons to reconsider joining the CD rate war

Competing to offer the highest interest rate on CDs could bring in deposits from new customers, but it's not a great long-term strategy for most financial institutions. Choosing this route has some notable downsides.

1. Consumers have more options than ever, so competition is fierce.

With the rise in digital banks in recent years, financial institutions now face a higher number of competitors. Many consumers are now comfortable doing all or most of their banking online. That means your competition is no longer limited to the other banks located in your immediate area, it also includes all the online banking options consumers can access from anywhere.

Digital banks have less overhead than traditional FIs. By skipping the investment in brick-and-mortar branches, they can afford to compete on price to a degree that traditional FIs can't. As such, they're uniquely well positioned to compete for the kind of consumers that scour affiliate marketing sites like NerdWallet and Bankrate looking for the most lucrative high-interest account offers.

Trying to beat (or even just meet) their aggressive offers won't make financial sense for most community banks and credit unions. You're better off finding other ways to differentiate.

2. Offering high-interest CDs is expensive.

If your COF (cost of funds) to borrow stays high and the interest rates you're paying to consumers are high as well, you take a hit on both ends. Offering competitive CD rates may lead to a quick increase in deposits, but they're not the kind of low-cost deposits that are most valuable to community banks and credit unions.

In addition to the high interest, you also have to cover the administrative costs involved. Every CD account requires putting together quarterly statements and implementing proper KYC (Know Your Customer) protocol. KYC is an important part of fraud prevention—not something you want to skip, now that fraud costs financial institutions over $4 for every $1 of fraud loss. But building necessary security into your process is expensive, and contributes to making CDs a loss leader at most institutions.

What Is KYC?

KYC means Know Your Customer and sometimes Know Your Client.

KYC or KYC check is the mandatory process of identifying and verifying the client's identity when opening an account and periodically over time.

In other words, banks must make sure that their clients are genuinely who they claim to be.

Banks may refuse to open an account or halt a business relationship if the client fails to meet minimum KYC requirements.

Source: https://www.thalesgroup.com/en/markets/digital-identity-and-security/banking-payment/issuance/id-verification/know-your-customer

If replenishing your reserves is the primary goal, using high-interest CDs to increase deposits may make sense. But if your ultimate goal is increasing profits over the long term, you have to consider how much these CDs cost you, as well as how much money they help bring in.

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3. You risk cannibalizing your other deposits.

In trying to attract new customers with high-interest rates, your marketing will likely reach current customers as well. The people who have already chosen your institution for their checking and savings accounts may well be persuaded to move some of those funds into your higher-interest products instead.

That's not entirely a negative. If the customer has a good experience with the high-interest CD, it will contribute to positive feelings toward your brand. But in terms of your bottom line, it means sacrificing some of the low-cost deposits you already earned to CDs that cost you more. Even if it ends up improving customer retention, it's not a very cost-effective method for doing so.

4. You'll attract rate chasers, rather than long-term customers.

High-interest products appeal most to the kind of consumer that's always out to find the best deal. There's nothing wrong with that. But for the institution, it means any benefit you gain from that new account will be short-lived. Chances are, the customers you earn with this strategy will stick with you just as long as it takes for the account to mature. As soon as they can withdraw their funds, they'll immediately hop over to whatever institution can promise a better rate that day.

Community banks and credit unions benefit from long-term thinking. Attracting rate chasers who only bank with your institution for a set period of time doesn't provide much long-term benefit. It won't help you build a strong reputation with loyal customers in your community. If earning long-term business is a goal you care about, this strategy won't contribute to achieving that.

A better solution - partner with fintech to provide value in a "stickier" way

For FIs that care about competing on experience—rather than price alone—you don't just want to attract deposits, you want to gain engaged customers. Traditionally, offering exceptional customer service in person at branches was the best strategy to do that.

But while the in-person experience is still important to many consumers, you also need to create a strong digital experience for the people that prefer online banking—which is a sizable market. In a 2022 PYMNTS survey, just under half of all respondents said they were very interested in digital-only banking services.

8 benefits of using fintech to earn sticky, long-term deposits

- Win low cost deposts
- Attract more valuable customers
- Gain young customers
- Build long-term relationships
- Saving benefits both of you
- With the right fintech partner, getting started is easy
- Get an easy-in to new markets by testing an affinity brand
- It's a proven way to win (and keep) customers

8 benefits of using fintech to earn sticky, long-term deposits

Using fintech to create a better banking experience for your customers gives you a way to stay competitive that has far fewer drawbacks than high-interest CDs. Instead, it offers a number of valuable benefits.

1. Win low-cost deposits.

Gaining more deposits isn't necessarily the best path to profit. Balancing how much you gain in deposits with what you spend to capture them is an important part of the equation.

Winning deposits by providing useful tools and resources has a lower COF than doing so with high-interest CDs. As a result, the return on investment for each new customer you bring in goes up. Even if the overall number of deposits you attract with fintech is lower, the net gain for your FI could end up being considerably higher.

2. Attract more valuable customers.

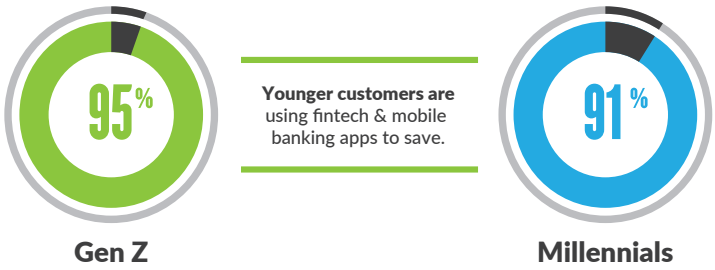
Earning the business of rate shoppers only provides a temporary, partial win. You'll gain some of their deposits for a set period of time, but that's probably all you'll get.

But the customers you win by focusing on creating a great overall experience? They're much more likely to keep their business with you across financial products and for a longer time. A customer that uses your institution for checking and savings, along with any high-interest accounts they choose to open (if they go that route) is worth much more to you than one that just opens a CD. Even better, once they know and trust you, they're more likely to come to you first when they need a loan as well.

3. Gain young customers.

Many FIs talk about wanting to attract younger customers. If you sign a customer when they're young and win their loyalty, your institution can continue to profit from that connection for years to come. High-interest CDs aren't much help with this. GoBankingRates reports that only **6%** of Gen Z use CDs. The percentage rises a bit for millennials, but still only includes **9%** of young millennials and **10%** of older ones.

Millennials and Gen Z do care about saving though. Plinqit's 2022 State of Savings report found that young adults are significantly more likely than their older counterparts to be saving money. And they have no qualms about using fintech and banking apps. Already as of 2021, **95%** of Gen Z and **91%** of millennials were using mobile banking. A fintech product that supports their savings goals fits right in with their needs and preferences.



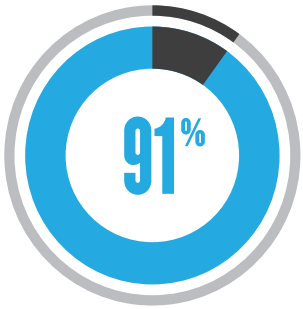
4. Build long-term relationships.

Attracting a new deposit that stays with your FI for the term of a year benefits the institution for a year. Earning a customer that continues doing business with your institution for many years to come will keep paying dividends over the long term. A fintech product that helps customers improve their financial situation can inspire loyalty, ensuring the new deposits you attract are stickier.

Competing on price can produce a big temporary boost, but focusing on relationship marketing is what leads to deposit stability. For community banks and credit unions, the amount of new business you gain often matters less than how much of it you keep. Capturing the business of one customer that banks with you for a decade is a much better deal than attracting ten new rate chasers.

5. Saving benefits both of you.

In Plinqit's survey, **91%** of all recipients said they were saving. Even in the midst of inflation and a looming recession, consumers understand the importance of setting money aside. Customers care about improving their financial habits and working toward their savings goals. Helping them accomplish that isn't just good for them though, it has tangible benefits for you as well.



of U.S. account holders
say they are actively saving

The institution gets stickier, long-term deposits that increase your reserves and enable you to make more loans. Plus, resources that contribute to financial wellness education tend to have a positive impact on average account balance. That keeps more money in your hands.

Benefits for the FI

- Stickier long-term deposits that increase your reserves and enable you to make more loans
- Contributions to financial wellness education tend to have a positive impact on average account balance
- Customers with more money saved are better positioned to consider other financial products offered by FI.

And consumers that have more money saved are in a better position to consider other financial products you may want to cross-sell. A customer will only come to you for an auto loan when they've determined they can afford a car. A fintech savings tool can help them reach that point.

Benefits for the Consumer

- Financial security
- Peace of mind from the knowledge that they'll be covered when an emergency expense arises
- Ability to take that big vacation they've been dreaming of
- Set themselves up for a comfortable retirement

Customers, meanwhile, gain financial security. They can rest easy in the knowledge that they'll be covered when an emergency expense arises, gain the ability to take that big vacation they've been dreaming of, or set themselves up for a comfortable retirement. Whatever their financial goals are, making active progress toward them makes their lives better.

6. With the right fintech partner, getting started is easy.

For smaller FIs, adding online and mobile banking to your offerings over the years may have caused its share of headaches. You knew it was necessary, but that doesn't mean it was easy. The idea of getting a whole new tech product set up and working with the systems you already have may feel like more trouble than it's worth.

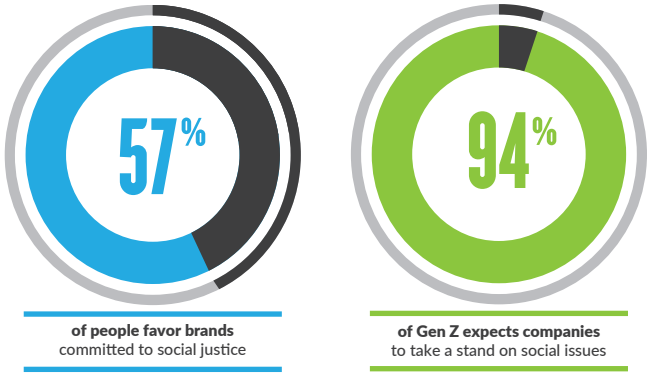
If you find the right fintech partner though, they'll take care of implementation for you. They'll have a tech-savvy staff specifically experienced in getting their product to work with banking systems. Sit back and let them do the hard part. Then all you have to do is let customers know about the awesome new financial wellness product available to them.

> ***"Sit back and let them do the hard part. Then all you have to do is let customers know about the awesome new financial wellness product available to them."***

7. Get an easy-in to new markets by testing an affinity brand.

For many consumers, considering a brand's values now plays a key role in deciding where to put their business. For banks, one way to attract these consumers is by establishing an affinity banking brand—a move the right fintech partner can help with.

Why would you set up an affinity brand? An affinity brand with a singular deposit product, such as a high yield savings, can test your brand in a low risk and low cost way. Partnering with a fintech company that can do this without the overhead of a full online banking and core system set up serves as a barometer for future brand expansion. An affinity-branded product can also ensure you do not cannibalize current deposits with a higher rate offer.



Offering a specialized banking brand that emphasizes the needs of a particular segment of your audience demonstrates that you understand and care about them. Deloitte research found that **57%** of customers feel more loyalty to brands that commit to addressing social inequity. For younger consumers, the appeal is even more heightened. **94%** of Gen Z expects businesses to take a stand on social issues.

Underrepresented groups are weighing these issues when deciding where to put their money. Dipping your toe into the affinity brand market lets you try out your offerings with different customers and communities. From a business perspective, you get to shore up market share, strengthen your brand, align your activities to your mission, and—most importantly—explore new markets in a cost-effective way.

If you do decide to branch out (haha) into an affinity market, the right fintech partner can smooth the process for you. By bringing their technical know-how to the table, they can substantially reduce setup costs. In addition, they can enable you to test the waters without having to create a charter.

Whether setting up an affinity brand or adding a digital offering, working with the infrastructure that's already been built, tested, and proven by a reliable vendor makes your job easier. You can reap the benefits of offering a full-deposit suite, with less investment required on your part.

8. It's a proven way to win (and keep) customers.

Offering a financial wellness fintech product may not seem like an obvious slam dunk for bringing in new customers. But the research is clear: financial wellness support is something customers actively want from their banks. Research from Mintel found that 68% of consumers want support and financial advice from their banks, and only 45% believe they're getting it.

According to J.D. Power research, customer satisfaction increases when they believe their bank supports them during challenging economic times. 63% of consumers that receive support from their financial institution say they definitely won't switch banks. In other words, supporting financial wellness is how you make those deposits sticky.

And it doesn't just help you keep customers, it can also boost your efforts to bring new customers in. Financial institutions that promote Plinqit, a financial wellness tool, in their online platform earn twice as many new users when compared to other forms of marketing.

This strategy works even better if you can make the support you provide personal. J.D. Power's research also shows that one piece of personalized advice increases customer satisfaction more than five pieces of more general advice. Empowering personalization is one of the things fintech can help with. By letting consumers share their particular goals and priorities, and tracking data points based on their behavior, tech can largely automate the process of offering guidance tailored to each customer's needs.

Promoting financial wellness pays

Let other financial institutions be the ones to differentiate with high interest rates. By focusing instead on helping consumers do more and do better with their money, you can position your institution as a partner in their financial wellness journey.

Customers that feel supported won't bounce the first time they see a higher rate advertised somewhere else. They'll concentrate more of their banking business with your institution, and stick with you for the long-haul.

The economic situation right now is challenging. Focusing on how best to support your customers as they navigate a confusing financial landscape is a smart strategy. A fintech product that encourages them to stay on top of their savings goals, and rewards them for smart spending choices can be a powerful tool to that end. ■