

Deposit Acquisition in an Increasing Interest Rate Environment

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Deposits are one of the key revenue mainstays of any banking institution and they put considerable effort in attracting and retaining them. But with rising interest rates and increasing competition from fintechs and tech giants, deposit acquisition and retention has become expensive and challenging for most banks. Almost a quarter of new deposits are lost within the first year, putting additional pressure on banks to offer the right product or product mix to the targeted customer segments. Customers today expect hyper-personalized offerings that address their unique financial needs and aspirations and a cookie cutter approach towards interest rates, products, services, and bundles does not work anymore. Banks must leverage their vast data repositories to gain a deeper understanding of customer needs and fine tune their offerings and bundles to effectively address these requirements.

As competition gets more intense, banks must differentiate their offerings from others. One way to do this is by offering a comprehensive and personalized package of products or services like savings account, credit card and loan account along with a deposit account. The goal is to also give the customer options for the future that can be added on to their package as their needs evolve. By effectively using customer data banks can define specific customer segments and then map relevant products to each segment as a bundle instead of just offering high deposit rates. This could improve the quality of deposits acquired, and by meeting customer expectations they can expand wallet share as well. Customers may be reluctant to commit to long term deposits amidst rising interest rates as there is a risk of losing out on the rate rise. Banks can counter this by offering hybrid modes of deposits where the customer has the option to reinvest at higher rates a few times during the term of deposit. This will require extensive risk assessment and regulatory guideline check to ensure that profitability is not negatively impacted.



Customers today require instant responses to their requirements. And fintechs are ready to meet this demand with innovative products available across touchpoints ranging from websites to mobile apps and even point of purchase. Banks must ensure frictionless and easy deposit opening processes across multiple touchpoints. And they should consider adopting fintech strategies of options for quick savings through digital channels and rewards to encourage customers to continue saving. However, just having a great offering available across touchpoints is not enough for deposit acquisition. There must also be an effective communication strategy in place to let the targeted customers know about the offering through the right channels. All features and facilities must be clarified and communicated effectively, and customer queries addressed quickly. Banks must consider leveraging social media and digital channels to engage better with customers.

Financial institutions must also consider lowering the minimum investment amounts which will remove the entry barrier for new investors. This customer segment would have otherwise moved to new age investing platforms and mobile apps that allow low investment amounts, and this will help in bringing in their business to banks. Banks can do this by embedding investment options in their mobile apps and other online touch points to make it part of the digital experience. Relationship-based pricing for deposits are also effective strategies for retaining customers, improving cross-selling and decreasing risk of customer attrition.

In shorts, banks must be agile to quickly address customer needs with innovative offerings. Unfortunately, traditional banks with legacy cores that cannot deliver this agility or scalability. Replacing or modernizing the core can be expensive and risky. Banks can work with third party vendors whose offerings can sit on top of the legacy core to deliver the cutting-edge technology foundation they need to deliver hyper-personalized services and products.



While interest rate will always remain a key factor in attracting deposits, other factors like customer experience, relationship-based offers and bundling of products are also crucial. A digital foundation is now a critical investment for banks as they focus on knowing their customers better and catering to a segment of one.