

A Relationship-based Approach to Winning the Deposit War



These are challenging times for banks across the world. The pandemic, followed by the war in Ukraine, and continued COVID-19 related instabilities in China have disrupted global supply chains, leading to growing inflation and an impending economic downturn. Amidst this, central banks across the world have been steadily increasing loan interest rates in a bid to address soaring inflation. Borrowing is witnessing a significant slowdown, while customers are seeking higher returns on personal savings, putting banking revenues and profitability under pressure. Banks must now focus on strategies to counter the impact of rising interest rates.

Growing Interest Rates and Declining Deposits

After more than a decade of low interest rates, banks are now contending with high interest rates on loans and declining deposits given that customers are seeking higher-yielding alternatives. This trend is likely to continue well into this year and perhaps even the next. Fitch expects bank deposits in the USA to decline considerably through not just 2023 but also 2024. In fact, many affluent customers are pulling out their savings and investing in higher paying products, weary of banks' meagre interest rates on checking and savings accounts. According to the Wall Street Journal, the Federal Reserve has been increasing rates for almost a year, and savings accounts only pays 0.33% interest rate. On the other hand, treasury notes, brokered certificates of deposit, and money-market funds pay between 4% to 5%. Wealthy customers are thus, moving their savings to higher paying products.

The market is witnessing a price war for deposits, and this is expected to accelerate further. Yet if banks are to maintain and grow their revenues, they must increase deposits. In a field already rife with competition and eroding customer loyalty, this poses a significant challenge for financial institutions. And for this they need to offer attractive rates.



A Relationship-based Strategy Overhaul

Of course, most traditional banks still have an edge over neo banks and fintechs in the form of customer trust. Most customers trust banks with their money and banks must use this as the first step to building a better relationship with them. Deep customer relationships are key to weathering out the interest storm within the financial sector right now. Customers expect hyper-personalized, value-driven, and relationship-based engagement with their financial providers. They are more likely to bank with organizations that understand their needs and appreciate the holistic value of their engagement with the bank that devise personalized and differentiated rates and offerings. From bringing in new customers to retaining existing ones, and upselling and cross selling, relationship-based offerings such as rates and pricing are crucial in the current market scenario.

Creating Customer-centric, Embedded Banking Ecosystems with the Right Partners

The business of banking has evolved. Modern customers want to be able to access financial services whenever and wherever they need. Financial services are no longer under the exclusive purview of financial institutions as banks strive to meet customer expectations of a uberized experience. Banks are increasingly partnering with fintechs to offer bundled products that deliver the integrated, and personalized experience that customers seek. The emergence and rapid adoption of digital wallets and payment services like Google Pay is an example of banks and technology companies and fintechs working together. Banks are also looking to embed their products and services into third-party, non-banking businesses. For example, cab aggregator company Lyft offers drivers debit cards and savings accounts that helps them get their payments directly and without any delays. As rising interest rates increase the pressure on deposits, banks must focus on innovative, customer-centric integrations and partnerships to drive customer acquisition and increase deposits. While fintechs have the technology know-how to power such an ecosystem, banks have vast data repositories that can be invaluable for driving personalization. More importantly, banks have a wider reach and enjoy greater customer trust that they must build on to become orchestrators of a comprehensive financial ecosystem.



Mining Data for Gold

Banks have an advantage over newer competition when it comes to devising relationship-based strategies, as they are privy to vast volumes of customer data from across the entire organizational ecosystem. In the new digital economy, data is gold. If mined effectively and cohesively, this data can reveal a wealth of information about the customer's engagement with the bank across touchpoints. And this information can help the bank offer hyper-personalized and relevant rates and pricing to the customer that is based on their overall business and value for the bank. As banks gear up for the battle of the deposits, they will have to deliver differential pricing that is crucial for driving more deposits amidst rising interest rates.

Banks must be able to break down departmental silos to view the customer as one aggregate whole – across accounts, service and product lines. This will give banks a deeper understanding of the customer's overall relationship with them, and they can then proactively offer preferential pricing and rates. For instance, banks can offer higher interest rates on deposits or lower annual percentage rate (APR) on credit cards. Legacy banking cores are not powerful, agile, or scalable enough to deliver the kind of data-driven insights banks need. Transforming the core is an expensive and risky proposition but banks can work with specialized solutions and deploy an agile middle layer that they require to devise preferential, relationship-based pricing and deposit rate strategies.

The banking sector has witnessed severe disruption over the last three years and is still navigating a volatile market scenario. As interest rates continue to increase, banks must re-evaluate their deposit strategies. A technology powered relationship-based approach to rate and differential pricing holds the key to customer acquisition and retention in this fraught economic climate.