Strategies and Tactics to Improve Deposit Growth

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Deposits Remain the Cornerstone of Retail Banking

- Customers define their primary bank as the one where they have their DDA
- Deposit customers are the best source of cross-selling opportunity
- Deposits represent a very stable source of funds
  - Low volatility
- Virtually impossible to run an effective retail bank of any size without a culture of deposit gathering and deposit growth
Consumer Retail Bank Profitability

- Other: 15%
- Core Deposits: 85%
Small Business Retail Bank Profitability

90%

10%

Other
Core Deposits
Think Like a Retailer, Not Like a Banker

• Deposit growth is akin to same store sales growth
  – Considered by retailers to be the most important measure of the success of a retail franchise
  – Gets at the heart of franchise viability
• Focus not on overall deposit growth, but on the performance of individual offices
  – Remove the impact of denovos, closures, and acquisitions
• Organic growth drives performance for the company overall
Deposit Growth Requires Delivering Value Across a Wide Spectrum of Areas

- Convenience
  - Comprehensive branch and ATM network, supported by internet, telephone
- Best in Class Customer Service
  - Advice
- Products and Pricing
- Market Segmentation
Distribution excellence drives customer choice, loyalty, and ultimately profitability

- Customers continue to cite convenience as the number one reason for choosing a bank:

  **Retail Bank Selection: % of respondents**

<table>
<thead>
<tr>
<th>Service</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branch Close to Home</td>
<td>52%</td>
</tr>
<tr>
<td>Good Service</td>
<td>36</td>
</tr>
<tr>
<td>Convenient ATMs</td>
<td>35</td>
</tr>
<tr>
<td>Free Checking</td>
<td>34</td>
</tr>
<tr>
<td>Previous Relationship</td>
<td>32</td>
</tr>
<tr>
<td>Offers Direct Deposit</td>
<td>24</td>
</tr>
<tr>
<td>Branch Close to Work</td>
<td>22</td>
</tr>
<tr>
<td>Low Fees/Charges</td>
<td>19</td>
</tr>
<tr>
<td>Low or no ATM Fees</td>
<td>18</td>
</tr>
<tr>
<td>Convenient Hours</td>
<td>17</td>
</tr>
</tbody>
</table>

Source: PSI Survey of US customers
Even Among Small Business Customers, Distribution is King

**Small Business Bank Selection: % of respondents**

<table>
<thead>
<tr>
<th>Factor</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convenience of Location</td>
<td>39%</td>
</tr>
<tr>
<td>Personal relationship</td>
<td>13</td>
</tr>
<tr>
<td>Credit</td>
<td>9</td>
</tr>
<tr>
<td>Customer Service Quality</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: PSI Survey of US customers
Distribution Convenience

• Commerce Bank: 19% same store deposit growth
  – Extended Hours
  – Prime, POS Locations
  – Flagship Design
    • Retail look and feel
  – WOW Service
Denovos are Not the Answer to Deposit Growth

• *Denovos* are expensive
  – Free-standing branch can cost up to $1.0 to $2.3 million to build and over $500,000 a year to operate
• Performance varies widely from institution to institution
  – Only 20% of large banks attract an average of $30 million in deposits per branch during the first 3 years
  – The bottom 20% garner just $4 million in deposits in the same time period
• The best predictor of denovo success is an institution’s ability to grow deposits within its existing branch network
Service, with a Focus on Building Loyalty

- Wachovia
  - 81,000 phone shops a year
    - What is your overall level of satisfaction with Wachovia?
    - What is the likelihood that you would refer a friend to Wachovia?
    - What is the likelihood that you will do additional business with us in the future?
  - A loyal customer is one who rates Wachovia a 7 on a scale of 1-7 on all 3 of these measures: 2005, 52% of their customers are loyal
  - Customer attrition has dropped from 20% in 1999 to only 12% in 2005
  - WISE: Wachovia is service excellence; committee chaired by CEO
Service, Coupled with Advice

• Northern Trust: 10% growth in deposit at existing branches
• Business Model:
  – High touch client service
  – integrated advice for investments and deposits
  – Highly trained professionals
Service: the Community Bank Advantage

- Community Banks who outperform their counterparts in deposit growth generally do so on the basis of service quality
- The value proposition of community bank deposit stars:
  - 60% focus on the delivery of high quality, attentive service
    - Friendliness of employees, being recognized by name, responsiveness to problems
  - 20% focus on niche market segments
    - Small business
    - Professionals
    - Ethnic groups
  - 5% focus on highly competitive pricing
  - 15% other reasons or value propositions
Products and Pricing

- Charter One Bank; 7% growth in same branch deposit growth
  - Free Checking
  - High rates on MMDAs
  - Aggressive direct mail to drive new customer acquisition
  - Very low cost delivery
- Wells Fargo
  - Product packaging
    - Customers who bring higher balances are rewarded through higher interest rates and lower fees
Market Segmentation

- The segment specialist will always outperform the generalist
  - Programs to target profitable customer groups
    - Doctors, dentists, accountants, attorneys
- United Commercial Bank: 14% growth in same store deposits
  - Targets Chinese-Americans
  - Offers personal service to this market
- Union Bank of California: 11% growth in same store deposits
  - Small business focus
  - Uses relationship management strategies to build loyalty
  - Emphasizes transaction accounts
    - High margin, stable funds
Deposit Sales Culture

• Most banks speak in terms of having a credit culture, but not necessarily a deposit culture
• A deposit culture must emphasize:
  – Sales leadership at all levels
  – Sales support
  – Detailed measurements of the business
  – Competitive products and pricing
  – Effective compensation programs
Sales Leadership

• Leadership must set the stage for growth expectations
  – What are the deposit growth expectations
  – What roles do each area of the bank play
    • Commercial bankers
    • Investment advisors
    • Branches
    • Call Center
Sales Leadership: How far will you go?
Sales Support: Driving Change at the Front Line through a Consistent Sales Process

• “Needs-based” selling process to support relationship building with all clients
• On-Board” new customers
  – “2 by 2 by 2”
  – Two days after a new account is opened, call the customer and thank them for their business
  – Two weeks after an account is opened, follow-up to make sure that they have received debit card and checks
  – Two months after account is opened, call to ensure that everything is going smoothly and to see if there is anything else you can help them with
Sales Support: Driving Change at the Front Line Through a Consistent Sales Process

- Up-front profiling of customers
- Leveraging contact management system
  - Provide opportunity leads on a weekly basis for outbound telemarketing
  - Manage this process with weekly accountability and measurement
- Management inspection of the sales process
- Mystery shopping to understand the frequency of profiling
Sales Support: Run Three Major Deposit Campaigns Each Year

• Put a campaign against the toughest months
  – April typically sees a lot of outflow, counterattack this with a campaign in May and June
• Take advantage of the fall when people are moving/consolidating their finances
• Support the campaigns with lead lists, special offers, and advertising
• Hold weekly conference calls, sharing best practices
• Produce a campaign newsletter, including weekly tracking of general ledger and production
• Reward teams with recognition and celebration: Deposit Divas and Dons
Sales Support: Ongoing Marketing Collateral

- Don’t underestimate the value of straightforward sales collateral for tellers and platform reps
  - Simple pieces that showcase products with pricing tiers are very effective
  - Promoting direct deposit is key to deposit growth
- Show customers that you are in the business of gathering deposits
  - Use multi-channel communication vehicles
    - Direct mail
    - Advertising
Sales Support: Field-Based Deposit Advocates

• Provide product training
  – Particularly small business products
• Promote the sharing of best practices
  – How to build and manage a deposit pipeline
  – How to “save” customers and accounts
• Advocate the needs of local markets to product group heads
• Develop and support local market efforts, campaigns, etc.
### Detailed Measurements of the Business

<table>
<thead>
<tr>
<th>Measurement</th>
<th>Detail Level</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales Production</strong></td>
<td></td>
</tr>
<tr>
<td>DDA and New Households</td>
<td>CSR and call center employee</td>
</tr>
<tr>
<td>New Deposit Accounts</td>
<td></td>
</tr>
<tr>
<td>New Money</td>
<td></td>
</tr>
<tr>
<td>DDA or Household Net Gain</td>
<td>Branch/ Area/ Division</td>
</tr>
<tr>
<td><strong>Core Deposit Growth</strong></td>
<td>Branch/ Area/ Division</td>
</tr>
<tr>
<td>DDA New to Closed Ratio</td>
<td>Branch/ Area/ Division</td>
</tr>
<tr>
<td><strong>Same-Store Sales/ Balances</strong></td>
<td>Branch/ Area/ Division</td>
</tr>
<tr>
<td>New Deposit Balance Generation</td>
<td>Branch/ Area/ Division</td>
</tr>
<tr>
<td><strong>Balances per Sales FTE</strong></td>
<td>Branch/ Area/ Division</td>
</tr>
</tbody>
</table>
Annual Net Growth Measurements are Best Proxy for Profit

<table>
<thead>
<tr>
<th>Index</th>
<th>Start</th>
<th>Goal</th>
<th>Actual</th>
<th>+/-</th>
<th>%</th>
<th>Start</th>
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<tbody>
<tr>
<td>032</td>
<td>7,404,980</td>
<td>8,478,702</td>
<td>10,157,493</td>
<td>1,678,791</td>
<td>256.35</td>
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<td>7,691,462</td>
<td>9,229,754</td>
<td>10,681,698</td>
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<tr>
<td>014</td>
<td>8,411,943</td>
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<td>10,651,432</td>
<td>641,220</td>
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<td>017</td>
<td>10,164,459</td>
<td>11,689,128</td>
<td>12,212,693</td>
<td>523,565</td>
<td>134.34</td>
<td>2,910,474</td>
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<tr>
<td>072</td>
<td>1,009,480</td>
<td>1,766,590</td>
<td>4,308,583</td>
<td>2,541,993</td>
<td>435.75</td>
<td>628,533</td>
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<tr>
<td>040</td>
<td>0</td>
<td>1,000,000</td>
<td>3,381,852</td>
<td>2,381,852</td>
<td>338.19</td>
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<tr>
<td>038</td>
<td>1,030,653</td>
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<td>2,545,445</td>
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<td>151.16</td>
<td>320,988</td>
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<td>022</td>
<td>3,790,248</td>
<td>5,147,157</td>
<td>4,997,073</td>
<td>(150,084)</td>
<td>88.94</td>
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<tr>
<td>030</td>
<td>2,153,830</td>
<td>3,123,054</td>
<td>2,909,993</td>
<td>(213,061)</td>
<td>78.02</td>
<td>506,688</td>
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<tr>
<td>034</td>
<td>5,423,446</td>
<td>6,453,901</td>
<td>6,681,710</td>
<td>227,809</td>
<td>122.11</td>
<td>449,685</td>
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<tr>
<td>003</td>
<td>18,595,713</td>
<td>21,942,941</td>
<td>23,854,840</td>
<td>1,911,899</td>
<td>157.12</td>
<td>6,916,713</td>
</tr>
</tbody>
</table>

Weight = 20% *
Competitive Products and Pricing

• Free Checking strategy
  – Product innovation has led to product commoditization
  – Helps to grow deposits; typically requires a 25% lift in sales to recover lost revenue

• Packaged accounts
  – Sweet spot: DDA, savings and Investment, loan
  – Make it easy for a customer to bring you all of their business
Wells Fargo Advantage Package

• Complete Advantage Checking: “Designed to help you grow your money”
  – Monthly service waived if you have 3 other accounts and
    • $5,000 in combined deposit, credit card, and credit balances, or
    • A Wells Fargo home mortgage and either direct deposit or automatic payment from the DDA
  – Qualifying accounts include:
    • Check card, Online, Credit card, Money Market Savings, Goal Savings
    • Mortgage products, including HELOCs
    • Investment Services
Competitive Products and Pricing

• Competitive Money Market rates
  – Competitive rate surveys
  – Weekly process to review rates
  – Incent for balances: achieve a targeted average rate by paying zero interest below $2,500 or $5,000, paying higher above $25,000 or $50,000
• Specialty CDs
  – Bump-up CD
  – Add On CD
  – Step Rate
• New customer promotional rates
• Guidelines for exception pricing for retention
• “Hip Pocket’ Offers
Effective Compensation Programs

• Compensation programs have become overly engineered, too complex
  – Can’t see the forest from the trees
• Branch deposit growth should be a key measure and account for at least 25% of branch manager variable compensation
• CSRs and platform reps
  – Deposit compensation paid out 90 days after the account is opened
  – Paid on dollar volume of sales with differential rate for internal versus external source of funds
Effective Compensation Programs

- Tie Individual compensation to branch performance through a matrix

<table>
<thead>
<tr>
<th>Individual Savings Units</th>
<th>Branch Quarterly Deposit Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>60</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>40</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>20</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>$750</td>
<td>$1,000</td>
</tr>
<tr>
<td>$400</td>
<td>$600</td>
</tr>
<tr>
<td>$0</td>
<td>$300</td>
</tr>
<tr>
<td>$1,500</td>
<td>$750</td>
</tr>
<tr>
<td>$500</td>
<td>$1,000,000</td>
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</tbody>
</table>

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There’s no silver bullet for deposit growth

• Focus on the articulation and execution of an effective value proposition suited to your bank
  – Convenience
  – Service
  – Products and pricing
  – Market Segmentation
• Create a deposit culture where deposits permeate all that you do
  – Sales leadership at all levels
  – Sales support
  – Detailed measurements of the business
  – Competitive products and pricing
  – Effective compensation programs