



# Strategies and Tactics to Improve Deposit Growth

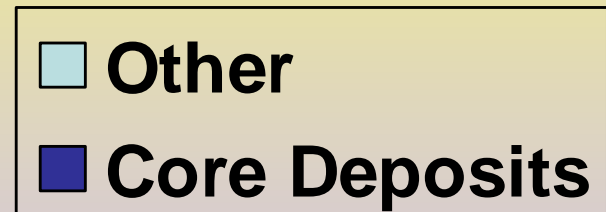
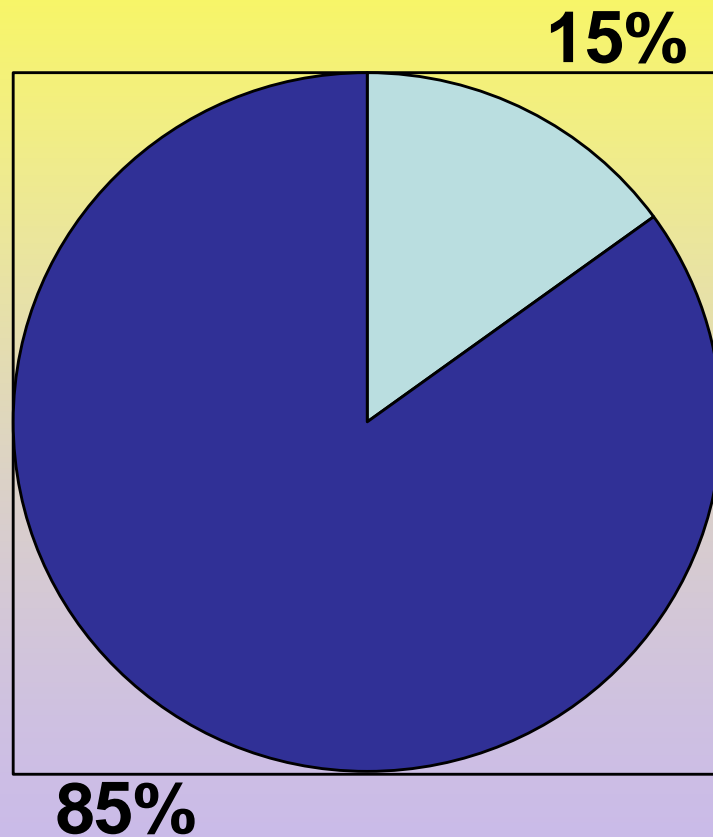
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# Deposits Remain the Cornerstone of Retail Banking

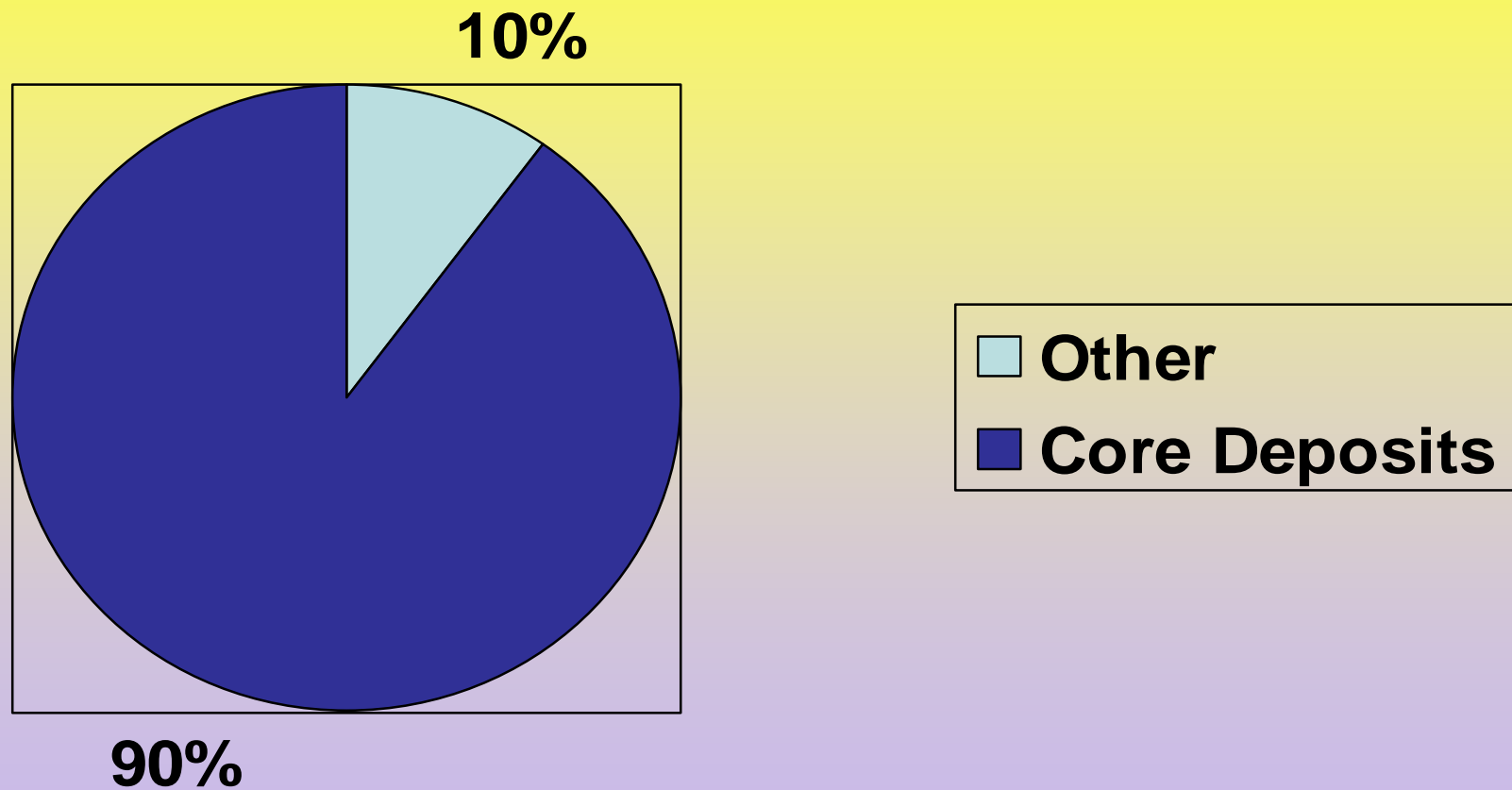


- Customers define their primary bank as the one where they have their DDA
- Deposit customers are the best source of cross-selling opportunity
- Deposits represent a very stable source of funds
  - Low volatility
- Virtually impossible to run an effective retail bank of any size without a culture of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

# Consumer Retail Bank Profitability



# Small Business Retail Bank Profitability



## 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***

Branch Close to Home	52%
Good Service	36
Convenient ATMs	35
Free Checking	34
Previous Relationship	32
Offers Direct Deposit	24
Branch Close to Work	22
Low Fees/Charges	19
Low or no ATM Fees	18
Convenient Hours	17

Source: PSI Survey of US customers

# Even Among Small Business Customers, Distribution is King



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

<b>Convenience of Location</b>	<b>39%</b>
Personal relationship	13
Credit	9
Customer Service Quality	9

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



Measurement	Detail Level
Sales Production	CSR and call center employee
DDA and New Households	
New Deposit Accounts	
New Money	
DDA or Household Net Gain	Branch/ Area/ Division
Core Deposit Growth	Branch/ Area/ Division
DDA New to Closed Ratio	Branch/ Area/ Division
Same-Store Sales/ Balances	Branch/ Area/ Division
New Deposit Balance Generation	Branch/ Area/ Division
Balances per Sales FTE	Branch/ Area/ Division



# Annual Net Growth Measurements are Best Proxy for Profit



1/24/2005		TRI COUNTIES					
		LOANS					
		Consumer Weight = 20% *					
Index	Start	Goal	Actual	+/-	%	Start	
032	204.24	7,404,980	8,478,702	10,157,493	1,678,791	256.35	991,566
026	193.93	7,691,462	9,229,754	10,681,698	1,451,944	194.39	2,114,805
014	172.48	8,411,943	10,010,212	10,651,432	641,220	140.12	2,016,246
028	161.56	8,757,109	10,333,389	11,956,527	1,623,138	202.97	861,132
017	160.15	10,164,459	11,689,128	12,212,693	523,565	134.34	2,910,474
072	150.29	1,009,480	1,766,590	4,308,583	2,541,993	435.75	628,533
040	149.41	0	1,000,000	3,381,852	2,381,852	338.19	0
038	144.12	1,030,653	2,061,306	2,545,445	484,139	146.97	493,409
035	124.61	4,168,626	5,335,841	5,933,046	597,205	151.16	320,988
022	123.80	3,790,248	5,147,157	4,997,073	(150,084)	88.94	1,131,496
030	120.15	2,153,830	3,123,054	2,909,993	(213,061)	78.02	506,688
034	117.26	5,423,446	6,453,901	6,681,710	227,809	122.11	449,685
003	116.89	18,595,713	21,942,941	23,854,840	1,911,899	157.12	6,916,713

# 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

Individual Savings Units	60	\$750	\$1,000	\$1,500
	40	\$400	\$600	\$750
	20	\$0	\$300	\$500
		\$1,000,000	\$1,500,000	\$2,000,000
	Branch Quarterly Deposit Growth			

# 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