Develop Winning Strategies for Optimizing Retail Deposits

Interview with Neil Stanley, President, Bank Performance Strategies

Today, wholesale financial markets are shrinking and banks are turning to retail deposits to meet their business needs. The challenges involved in the retail deposit business include persistent pressure on the net interest margin and the approaching deadline for the Basel III liquidity requirements. It is essential for banks to grow retail deposits to stay profitable and competitive in the future.

Neil Stanley, President, Bank Performance Strategies recently spoke with Global Financial Markets Intelligence (GFMI) about key topics to be discussed at the upcoming GFMI Retail Deposit Optimization and Strategic Management Conference, December 5-6, 2013, in NYC. All responses represent the view of Mr. Stanley and not necessarily those of Bank Performance Strategies and its subsidiaries.

Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR): What are the implications for deposit managers?

NS: Bankers have always needed to measure bank liquidity. However, as the dynamics and fluidity of banking have increased dramatically, so has the challenge of measuring and managing how much asset-based and liability-based liquidity a bank should have. New measures which are designed to be more robust will provide new boundaries and, in the short-term, may produce urgency for more emphasis on retail deposits. However, they will not fundamentally change the long-term need for efficient and effective funding strategies for both wholesale and retail sources.

Deposit managers are challenged to design and implement offerings that are found to be compelling to customers whereby the value exchanged exceeds the bank’s cost of providing the offering. Ultimately, banking is about helping people who...

- Need money they don’t yet have.
- Have money they don’t yet need.
- Want payments made exactly as they expect.
- Want accounting and documentation—for everything.

With this in mind, deposit managers must create a compelling offer that clearly delivers on these needs and wants. These new regulatory initiatives may add urgency in this regard.

How can financial institutions use retail deposits more effectively to meet balance sheet growth objectives?
**NS:** A bank is a financial intermediary. Deposits are the raw material to the factory that we call a bank. A community bank buys funds from the market place and sells them right back to the same market place. With the development of funding from multiple non-local sources, the bank has more latitude for alternative funding strategies.

However, each of these non-local sources has its own parameters and characteristics. One key factor to note is that although wholesale funds are aggregations of many smaller accounts, in the end you will find there is an individual or group of individual stakeholders who claim ownership of that money. Bankers who learn best how to deal directly with the owners of funds have a distinct advantage by being able to keep another level of intermediaries out of the value stream. Every time a banker uses wholesale funding, they get the advantage of expeditious access to generally larger scale funding transactions. It is my experience that this is great for temporary “load-balancing” of the bank. However, a bank that becomes dependent on a network of professionals for their raw material will ultimately be removed from their relationships with customers. These are the customers who can be more than a single-service relationship. Therefore over-reliance on wholesale funding is a short-sighted and franchise value-diminishing approach.

I find bankers’ apparent willingness to abandon depositors to brokers who will aggregate the funds they attract and sell them to banks to be a great threat to the long-term sustainability of banks. For banks to out-source their procurement of the vital raw material of banking is one of the most dangerous trends we observe today. Astute bankers will ultimately realize that the intrinsic value of FDIC-insured depositories is based on the ability to bring competitive advantage to attracting and sustaining valued relationships with both loan customers and depositors.

**What are the key components of successful retail strategy?**

**NS:** Successful retail strategy is grounded on the ability to create a durable competitive advantage. This means that we provide a service that is seen as creating value that exceeds the price exchanged for it. Seems to me that today too many bankers have lost the ability of objectively understanding the perceptions of value their customers hold for their products. It is distressing to see bankers surveying bank fees in search of new fee opportunities. Survey the competition all you want, it is the “felt-fair” price that exceeds your cost of production that creates a viable business enterprise. What do you do and what could you do that customers value beyond what you are charging them for? That is your opportunity to create sustainable revenue.

**How does a bank decide what the best approach for customer segmentation is?**

**NS:** We have two basic choices –

- We build services that our customers need-want and are willing and able to exchange value for.

-or-

- We build services that our customers want-need and are willing and able to exchange value for.
We find people who need-want and are willing and able to exchange value for the services we are offering.

The first approach is customer-centric as we adjust our offerings to fit the needs of the customer. The second begins with what we are offering and seeks to find people who value what we have to sell. Either way it gets down to connecting with the customer. If we have the ability to deliver the unique offerings that a customer needs-wants and is willing and able to exchange value for as they expect, we are in a good place. But, as their expectations evolve, it is incumbent upon our business to meet their expectations. In this era of technological advancement and social agility, we often find our commoditized offerings rejected due to the myriad of competitors who are ready, willing, and able to compete with a different delivery mechanism and cost structure than ours. This vulnerability spotlights our inability to compete using what are perceived to be commoditized offers in a mass market. If we cannot satisfy all of our potential base, we resolve to qualify and attract the customer for whom we have the best opportunity to satisfy with our existing offerings.

When we cannot win in the open field, we look to change the battle ground to where our advantage is greater. Segmentation is the theory that we should be able to offer our existing product at our existing valuation to more people who look and act like the current group of people who have already purchased our services. Beyond that we may be able to offer a differentiated pricing structure if we can effectively segment the customer base. Find more people who more highly value your offers and you may be able to exchange your offers for more value.

**What would participants learn by attending this event?**

**NS:** I am very excited to learn from the many experts who will be presenting throughout this comprehensive conference on retail deposits. It is my expectation that we will hear much about how bankers are using predictive analytics to efficiently and effectively capitalize on the most likely profitable opportunities available. I also expect that the evolution of technology will clearly be on display as some of the most progressive financial services companies in the world present their current and future sales and service designs.

With regard to my contributions, it is my pleasure to display the many ways we are revitalizing time deposits after the Great Recession. The next generations of retirees will generally not buy CDs from a static rate sheet. They expect a “designer” deposit created for them and their situation. Most bankers hold bank offering paradigms so deeply that this proposition may seem infeasible. But, it is clearly a real opportunity. It is the role of a trusted adviser to bring professional design to the customer and we will show you how...

- We dynamically create CDs that mature when the customer expects to need the money.
- We make the account more relevant by displaying dollars at maturity and compare to competitor offerings with clearly understood dollar differences.
We offer a savings account with a yield comparable to a CD when we are put in a “match-it-or-lose-it” situation.

We offer a bond-structured CD that allows depositors to use the same total return strategies that bankers use to manage their own portfolios.

We deliver a CD refinance windfall to depositors when interest rates rise aggressively.

We will offer dynamically-priced negotiable CD early withdrawal penalties.

We will offer to alert the depositor when future interest rates rise sufficiently to cause a profitable refinance opportunity.

We will analyze the available options within a depositor's portfolio to determine the net expected liquidation value at a future date.

We will offer simulation of alternative investment decisions to model and optimize likely future portfolio valuations.

We will offer a customized cash flow account that allows a depositor to offer one deposit with a series of cash flows where each scheduled withdrawal is accorded an appropriate high-performance CD yield.

Each of these approaches can be demonstrated to be simple and logical; good for the customers; and make money for the bank as we sell value that goes beyond price alone. Through these initiatives, participants will discover how to increase financial performance, enhance employee professionalism and morale, and positively impress depositors.

In 2009, Neil founded Bank Performance Strategies. His company helps client banks use proven and innovative methods to lower their cost of funds while retaining and attracting properly-priced, longer-term core retail deposits. Bank Performance Strategies supports clients across the country with sales performance analytics, sales training, and a web-based pricing and sales platform.

Neil Stanley has been a banker for over 25 years. Neil was the CEO of a $750 million Northwest Bank in Spencer, Iowa which operates in Omaha, Nebraska, Des Moines, and the Northwest Iowa regions. Prior to Northwest Bank, Neil was an executive for over 22 years with what became the largest privately held banking organization in the country – First National of Nebraska/Lauritzen Corporation. Neil has also served as a director for several banking and financial organizations. He is currently a director at Treynor State Bank, Treynor, Iowa.

The GFMI Retail Deposit Optimization and Strategic Management Conference will take place in NYC, December 5-6, 2013. For more information, check out the conference brochure or please contact Tyler Kelch, Marketing Coordinator, Media & PR, GFMI at 312-894-6377 or Tylerke@global-fmi.com.

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