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WINNING BACK GROWTH
for Your Unique Deposits Business

Build a holistic, customer-centered experience that does not just win customers, but also keeps them satisfied.

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INTRODUCTION

Banks love to hold off-site strategic planning sessions. You know the type: hours of PowerPoints, hundreds of report pages from finance, econ, and various other lines of business. Political posturing, budget requests, performance target resets, resource alignments, and if you are lucky, some team building activities. At the end of a day or two of offsite meetings, bankers congratulate each other on an exciting and invigorating series of sessions that will certainly set the organization up for success next year, and in the future.

Sadly, though, many strategic off-sites fail to bring sufficient insight about the exterior threats to their business, resulting in these planning sessions falling short in terms of fully addressing the need to change. When the off-site meeting has concluded, everyone returns to their day job and the planning binders go stored away on the credenza—right next to last year's unopened copy.

Invariably, the strategic planning session revolves around three input categories: internal reports, third-party thought leadership, and basic strategic planning tools. Banks often excel at producing internal metrics and line of business leaders come prepared with reams of reports that boast captivating performance graphs, spreadsheets, and budget printouts. Forward-looking thought leadership is sourced from internet searches and recycled from white papers and webinars. The final component is a mixture of B-school strategic planning frameworks like mind maps, balanced scorecards, and of course, the SWOT analysis.

The SWOT analysis has historically been an effective tool for centralizing thoughts around the key areas of the company's internal strengths and weaknesses and evaluating them against external threats and opportunities. While this rudimentary tool is helpful in provoking thought and discussion, it misses a major shift in the business environment. There are now more firms than ever that obsess every day about disintermediating and disrupting traditional business models.

It may be tempting to dismiss disintermediation and disruption as just another flavor of the threats category, but often the list of items in this column of the analysis has to do with shifts in the macroeconomic environment, general changes in technology, and traditional competitors' moves. Big banks benchmark other big banks, and credit unions benchmark other credit unions.

ADOPT "SWOT-D," STARTING WITH DEPOSITS

Disintermediation and disruption are the greatest threats to your deposits business profit centers. FDIC insurance provides good strategic defense against non-banks, but easy money movement and sweeps matched with digital ad targeting are making it easier than ever for non-banks to target demand deposit accounts. Customer inertia will slow the movement of customer relationships, but ultimately customers will go where there is low friction and extra benefits. Though still in its infancy, the new OCC charter for non-financial institutions provides further risk of disruption to traditional financial institutions by new market entrants.

When categorizing items in the 'D' column, business leaders are free to think outside of their traditional competitors—fintechs, money movement companies, non-banks, startups—the list goes on and on. Let us consider that your customer does not care much about your financial institution. They care deeply about their money and their financial life. Therefore, the traditional evaluation of your bank versus the competition on metrics like pricing, rewards, or branch coverage is only a fraction of how your customer views and weighs the options that are available to them.

The rise of peer-to-peer payments from non-banks, the advent of online high-yield savings accounts from brokerage and non-bank providers, prepaid and stored value cards, alternate payment services, decoupled debit cards, and the potential for co-branded checking accounts threaten to chip away at deposit funding pools, interchange income, and account primacy. Though the Robin Hood checking account concept was a failure, you can expect that technology companies, challenger banks, and even retailers will continue to probe the boundaries of traditional banking deposit and money movement services.

CUSTOMERS NOW HAVE MORE CHOICES

The newest buzzword in the industry is customer-centricity, but the definition changes not only across banks, but also across lines of business. Thirty years ago, a banker's relationship with a customer and branch/ATM proximity to those customers were a good index of how customer-focused a bank was. Today, customer expectations are anchored by technology and retail companies, yet banks are still stuck in silos and individualized P&L management mindsets that harm the end customer. Now, customers are increasingly drawn to specialized players that focus on doing one thing well. In today's marketplace, consumers don't need a bank to be their single provider.

To begin a SWOT-D, walk through the customer need and which alternative service providers are available. Where can the customer get the following deposit needs met, if not from a traditional brick-and-mortar financial institution?

- Direct deposit to stored value
- Cash movement/peer-to-peer
- Payments
- Short-term savings
- Long-term savings
- Short-term savings
- Long-term savings

Chances are, as you fill out this list, your initial set of service providers has gravitated toward direct or online financial services companies. To complete the list, add at least one or two non-financial companies that could fulfill that need. As Jeff Bezos said, "Your margin is my opportunity." Statements such as this clearly identify that there are hungry, motivated technology companies and startups that want your lunch in every category.

Apple is now in the credit card business, Amazon is doing small business loans, PayPal and Venmo now offer debit cards, Robin Hood is handling brokerage, etc. During the strategic planning process, it is important for financial institutions to fully understand and embrace the fact that while the process of change may be slow, consumer affinity to a single institution is waning as money movement becomes easier and friction within each product category is addressed by new market entrants. Dedicating time to the disintermediation and disruption topic during your strategy sessions will likely be the most engaging and indicative discussion you have.

HOW TO COMBAT DISINTERMEDIATION

As your leadership team discusses the myriad of disruptors, new market entrants, and threats from non-bank entities, it is easy to become overwhelmed with the number of fronts there are to fight. Don't despair. Remember, you are the incumbent and already have the relationship with your customer. It is simply your job to ensure the customer considers your financial institution as their first stop when they have a financial need.

Financial institutions have appropriately been making big investments in upgrading self-service technology platforms like online and mobile banking. Although this will continue to be an important activity in the future, in isolation it will be insufficient. New market entrants, disruptors, and fintechs are not encumbered by legacy technology platforms. Because of this, they will be able to build better user experiences from the ground up faster and cheaper than your bank can innovate. To keep customers engaged, your bank will need to offer benefits that extend beyond traditional P&L silos to create sticky relationships.

CUSTOMER DON'T CARE ABOUT SILOS

For most financial institutions, customer rewards are vertically focused. Bring a bigger deposit relationship, and we will give you better deposit rates, fee rebates, or waivers. But what happens when a customer brings you their mortgage or credit card? What about their brokerage account?

For most banks, horizontal integration is highly complex due to legacy systems that don't easily communicate with each other, but even more complicated is the incentive structure designed to prevent cross-product adoption. Traditional P&L management by line of business means the mortgage head is unlikely to subsidize the deposits relationship, or vice-versa.

During the strategic planning process, financial institutions need to stack their brain trust against holistic customer-centered rewards that cross product silos. Otherwise, customers will have less and less reason over time to keep all their financial assets under one roof. You may consider establishing a horizontally integrated rewards clearing house that keeps line of business owners whole, while also incentivizing the customer to bring more of their relationship.

A FEW WAYS TO DO THIS INCLUDE:

1. Establish a quasi-FTP structure using shadow credits or basis points in which swaps across departments are traded in exchange for customer cross-sell.
2. Create a central rewards GL and clear expenses related to subsidies against that GL.
3. Create a budget line specific to cross-department rewards.

IMPLEMENT CUSTOMER-CENTRIC REWARDS

If parlaying disruptors is a major strategic focus for your bank, there will need to be significant thought and structure implemented to modify the internal accounting and incentive structure. It will be a significant undertaking, but worth the long-term rewards. Some institutions have already implemented horizontal rewards systems, and they are harvesting benefits in market share gains and loyalty against their competition (that's you!).

To get started, you may need a top-down approach from the CEO and CFO. If this is the approach, set up a steering committee that involves technology, finance, accounting, and line of business representatives, as well as marketing. If you need to go grassroots and build from the bottom, then find another like-minded line of business owner and establish your own system for rewarding customers while keeping your P&L whole. Then, invite other business line owners to join the internal consortium.

CONCLUSION

Technology will be your accelerator. Many initiatives at banks start out as a spreadsheet or generic database. For an experimental stage, the MacGyver approach is fine. But if you are looking to implement industrial-grade customer rewards systems and you plan to stack your organization's talent against the initiative, be sure you make an adequate investment in the supporting technology that will automate the process for your business and your customers, reduce friction, and ultimately, create an overall fair, fast, and reliable system for combating the disruptors and disintermediation on the horizon.

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ABOUT THE AUTHOR

Dustin Allen brings more than 15 years of FinTech, banking, and analysis expertise to his position as Senior Director of Consulting Services at Nomis Solutions. In his current role, Dustin leads an international team of SaaS consultants and data scientists to deliver greater value and customer success to a wide range of national, regional banks. Dustin's focus on data-driven price optimization, analytics, execution, and monitoring has enabled Nomis' client base to build a true competitive advantage through a more scientific and strategic approach to retail banking, resulting in a significant improvement in profitability, engagement, CSAT scores, and revenue growth totaling multi-billions of dollars.

ABOUT NOMIS SOLUTIONS

Nomis Solutions is a global, industry-leading pricing and profitability management solutions provider that delivers competitive intelligence to bankers and mortgage lenders to facilitate more advanced pricing strategies. The company's analytics platform and end-to-end pricing tools enable retail banks and mortgage lenders to achieve customer- and borrower-centric pricing backed by real-time, actionable data. The platform also supports banks and mortgage lenders in their understanding and anticipation of the evolving demands of customers and borrowers, competitors, and ever-changing market conditions. For more information, please visit www.nomissolutions.com.