What's New in Deposits?
by Charles Wendel

We have written about deposits a dozen times over the last year. The themes have been largely the same:

- Banks are facing more competition from banks and non-banks.
- The largest banks have stronger deposit/loan ratios that others.
- Many smaller and regional banks are operating at a 100% deposit/loan ratio, raising potential concerns about cost of funds and the ability to grow.
- Whether rates rise or drop, the pressure to generate deposits is likely to grow.
- One change: In recent months those banks that were concerned about rising rates seem to have been given a breather as the Fed appears to have stopped tightening. Conversely, those banks that were looking forward to higher rates…need to keep looking forward. Further, FDIC statistics show that the percent of total deposits captured by the big three banks has actually declined slightly since 2012, meaning many regionals and community banks are maintaining or growing their deposits; that's good news, although it may not be sustainable.

Most banks fully understand the need to grow deposits and have taken short-term actions to do so, including:

- More deposit oriented signage.
- Special promotions with higher rates aimed at consumers and businesses.
- "New" more flexible deposit products to encourage increased deposits
- Internal incentives aimed at encouraging bankers to pursue deposits
- Marketing C&I loans versus CRE loans.

Some banks have also bought branches to gain deposits, a strategy that may need reconsideration. In light of the BB&T and SunTrust "merger" David Kerstein, in a recent *Banking Strategies* article, raised a warning flag about banks buying branches from larger institutions and assuming that the deposits they acquire will remain with them. He mentioned one case in which the acquired depositors wanted to stay with their old bank and moved their accounts back. We know of similar transactions with the same result. Given digitalization, staying with your old bank is much easier to do than ever before.

Unfortunately, in a few cases banks with an near-term uptick in deposits may be taking their foot off the deposit peddle, perhaps not fully considering the systemic issues that will continue to erode a bank's deposit franchise, such as:

- Deposit displacement
- Digital competitors
- Fintech's targeting specific segments
- Concentration risk

Deposit concentration risk appears to be one area few banks are focusing on. When we work with a client and examine its deposit portfolio we usually find a high degree of concentration, both in the overall deposit portfolio and the source of new deposits. Concentration may be tied to a geographic location, type of customer (age or occupation), or other factors. Other banks rely on a small number of business deposits. Relying on a small group to drive deposits can put the bank at risk if the circumstances of those providing the deposits change. Perhaps, more important, it can let other bankers off the hook, allowing them to avoid a deposit focus.

The best banks at capturing quality deposits have built a culture that highlights the importance of deposit gathering and rewards bankers who excel in this area. I have met with senior bankers who believe their bankers should seek deposits as a matter of course and, therefore, no incentives are appropriate or needed. Nice in theory, not true in practice. Is there any older business adage than "people do what they are paid to do"? Bankers need to be trained and incented to sell deposits. And, if the bank offers a short-term incentive Hawthorn effect-like program to boost deposits, the result is just that…short term. Compensation is a sensitive area at all companies and, understandably, banks are reluctant to alter their practices. To grow deposits, most need to.

Two other areas related to deposits that have not changed:

- Lack of commitment to fundamental change
- No long-term perspective

Regarding lack of commitment, I have often quoted one senior leader's comment about putting a spotlight on an important area: "Who wakes up in the morning thinking about X?" In this case X equals deposits. But banks need to do more than select a point person. In one case we know, the appointed deposit leader failed to play a lead role, responding reactively and without a plan for deposit growth. He never really assumed responsibility, instead focusing on other duties. In another case, a banker fully assumed the responsibility, but lacked the authority and the realistic timeframe required to move the bank to a deposit-oriented culture. That person did not receive the top management support required to succeed. Commitment to this effort needs to be crystal clear.

No long-term perspective. Many banks find it difficult to focus on one area for very long, seemingly suffering from corporate ADHD. Greatness in any area takes time to develop, and bumps often appear along the way. Building a deposit culture is not a six-month effort, it is a life-of-the-bank effort. BTW, CFOs often have a key role to play in helping colleagues understand the impact of quality deposits (defined as low cost and reliable) and also showing doubters the value of better aligning compensation with deposit goals.

An effective deposit effort means: a senior person is in the lead, incentives are aligned, products are streamlined and easy to sell, and segmentation strategies are in place.