



Deposit Inflows Present Need for Retention Focus

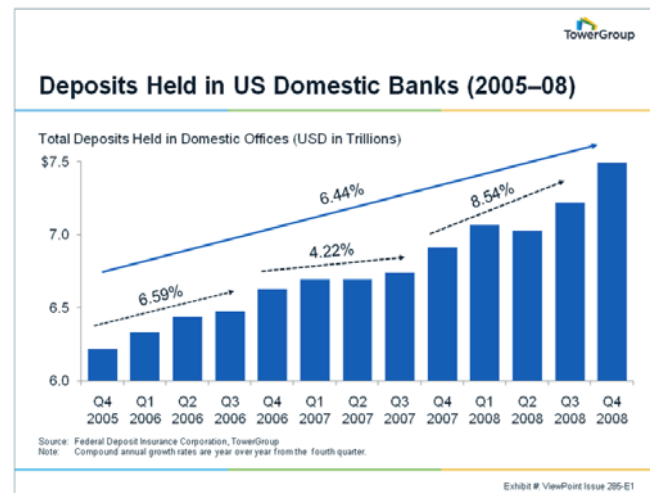
The flow of funds into banks and credit unions over the past several months is occurring at an unprecedented rate. Causes for this dramatic inflow include the ‘flight to quality’ occurring due to the stock market collapse, the temporary increase of FDIC insurance to \$250,000, and the recent shift in consumer behavior away from spending and toward a renewed sense of saving. What is unique about this growth in deposits is that it is occurring when interest rates are at historic lows.

So, What’s the Opportunity / Challenge?

With traditional financial institutions providing a safe haven for funds, banks and credit unions have seen a significant inflow of deposits into their institutions. This is important since one of the other significant sources of liquidity, loan securitization, has all but disappeared. Unlike other sources of liquidity, however, consumer deposits cannot be considered stable since many consumers may be using banks or credit unions as only a temporary parking place for their funds until the markets recover. In addition, with interest rates (and interest margins) so low, differentiating products through pricing is difficult for banks.

Another challenge is that very few financial institutions are able to forecast consumers’ sensitivities to rates and pricing. This requires financial institutions to assume that all account holders are equally price sensitive, forcing them to react to competitive pricing and internal funding requirements as they change. The way to minimize the impact of price sensitivity is to better understand the account holder up front, and to try to build a relationship through engagement and cross-sell early in the relationship.

Without a proactive insight collection, relationship engagement and cross-sell strategy, a significant percentage of the recent deposit growth could be lost as the stock market begins to recover. If this outflow of funds occurs before the market for asset-backed securities recovers, many financial institutions may face a significant liquidity crisis.



Solutions to Take Advantage of Deposit Inflows

The keys to retaining as much of the recent deposit growth as possible include:

- **Understand and Engage the Account Holder:** Collection of insight at the new account desk or shortly thereafter will improve the likelihood of being able to price the account holder more accurately and cross-sell them more effectively. Some of our clients have collected customer insight as part of their onboarding process through both email and phone contact.
- **Grow the Relationship:** While many account holders may not be interested in building a relationship with their financial institution, it is important to increase the share of wallet with those households that will expand the services and products held at the bank or credit union. Our clients have used propensity models and 'next most likely product' models as the foundation for audience selection for direct mail programs. These communications have, in turn, resulted in expanded customer relationships.
- **Develop a Retention Strategy:** Best-in-class organizations are working today on the development of proactive retention and relationship growth communications with the objective of minimizing the impact of the impending outflow of funds. Leveraging multiple channels such as direct mail, email, telephone and even 1:1 communications.

Just as consumers have become more reliant on traditional financial institutions for search of safety and security, financial institutions have become more reliant on these same consumers to fund growth and provide liquidity. The stability of these deposits, however, is anything but certain.

With the markets beginning to show life, banks and credit unions will need to develop retention and growth strategies to compete against the broader market. Harland Clarke Marketing Services has a number of proven solutions that can assist with these objectives.

To discuss specific ways to protect your deposit portfolio, contact your Harland Clarke Representative today or call our toll free number, 1-866- 609-8609.