Winning the Battle For Deposits
Webinar
Winning the Battle for Deposits

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Housekeeping Items

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Deposit Competition Is Starting to Ramp Up

Small banks prepare to go big on deposits
S&P Global Market Intelligence, March 14, 2018

Higher funding costs loom as deposit betas jump at some large US banks
S&P Global Market Intelligence, March 14, 2018

Higher Deposit Rates May Finally Be Coming to Your Bank Account
Wall Street Journal, March 19, 2018

Buyers acquire taste for deposit-rich banks
American Banker, March 20, 2018

Biggest Three Banks Gobble Up $2.4 Trillion in New Deposits Since Crisis
Wall Street Journal, March 22, 2018

Now that many transactions are done online or through smartphones, customers are increasingly choosing national banks

U.S. Banks in “arms race” for deposits as rates rise
Financial Times, March 22, 2018
Large Banks Are Investing Billions in Branding and Technology to Attract Deposits

Aggressive retail deposit promotions have begun.

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>FY2017 Advertising &amp; Marketing Expenses (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHASE BANK USA, N.A.</td>
<td>$2,156</td>
</tr>
<tr>
<td>BANK OF AMERICA, N.A.</td>
<td>$1,447</td>
</tr>
<tr>
<td>CAPITAL ONE BANK (USA), N.A.</td>
<td>$1,313</td>
</tr>
<tr>
<td>WELLS FARGO BANK, N.A.</td>
<td>$588</td>
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<tr>
<td>U.S. BANK N.A.</td>
<td>$439</td>
</tr>
<tr>
<td>PNC BANK, N.A.</td>
<td>$226</td>
</tr>
<tr>
<td>SUNTRUST BANK</td>
<td>$219</td>
</tr>
<tr>
<td>HSBC BANK USA, N.A.</td>
<td>$83</td>
</tr>
</tbody>
</table>

Data for eight banks >$200bn in total assets that disclose marketing expenses.

Source: S&P Global Intelligence.
As Rates Start to Rise, the Deposit Mix Is Starting to Shift

Funding Mix as a % of Total Assets, U.S. Banks <$100bn
Q1 1990 – Q4 2017

How to Manage Funding Pressure

• Market drives deposit pricing—the Federal Reserve is just one factor:
  – Banks are raising capital and looking to grow
  – Mergers and acquisitions: Core Deposit premiums on the rise
  – Follow your top ten competitors: Loans/Deposits, Securities/Assets, etc.

• Strategies being utilized:
  – Pre-crisis CD specials: Same impact today?
  – Deliver products that your clients want (ex. MMDA deposits linked to Fed Funds)

• What needs to be explored?
  – Wholesale Funding: If and when it should be utilized
  – Investment Portfolio: Liquid and predictable cash-flows
  – New hedge accounting simplifications: Will change the competitive landscape
“Winning” the Battle for Deposits…
Cost of Funds Management Truly Important?

- Develop Clear Offensive & Defensive Deposit Strategies…They Differ Greatly
- Adjust Tiered Products to Reflect Realities of Current Account Balance Distribution
- Have Ready-to-Go Shelf Products (MMDA, MMS, CDs)
- Lay Out Very Specific Strategies for Each of your “Largest” Accounts/Relationships
Cost of Funds Management Truly Important?

- Get Compliance & Operations In Sync With Your Deposit Strategy Needs
- Don’t Become So Fixated On Rising Rates, that Forget About Greatest Risk For Most Banks…Declining Rates
- Identify Plausible Strategies For the Role & Use of Wholesale Funding (reciprocal, brokered, borrowings)
- Take Deeper Dives Into Your Deposit Data…Don’t Underestimate Its Value In Developing “Winning Strategies”
Every Battle Needs a Plan, Not Rube Goldberg!

Winning the funding competition at your institution, one battle at a time!
The funding conflict is fought on two fronts

Existing Deposits
Managing average cost increase
Maintaining funding
Determining effective duration

Growing New Funding
Managing incremental (marginal cost of growth)
Developing and acquiring new customer accounts and \textit{balances}
Battle Strategy Vs. Tactics - Deposit Acquisition

Cost management is critical to earnings, but what’s your long-term plan?

- What are our risks to maintaining\growing each sector?
- What is our contingency plan for unforeseen events?
- What are the most critical things we get right?

How do we monitor battles on both short & long term front?

Do we have the right products to wage the battle?

Who we are engaging, and do we know how best to engage?

Do we have enough data to,

- How past trends have influenced where we are today?
- Develop a reasonable prediction of potential results?
- Really use the data to determine how well we are waging the battle?

Is the time right to strike?
Strategy Considerations

Product Design
• Ensure you have the right plan for the right market

Define market segment we are soliciting
• Millennials, wealth banking, college students?
• What are the right features\message to meet this market’s expectation?

Risk\reward:
• Comparing current penetration to market opportunity
• Do we have the right “intelligence” to attack or defend effectively?
• Are future funds as “stable” and “core” sources as historical deposits?

Keys to spark this segment to commit
• How do we reach them? Internet advertising, direct mail, personal invitation?
• Spend money on the “weapons” to achieve goals!

Define realistic timeframes
• Make commitments of resources to get the job done
• Sets real timeline and metrics for success

Keep the mission focused
• Ensure proper barriers to control cannibalization?
WHAT DOES LONG-TERM FUNDING SUCCESS LOOK LIKE IN TODAY’S ENVIRONMENT?

Define it, Implement it, Measure it, Refine it
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Q&A Session

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