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Capturing Deposit Growth Amid Interest Rate Volatility

Executive Summary

Small banks and credit unions have an enormous challenge - and opportunity - in front of them. Sustained high interest rates and fears of a systemic banking crisis are putting downward pressure on deposit growth, which has always been the lifeblood of community financial institutions. Now, as the war for deposits heats up, these institutions are going to have to do more to attract and retain core deposits and position themselves to overcome interest rate volatility.

The good news is that financial institutions have a simple and relatively low-cost solution sitting right in front of them, and one that aligns with their values of service and trust. By investing in an exceptional digital account opening experience or, what we at Narmi call "opening their digital front door," financial institutions can not only drive deposit growth, but also build a strong digital foundation with their members.

In this whitepaper, we'll make the case for why now is the moment to invest, or re-invest, in an exceptional digital account opening experience. Specifically, we'll cover:

The State of Deposits in 2023

Continued interest rate volatility in 2023 is driving several key opportunities and challenges for community financial institutions. Ten consecutive interest rate hikes have pushed the U.S. interest rate to a target range of 5.00%- 5.25% (as of June 2023).[1] While there was a rate hike freeze in June, it is predicted that interest rates could peak at 5.6% before the end of the year.

Here's what sustained interest rate volatility could mean for financial institutions:

1. A Credit Crunch May Be Building

While high interest rates may be good for net interest margins, institutions might see their loan portfolios continue to slow or shrink. On one hand, there may be less demand for loans from consumers and businesses. At the same time, financial institutions may be maintaining stricter lending standards for fear that a wider recession could drive up loan defaults.

2. Protecting Liquidity Will Be Costly

After the collapse of Silicon Valley Bank (SVB) and Signature Bank, financial institutions will be more mindful of liquidity risks that could jeopardize their business. To meet their capital requirements, institutions may need to borrow from The Federal Reserve or other banks, which will be more expensive while the federal funds rate remains high.

3. Consumers Will Be Yield Chasing

While interest rates remain high, bank customers will be incentivized to put their money in money market funds, treasury bills, and certificates of deposit that offer significantly higher interest rates than the average checking or savings account. At the same time, challenger banks have already begun siphoning deposits from large commercial banks by offering 3%, 4%, or even 5% savings rates. The impact on deposits has already been felt across the banking industry. Since the collapse of SVB, commercial banks lost $399 billion in deposits while money market fund assets increased $342 billion and challenger banks collected billions in new deposits in just a few days.[2]

4. Core Deposits Are Up For Grabs

The good news for community financial institutions is that consumers and businesses are re-evaluating their banking relationships. Since June 2022, over $1 trillion in deposits have been taken out of commercial banks, and one in six Americans have moved their money since the banking crisis in March 2023.[3] While some may have been looking for a safer place to temporarily put their money, 23% of consumers are actively searching for a new banking relationship.[4]

+23.3%

Growth in daily deposits experienced by Narmi customers during the week immediately following the SVB collapse.

With the latest string of bank failures and interest rate hikes, capturing deposit growth has never been more important. Maintaining a healthy balance of core deposits is important not only for long-term growth and profitability, but also for mitigating potential liquidity issues amidst broader economic uncertainty. Financial institutions can't afford to watch their loan-to-deposit ratios spiral out of control, nor will they want to borrow from The Federal Reserve or other banks at a higher cost of funds to meet their capital requirements. Most importantly, they can't simply sit back and hope to maintain the same deposit levels when customers have higher interest alternatives available to them.

The million dollar question then becomes: *What can financial institutions do to proactively drive deposit growth in the current environment?*

While targeted acquisition strategies like special savings rate offers, rate matching and aggressive marketing campaigns may be needed to capture deposits, financial institutions may also be overlooking a simpler, more cost-effective strategy.

In the days following the SVB collapse, Narmi customers experienced an explosive **23% increase in daily deposits**. It wasn't a special interest rate offer or a well-timed marketing campaign that drove the deposit growth. Instead, those institutions simply benefitted from having fixed their "digital front door" and allowing organic core deposits to flow in through a best-in-class digital account opening process.

"The most valuable part of a bank is the customer and the core deposit, that's where all revenue and profit ultimately emanates from. The tightening that The Fed is doing is going to cause the excess deposits banks have held onto since the pandemic to leave the system. That means the value of zero-cost deposits is going to skyrocket. If you haven't invested in the technology to make sure you have those customers and can keep them happy, you're going to see deposit outflows and you won't be going to be able to meet your lending goals and margin goals."

—

Kirk Wycoff
Managing Partner | *Patriot Financial Partners*

In the next chapters, we'll break down why bolstering your digital account opening experience can become your competitive advantage when trying to capture deposit growth.

If you're completely new to digital account opening and need a comprehensive breakdown of the key benefits, considerations and best practices, we highly recommended reading our whitepaper **"Your Digital Front Door is Broken"** →

How Digital Account Opening Supports Deposit Growth

Digital account opening isn't a new technology innovation; in fact, it's been a top priority for financial institutions for years, according to Cornerstone Advisors research. Yet there's been a lack of urgency or perhaps a misconception about the cost and value of digital account opening that has prevented many institutions from fully embracing it.

In the current interest rate climate, digital account opening can be one of the most high-impact ways to accelerate organic deposit growth for two reasons:

1. Relationships Are Increasingly Shifting to Digital Channels

Following the COVID-19 pandemic, 78% of consumers have stated a preference for banking through digital channels.[5] While visits to the branch aren't completely going away, a large majority of banking customers are perfectly comfortable establishing relationships with a financial institution in a digital setting. When it comes to account opening specifically, 71% of consumers have indicated a willingness to use digital account opening. For community financial institutions that want to engage their digital users and stay true to their values of service, trust and convenience, digital account opening is no longer a "nice to have."

2. Most Institutions Still Haven't Got Digital Account Opening Right

Even as some of the largest banks and fintechs have adopted digital account opening, customers still feel there is much to be desired from the experience. Across the banking industry, only 20-30% of users complete a digital account opening from start to finish, with 51% dropping off during the digital application process.

"We feel that, if done successfully, digital account opening really can drive an entire banking relationship with customers. It really becomes the gateway. We're experiencing stronger conversion rates, way over the industry with the product, and close to a hundred percent funding levels, which was better than we were experiencing in the past."

—

Sean Gray
President & Chief Operating Officer | *Berkshire Bank*

Put simply: digital account opening is essential for building new customer relationships and when done correctly, it can become a competitive advantage.

Case in point: Narmi customers see on average 80% completion rates on digital account opening (compared to the 30% industry average). That has led many of them to achieve 3X account growth in less than 30 days and 4X deposits growth in 90 days.

Below is a simple example of how a higher completion rate increase can drive customer growth:

> **1,000** users begin an application to open a new account
> x **30%** completion rate (industry standard) = **300** submitted apps
>
> 300 apps x 30% approved (industry standard) = **90** new customers

Let's try the same example using Narmi's 80% completion rate on digital account openings:

> **1,000** users begin an application to open a new account
> x **80%** completion rate = **800** submitted apps
>
> 800 apps x 30% approved = **560** new customers

That's a net **increase of 470 new users** by simply making it possible for more people to complete digital account opening.

In the next two sections, we'll break down what a best-in-class digital account opening experience looks like for consumers vs. business customers.

Driving Consumer Deposit Growth With Digital Account Opening

Earlier we highlighted that, for many institutions, digital account opening still isn't aligning to customer expectations and that's leading to a measurable gap in their deposit acquisition efforts. But what exactly does an institution need to do to close that expectation gap?

Below are the three core principles that Narmi uses to help financial institutions reimagine and improve the success rate of their digital account opening process:

Make it Fast

As Kirk Wycoff (Managing Partner, Patriot Financial Partners) so aptly reminds us: "Today's customers, when they come to your virtual branch to open an account, they're not coming in to tell you their life story. They're coming in to open an account."

A 2020 Digital Banking Report study found that 80% of online/website account openings took longer than five minutes, and 30% took longer than ten minutes.[6] Think about the last time you spent more than five minutes filling out an online form. It's not a leap to imagine that the more time and clicks it takes to open an account, the more likely that person will abandon the process.

At Narmi, we've managed to cut down the digital account opening process to a record-breaking **2 minutes and 13 seconds** simply by removing extraneous questions and improving the user experience (UX) of our process. That shortened window not only helps our customers drive greater conversions, but it puts them well above other financial institutions in terms of digital account opening experience.

Automate

Identity verification and decisioning is an important part of digital account opening and stopping fraud at your institution. It can also become a major blocker to getting accounts approved and funded seamlessly.

Today, the process of reviewing an applicant's submitted data and verifying it through additional documents is highly manual and riddled with inefficiencies. While these documents do help establish a map of a person's life and verifies who they claim to be, this process can easily be automated—lifting the burden of review from back-office teams.

Automating more of the identity verification and onboarding experience upfront cuts down on the number of manual steps for both businesses and back-office teams. The end result is a better user experience and more opportunities to create a strong digital relationship with business clients. Narmi uses 100% automated decisioning and cuts manual review time by 50%.

Design With the User's Last Interaction in Mind

As Global Design Leader Stephen Gates reminded us at our 2022 Digital Account Opening Summit: "Your competition isn't another bank, it's the last app [the customer] opened and the experience they had there. People want the design and the experience to be as easy and intuitive as possible."

Digital account opening shouldn't feel like filling out paperwork for a new checking or savings account. It should feel personalized, intuitive and frictionless. At Narmi we've tried to create an "Amazon-like" account opening process where selecting banking products is like adding items to a shopping cart and institutions can create custom product offers that don't feel overly-invasive.

"We have to be benchmarking ourselves now against who are the absolute best out there in delivering positive customer experiences that are easy to understand and friendly."

—

Jonathan Alloy
VP of Customer Experience and Innovation | *Publicis Sapient*

Key Takeaways

- Digital account opening can become your competitive advantage if the experience is clean, frictionless and intuitive
- Focus on speed, automation and design in the account opening process in order to meet consumers' expectations

Narmi in Action: Making a 2 minute, 13 second Digital Account Opening a Reality for Berkshire Bank

Berkshire Bank was struggling with high fraud rates and poor conversion, and needed a way to get new applicants in the door while also maintaining a high safety standard for all.

Conversion Rates of Prospective Applicants

Due to a lengthy, clunky legacy platform, prospective applicants were taking their business elsewhere, discouraged at the time and inconvenience of the process. “Customers and clients need and want a simplified, incredible experience when they’re opening an account. They don’t want to dread the process,” Sean Gray explains. What’s more, only about half of new accounts were ever funded thanks to an outdated system.

To address the challenges Berkshire was facing, Narmi delivered a frictionless account opening experience with an intuitive funding flow that allowed them to convert more digital customers and lift new account funding to 100%. By fully automating their process for reviewing, verifying, and approving new account holders, Berkshire was able to grow at a much greater rate – resulting in the ability to book new customers to the core in 2 minutes and 13 seconds.

Secure and Smooth Identity Decisioning

Berkshire also saw that more than half the accounts opened online were fraudulent, and the vetting process was an arduous manual one that ate up a lot of time for customers and back office employees alike. If they were going to boost online applications, Berkshire would also need a robust automated identity verification system.

Narmi was able to provide Berkshire with a toolkit that made them completely confident in automated identity decisioning. Not only did it slash fraud rate from 55% to less than 1%, but it helped qualified applicants get through faster while also alleviating stress from the back office. Without the need to manually review every applicant, Berkshire’s employees could turn their focus to even more innovation for their customers and community.

In the next section, we’ll explore how digital account opening can drive deposit growth from business customers.

Unlocking Deposit Growth and Strengthening Business Relationships

The failures of SVB and Signature Bank had an outsized impact on small- and medium-sized businesses, many of whom were worried about losing their uninsured deposits before the FDIC stepped in. Now that fear of a larger systemic failure have been assuaged, many business owners are rethinking their banking relationships and looking to diversify to smaller institutions with traditionally lower risk. A poll of small business owners by Alignable found that deposits to credit unions surged 65% after the closures of SVB and Signature Bank.[7]

Furthermore, as interest rates remain high and impact consumer discretionary spending, small- and medium-sized businesses are going to need greater access to affordable loans. Small banks and credit unions have long been a valuable lending partner, often undercutting larger banks while also offering better and more personalized service. As one anonymous business owner from Alignable's survey summarized, "I don't trust the banks. I trust my local credit union members and my community more."

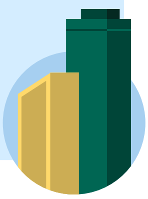
But if community financial institutions want to capture deposits and build deeper business relationships, they're going to first need to address one of the biggest obstacles in their digital business offering: not being able to quickly and securely open accounts for new businesses digitally.

Account Opening Pain Points for Businesses

Business account opening has been notoriously slow and labor-intensive for both business owners and financial institutions. From the supporting documentation to the additional Know Your Business (KYB) and Know Your Customer (KYC) requirements, it's not uncommon for business account opening to take weeks to complete.

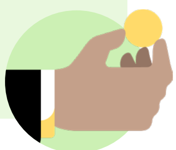
Top of mind challenges for businesses

- Not knowing which documents and information is required to open a business account.
- Having a complex ownership structure or multiple shareholders that create onboarding confusion.
- There's often a significantly steeper learning curve for first-time business owners.
- Digital banking experiences for businesses rarely meet their digital-first needs.



Top of mind challenges for financial institutions

- Traditional business account opening can take weeks, or even months.
- Collecting all the necessary paperwork and signatures is tedious and time-intensive.
- Business accounts come with their own compliance and KYB complexities.
- Compliance officers absorb more work if not all documents are collected.
- The relationship with businesses struggles to get off the ground.



To overcome this hurdle and form a competitive advantage, financial institutions need to re-imagine their business account opening experience in four ways:

1. Less Reliance on In-branch Interaction

Without a digital solution, financial institutions are losing out on a number of potential business customers who do not have the time to go in-branch.

2. Less Delays in Completing Paperwork

The process is lengthy with multiple systems and hand-offs to various teams. Often the customer might not have the required documents with them. In that case, the back-office staff or compliance officer spends additional time tracking down the business to get that information.

3. More Time to Establish a Strong Digital Relationship

Businesses are left with a lengthy application that they often need to come back to finish.

4. Less Manual Hand-off and Human Error

Data management is a whole process on its own. Once the business client fills out the intake form and submits all the required documents, the financial institution staff needs to manually enter the information, scan and upload any support documents, and finally inform the compliance team that a new application has been received and have them conduct a verification. This hand-off process greatly increases the time it takes to get the account opened and also increases the possibility of error in the process.

Key Takeaways

As interest rates remain volatile, capturing deposit growth will be critical to mitigating liquidity risks and maintaining strong digital relationships. Community financial institutions can leverage their strong reputation for trust and deep relationships, but what they may be lacking is a best-in-class digital account opening experience that meets the needs of both consumers and businesses.

Investing in digital account opening is no longer a “nice-to-have” but rather an integral part of the digital customer experience. As the war for deposits continues to heat up, institutions without digital account opening may risk missing out on crucial deposit growth.

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