

A man with a beard and a woman with long dark hair are sitting at a desk, looking at a laptop screen. The man is pointing at the screen. They are both wearing business attire. The background is a bright, modern office setting with large windows.

**McQueen**  
Financial Advisors

# DEPOSIT STRATEGIES

4 Minute Read

# Deposit strategies

Deposit strategies are crucial for financial institutions in generating revenue, managing risk, and satisfying consumer needs. Stable core local deposits enable them to support lending activities, investments, and liquidity requirements. A comprehensive deposit strategy ensures sufficient liquidity to meet customer demands and handle unexpected events like economic downturns or surprise withdrawals. Furthermore, these strategies aid in building and maintaining customer relationships through competitive rates, simplified account opening, and personalized services. Tailoring products and services for specific customer segments helps financial institutions remain competitive and achieve long-term growth.



Today's financial landscape presents significant challenges, including increasing interest rates, heightened competition, and evolving consumer expectations. In a high-interest-rate environment, institutions face difficulties attracting and retaining depositors who have many options. Industry competition intensifies as new players like fintech firms, online-only banks, and unconventional financial service providers enter the market, making it harder for institutions to stand out and attract customers.

Consumers now demand more user-friendly and personalized banking services, prompting financial institutions to offer digital banking, mobile apps, and other innovative solutions. With economic uncertainty looming, core local deposits can help institutions prepare for potential downturns. As social media and online reviews grow in importance, managing online messaging is crucial.

To target specific customer segments, financial institutions can tailor marketing messages and channels accordingly, such as engaging millennials through social media and mobile app advertising or reaching seniors via print and direct mail. Developing a strong brand identity helps differentiate from competitors and foster customer loyalty. Promotional interest rates or sign-up bonuses can attract new clients, while cross-selling and bundling deposit products with other financial offerings, such as loans, credit cards, and investments, can deepen customer relationships and boost loyalty.

# Deposit strategies

Referral programs effectively incentivize existing customers to bring in new ones by offering rewards like cash, interest rate bonuses, or other perks. Financial institutions can build long-term relationships with customers using relationship banking strategies, such as personalized service, proactive outreach, and customized offerings.

Digital marketing channels, like social media, email, and online advertising, help financial institutions reach new customers and promote deposit products. Investing in effective digital marketing strategies leveraging these channels is crucial. Deposit pricing strategies are vital to attract and retain customers while managing overall profitability. Financial institutions should consider factors like competitive market rates, varying pricing needs of customer segments, offering higher rates for larger balances, liquidity needs, cost of funds management, preferential rates for multiple account holders, and compliance with regulatory requirements.

CD laddering optimizes interest rates on certificates of deposit (CDs) and manages liquidity needs by offering multiple CD programs with staggered maturity dates. Benefits include taking advantage of diverse interest rates, managing liquidity, retaining customers by providing a variety of CD options, reducing interest rate risk through diversified investments, and increasing deposits by offering competitive rates on a range of CD options that cater to specific customer needs.

Fee structures and waivers pertain to charges financial institutions impose on deposit products and the circumstances under which these fees may be waived. When developing fee structures and waivers, institutions should consider the deposit products they offer and their associated fees, such as lower fees for savings accounts compared to checking accounts. Regulatory agencies are increasingly focused on protecting consumers from excessive fees and ensuring transparency in fee structures.

Analyzing competitor fees helps ensure competitiveness, and offering lower fees can be a strong selling point. Catering to different customer segments' fee and waiver requirements, like fee waivers for seniors or college students, is important. Fee waivers for customers with multiple accounts or other banking relationships can deepen customer relations and loyalty.

Compliance with regulatory requirements concerning fees and fee disclosures, such as truth-in-savings regulations, is crucial. Financial institutions may charge fees for specific account activities, like overdrafts or excessive withdrawals, while offering waivers for maintaining account balances or meeting transaction criteria. Promoting fee waivers can effectively attract new customers or retain existing ones. Deposit strategies are crucial in asset liability management (ALM) for financial institutions, which involves managing assets and liabilities to ensure liquidity while optimizing profitability. Deposits are a key funding source and an essential ALM component, helping manage interest rate risk by offering a mix of deposit products with varying maturities and rates. Deposit strategies optimize profitability through competitive interest rates and fees while maintaining sufficient margins. Interest rate sensitivity analysis and other ALM techniques can evaluate the impact of deposit strategies on profitability. Offering varied deposit products helps diversify funding sources and reduces reliance on wholesale funding. Deposit strategies also support asset allocation decisions, such as matching longer-maturity deposit products with mortgage lending.



# Deposit strategies

Core local non-maturity deposits, which are usually a low-cost and stable funding source, hold significant value as they tend to remain due to reasons unrelated to interest rates, thereby supplying essential funding for lending operations. Financial institutions can flexibly manage these deposits by adjusting interest rates or offering promotions to attract or retain depositors. Acquired from local depositors with ongoing relationships, these deposits enable financial institutions to deepen customer relationships and offer additional products and services.

Core local non-maturity deposits may offer regulatory benefits for financial institutions, as examiners might consider them more stable funding sources compared to wholesale funding or brokered deposits. These deposits provide low-cost, stable, flexible funding that supports customer relationships, helping financial institutions improve funding stability, reduce funding costs, and achieve financial goals.

Successful deposit strategies include introducing high-yield savings accounts, CD laddering, relationship banking, digital banking solutions, and fee waivers for depositors meeting certain criteria. These strategies often involve offering competitive interest rates, building customer relationships, leveraging technology, and providing depositors incentives to maintain their deposits.

To improve deposit strategies, financial institutions should design them to meet target customers' needs, offering products and services that align with customer preferences and providing personalized customer service. Regularly evaluating interest rates to ensure competitiveness with other institutions is crucial for attracting and retaining depositors.

Digital banking solutions, such as mobile deposit options and online account management, can attract tech-savvy depositors and improve customer satisfaction. Building strong customer relationships by offering diverse products and services can deepen loyalty and encourage depositors to stay with the institution. Evaluating fee structures and offering waivers for specific criteria can further retain depositors. Financial institutions should monitor market trends and design deposit strategies with asset liability management principles in mind for better funding source management, leading to increased deposits, reduced funding costs, and improved financial performance.



# Deposit strategies

The deposit landscape is ever evolving, with challenges and trends such as shifting customer preferences towards digital banking, rising interest rates, competition from non-traditional players, regulatory changes, cybersecurity threats, and economic uncertainty. Financial institutions must adapt and adjust their deposit strategies to effectively manage these challenges and seize emerging opportunities to remain competitive.

## Action Steps:

- Develop comprehensive deposit strategies to ensure liquidity, manage risk, and satisfy consumer needs.
- Regularly evaluate and adjust interest rates to attract and retain customers.
- Leverage digital banking solutions to cater to changing customer preferences.
- Tailor products and services to target specific customer segments for long-term growth.
- Employ digital marketing channels to promote deposit products and reach new customers.
- Implement deposit pricing strategies that consider competitive market rates, customer segments, and compliance requirements.
- Offer CD laddering to optimize interest rates, manage liquidity, and cater to customer needs.
- Evaluate and adjust fee structures to remain competitive and provide waivers for specific customer criteria.
- Ensure compliance with regulatory requirements regarding fees and fee disclosures.
- Focus on asset liability management to optimize profitability and manage interest rate risk.
- Foster strong customer relationships through relationship banking strategies.
- Monitor market trends and adjust deposit strategies accordingly to remain competitive in an evolving financial landscape.
- McQueen's 24/7 ALM Simulation Tool can be used to run what-if scenarios related to deposit growth or run-off in minutes
- We encourage you to talk to your McQueen advisor for specific advise to meet your unique needs.

