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THE ART OF POSITIONING
bancography
BRANCH PRODUCT RESEARCH BRAND

Findings from the 2015 FDIC / NCUA Deposit Statistics

[Note: all statistics in this article reflect the June 30th reporting period of the stated year.]

Top Ten States by Deposit Growth (2014 - 2015)

State	Deposit Change
Louisiana	7.2%
Idaho	6.8%
Washington	6.4%
Arizona	6.1%
New York	5.9%
Utah	5.8%
New Hampshire	5.8%
Oregon	5.6%
Florida	5.6%
California	5.4%

Top Ten MSAs by Deposit Growth
Among MSAs with > 500,000 residents
(2014 - 2015)

Metro Area	Deposit Change
New Orleans, LA	9.5%
Baton Rouge, LA	8.7%
Austin, TX	7.9%
Syracuse, NY	7.5%
Raleigh, NC	7.3%
Seattle, WA	7.2%
Boise, ID	7.1%
Fresno, CA	7.1%
Cape Coral, FL	6.9%
Grand Rapids, MI	6.8%

The FDIC's 2015 release of branch-level deposit statistics reveals distinct evidence of continued nationwide economic recovery. Retail and small business deposits in bank and credit union branches grew by 4.4% from June 2014 to June 2015, the fastest pace since the 'flight to quality' boon that followed the 2008 economic crisis; and every state and major MSA in the nation showed positive deposit growth. Credit union deposits grew by 4.9%, outpacing the overall level.

The strongest deposit gains occurred in the regions that were slowest to emerge from the recession, evidence that even the hardest-hit areas have finally turned a corner toward recovery. Florida, Georgia, South Carolina and Louisiana in the Southeast; and Arizona, California, Oregon, Washington and Idaho in the West all posted deposit growth in the 5% - 7% range in the past year – in each case more than doubling the compound annual growth rate in those states over the prior four years (2010 - 2014). A separate group of states, driven mostly by strong technology or energy economies in their core cities, showed similarly high growth rates that maintained an already favorable pace of recent years. This group includes Texas, Virginia and Washington, DC (which share many key employment drivers), Massachusetts and New Hampshire (also with many common economic drivers) and Utah, Colorado and Alaska.

At the opposite end of the spectrum, a group of four contiguous upper-Midwest states, once high growth, regressed toward the national mean. North Dakota, South Dakota, Iowa and Nebraska all showed deposit growth rates near 3% in the past year, versus CAGRs exceeding 5% in the four years prior. Further, many states in the Southeast (Alabama, Mississippi, Arkansas, Kentucky) and Midwest (Kansas, Missouri, Indiana, Wisconsin) remain mired in the same below-average deposit growth rates that have afflicted those markets since the recession.

MSA-level statistics confirm similar trends to the statewide data, with the top-growth markets mostly reflecting areas that were late to rebound from the trough of the recession. Among the 32 U.S. metros with two million or more residents, Seattle, Phoenix, Sacramento, Riverside, Portland and Atlanta joined Houston at the top of the deposit-growth rankings, with Houston the only one of those markets that escaped the most severe recessionary impacts.

Impressively, the nation's overall deposit growth occurred even as banks' cost of funds remained stable. Across the industry, the aggregate cost of funds declined to 33 basis points, down from 36 basis points one year prior. However, the Federal Reserve Board's December decision to raise its target funds rate and discount rate by 25 basis points may finally herald an end to an era of near no-cost funding for banks and credit unions.

While a rising rate environment should foster continued deposit growth as insured balances turn more competitive versus securities, that environment will also pose significant challenges for financial institutions striving for dual objectives in liquidity and funding costs. Any competitor's rate increase, if unmet, could prompt attrition among yield-starved customers, and financial institutions must examine what nonfinancial advantages they can tout to keep deposits stable without mirroring every competitive pricing change.

The art of balancing the wishes of rate-shopping customers against an institution's need to maintain a target interest margin may prove especially vexing for young branch managers, who have never had to compete for balances in a rising rate environment. Keep in mind, the Federal Reserve target funds rate fell to 25 basis points in 2008, so most bankers age 30 or younger have never worked in anything but a zero-rate world. Accordingly, banks and credit unions will need to introduce a new generation of officers to marketing strategies that help retain balances, even when competing institutions offer a slightly more favorable pricing proposition.

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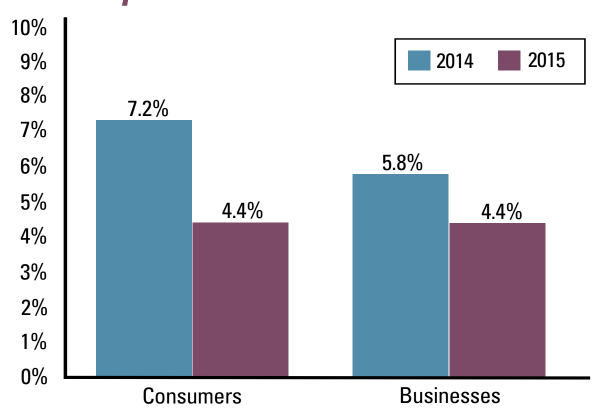
Findings from the 2015 FDIC / NCUA Deposit Statistics *(continued from page 1)*

Still, as an industry we may enjoy some time before fanatic rate shopping poses a risk. There is currently little correlation between cost of funds and deposit growth; that is, banks with lower rate structures are showing similar deposit gains to banks in higher-rate tiers. This likely reflects an environment where absolute rates remain so low that even broad percentage differences create little differentiation in the mind of the consumer. For example, an interest rate of 0.50% brings twice as much in interest payments as a rate of 0.25%; yet even for an account with a $10,000 balance, the former equates to only $8 per month in income. When even the highest rates yield minimal benefits, customers will choose institutions on other criteria. But as rates revert to levels that yield meaningful income streams, customers will once again elevate that attribute to a key determinant of institution choice.

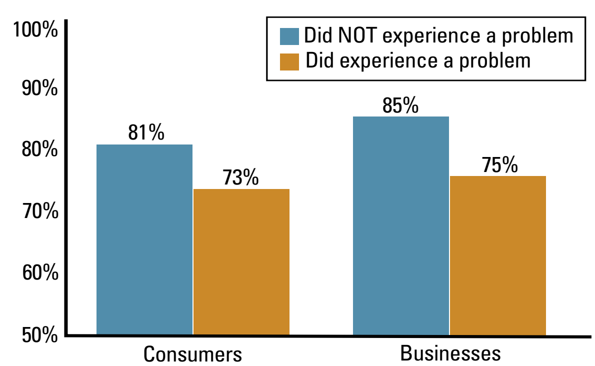
Historically, many banks have offset competitors' pricing advantages with broader delivery offerings, presuming that customers would trade rate for convenience. However, banks continued to pare their branch networks in 2015, shedding 1,400 branches, or 1.2% of the 2014 base. In contrast, the inventory of credit union branches remained nearly unchanged in the past year, declining by only 0.6%. The reduction in bank branch networks was skewed toward smaller markets. The 32 metros with more than two million residents house half of U.S. households but absorbed only one-third of the nation's branch reductions. Las Vegas, Detroit, Baltimore and San Francisco suffered the greatest proportionate declines, each in the 2% - 4% range; while some smaller markets such as Richmond VA, Columbus OH, and Jacksonville FL eked out gains of three to four branches in the past year.

Even with the declines of recent years, the industry still offers consumers 113,000 branches – roughly one branch for every 1,070 households. For institutions that maintain strong branch networks within their home communities, the convenience of those branches, in concert with investments in other delivery channels, can provide a means to maintain the strong deposit growth levels of 2015 even as rate competition increases.

Experienced a Problem or Error



Consider to be Primary Financial Institution



Customer-Service Problems Diminish Brand Loyalty

The data discussed below reflect 37,000 interviews collected from Bancography's Customer Service, Satisfaction & Loyalty tracking studies at banks and credit unions for 2015. The studies included only customers who maintained a deposit account that originated at a branch, and interviewers informed the customers that their institution sponsored the research.

As part of the studies, interviewers asked consumer and business customers whether they had experienced a problem or error by their financial institution in the past six months. On average, 4.4% of consumers responded affirmatively, a dramatic improvement from 2014's ghastly rate of 7.2%. Also notable, 4.4% of business customers experienced a problem or error, compared to 5.8% in 2014. Even though the incidence of problems has lessened, any unpleasantness that occurs still damages brand loyalty.

Common sense dictates that service quality issues negatively impact loyalty. Decreased loyalty of a financial institution's brand will not only lessen the opportunity to grow the relationship with the customer, but it will also increase the likelihood that customer will leave that institution.

At the end of the survey, the interviewers asked whether the customers considered the sponsoring institution to be their primary in meeting their banking needs. The chart to the left depicts the vast difference in loyalty between those who experienced an issue and those who did not. The occurrence of problems jeopardizes the relationship, regardless of whether the issue is resolved.

Each line of business presents different problems or errors, and the degree of influence these issues wield varies as well. We will explore these specific problems and errors and how they affect the customer experience and brand loyalty in future *Bancology* articles.

The Branch Incentive System: Six Principles for an Effective Branch Scorecard

With the start of the new year, many banks and credit unions have unveiled new branch sales incentive programs. Most institutions build their branch incentive systems around scorecards, tracking tools that tally branch sales volumes relative to preset goals. Scorecard design varies widely, depending on an institution's target market segments, product and sales philosophy, and the maturity of its sales management process. Primary areas of differentiation include not only the products that the institution tracks, but also whether the incentive program is based on branch-level or individual sales performance, whether the program applies to all branch staff or platform sales staff only, and whether payout potential is unlimited or capped. However, several constants apply regardless of how an institution structures its branch incentive program. The following six principles for branch scorecard design will foster a successful branch incentive system.

> ***Simple.*** The scorecard should focus only on those primary sales behaviors that the institution wants to encourage and reward, with no more than six to eight categories in total. Categories may be denominated in units (number of new checking accounts sold) or dollars (amount of new installment loans booked), but the limited number ensures that branch sales personnel emphasize the handful of behaviors that drive the majority of the institution's success. Do not attempt to replicate a performance review by putting every behavior and task on the scorecard; remember, if you tell the branch that everything is important, you've also conveyed that nothing is of paramount importance, outweighing all else.

> ***Understandable.*** There can be no uncertainty in terms of which products count toward scorecard goals and what values various actions carry. Branch staff should be able to replicate the scorecard results and payout calculations in a simple spreadsheet, or even on the back of a deposit slip. If staff can not understand the direct link between specific behaviors and specific compensation, they'll see less value in pursuing the scorecard goals.

> ***Attainable.*** Scorecard goals must be aggressive and reward only above-normal performance; if a bank offers payouts for simply performing at expectations, all it has achieved is an across-the-board increase in base compensation – with no incremental sales gain to offset that cost. That noted, while goals should aggressively direct branch staff toward increased sales efforts, the goals also must remain reasonably attainable. If goals are perceived as so high as to be completely unattainable, it will discourage all sales activity, since staff will see no difference in compensation between strong and minimal performance.

> ***Controllable.*** Perhaps the most important principle, the scorecard must reflect only items that remain within the sales staff's control. This indicates scoring transaction accounts in units rather than dollars, as CSRs can influence how many products are sold but have little ability to influence balances. Further, profitability has no place on a branch scorecard. It is the fundamental responsibility of the product management group to design products with pricing terms that ensure profitability; branch staff can then feel free to sell as many of those products as possible so long as they meet customer needs, secure that those sales will yield benefit for the institution. Note also that branch staff have little to no control over lease payments, utility bills or ATM maintenance expenses, so any measures of branch operating profitability would impose accountability without granting corresponding responsibility, an unfair proposition for the branch staff. Be careful even with controllable expenses; for example, a scorecard that rewards managers for reducing expenses could lead to near term under-staffing that yields long-term service declines. Thus, while a branch manager's annual review can rightly discuss staffing efficiency, that measure remains inappropriate for a sales scorecard.

> ***Stable.*** While scorecard categories and weightings can change periodically to reflect specific areas of marketing emphasis, do not routinely change the fundamental parameters of the scorecard. Rather, CSRs should know that each quarter they will be evaluated on a standard set of behaviors and goals that represent the heart of the institution's sales training programs. Stability in measurement categories reinforces that the institution maintains a core mission for its branch system, to consistently pursue month after month. That noted, the scorecard can still encourage participation in periodic sales promotions, using bonus categories that offer modest incremental benefits beyond the core scoring categories.

> ***Timely.*** For an incentive system to prove effective, participants must perceive a direct link between the behaviors they execute in the branch and the reward for successful execution of those behaviors. In support of that, consider distributing incentive payments quarterly or even monthly so that participants derive immediate benefit from their outstanding performance. Distributing performance progress reports at more frequent intervals will also abet sales by allowing participants to track progress against sales targets.

For assistance with scorecards and sales goals, contact Bancography at (205) 252-6671 or info@bancography.com.

NEWS

We've Moved

Bancography recently moved into new offices in downtown Birmingham. Occupying a 110-year-old building that formerly housed the original Birmingham Chamber of Commerce, the new space features a glass-domed ceiling and views of passing trains and the soon-to-be-completed intermodal station. Bancography led the design and construction of the project, transforming a space that had remained vacant for eight years. The area around our location has experienced a flurry of commercial development recently, and an upcoming project will renovate a former steam plant into an outdoor plaza and park.

Interested in Retail Banking?

Join Bancography in New Orleans at FSI's National In-Store Banking Conference April 13 - 15 to learn the latest tactics for building effective in-store and storefront branches. Learn more at www.supermarketbank.com.

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