



# Increasing Deposits – Now is the right time

Webinar March 28, 2018





Lets explore the possibilities. Decode the mystery behind money flows.



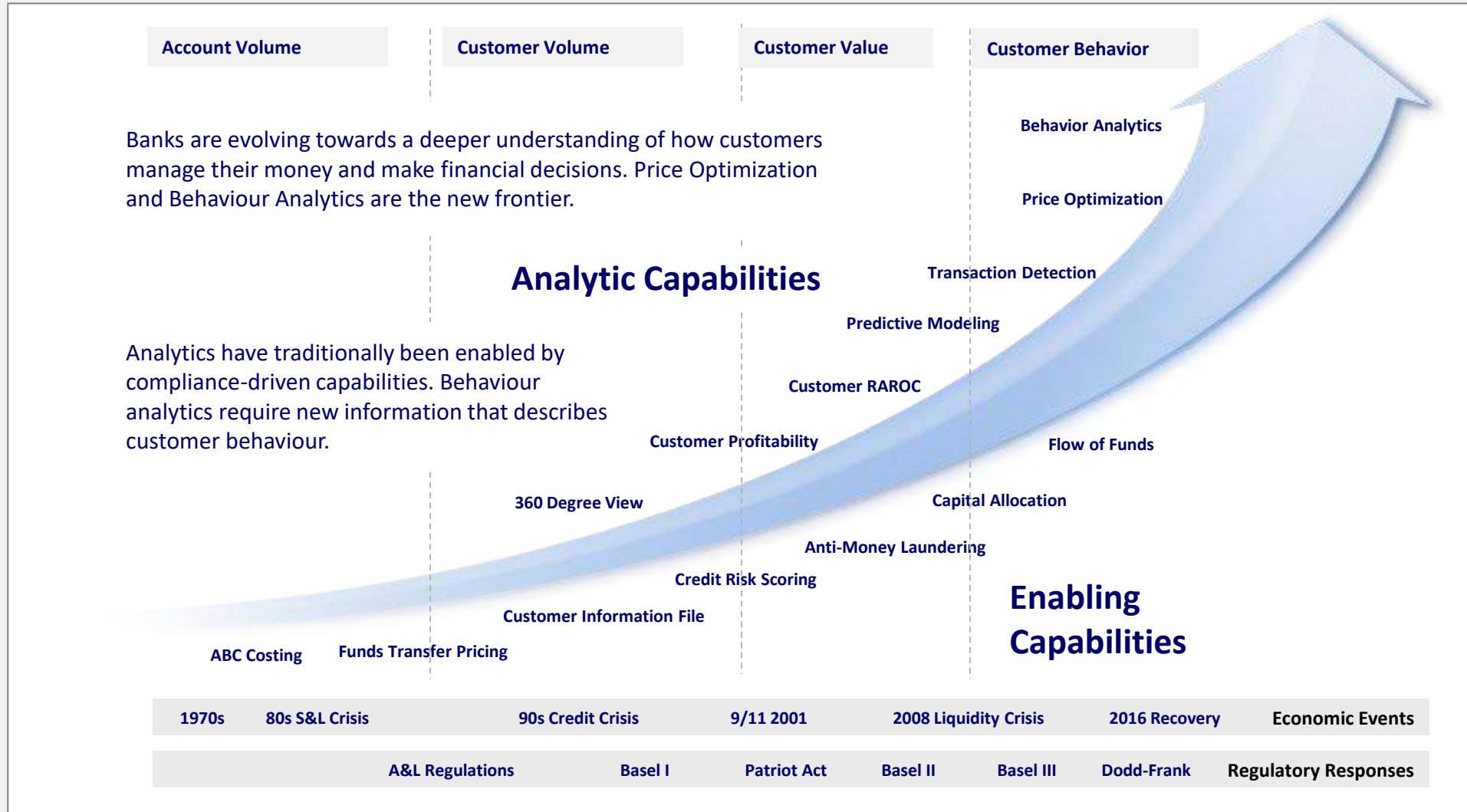
## FlowTracker Analytics Helps Credit Unions

- Smarter Performance Management
- Target for Growth
- Dynamic Behavior Insights
- Deeper Product Intelligence

Dave – CEO, President | Boris – COO | Mary – CMO



# Using Analytics in banking to grow your deposits



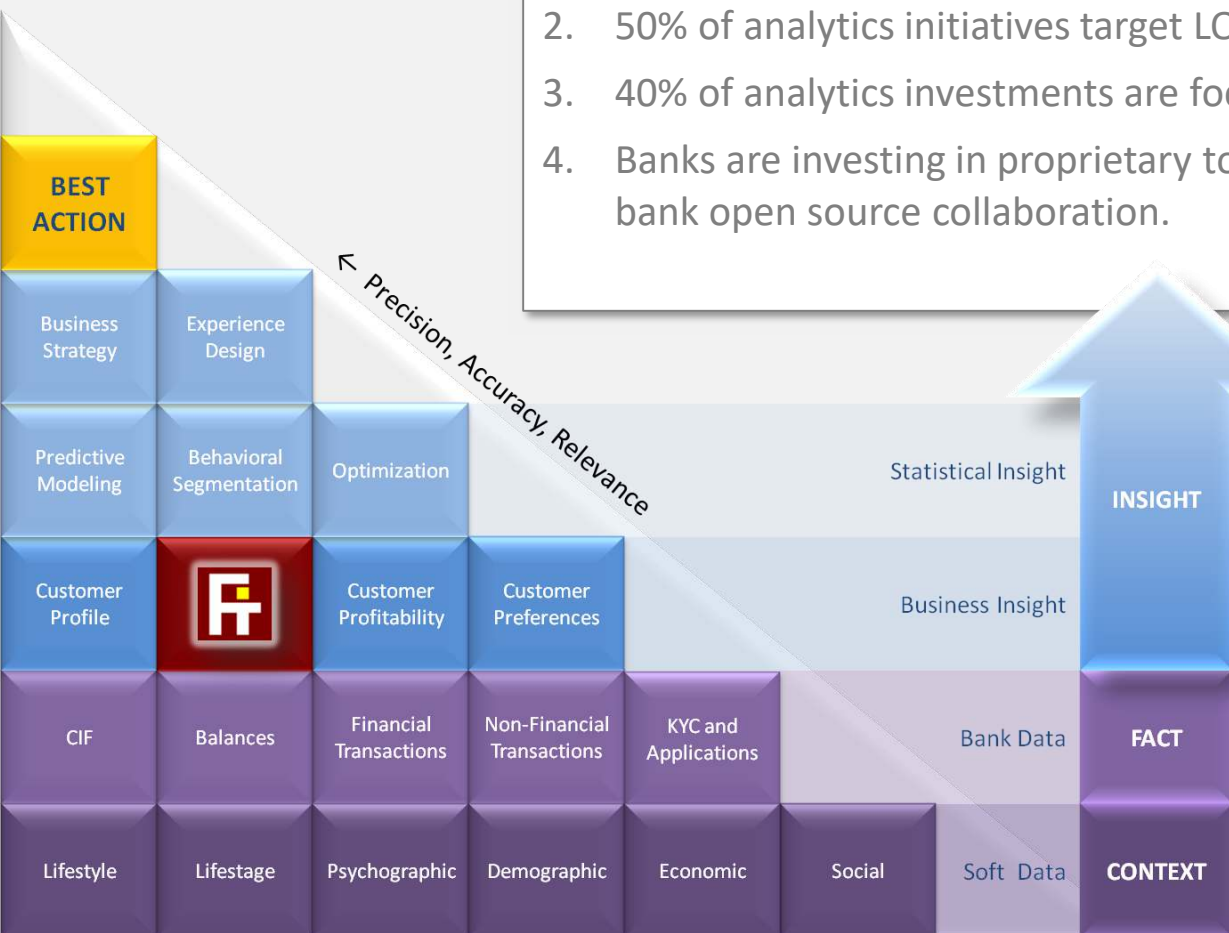
# Financial Institutions are accelerating their investment in Advanced Analytics



## Gartner

1. 70% of all new publicly announced initiatives are in Advanced Analytics
2. 50% of analytics initiatives target LOB end users
3. 40% of analytics investments are focused on new business opportunities and customer experience
4. Banks are investing in proprietary tools, using vendor's analytics tools, hackathon activities and even cross-bank open source collaboration.

- Analytics Heatmap in Banking



## Our experience

1. 60% of Analytics projects fail to deliver business value
2. Projects are typically >1 year and >\$10 million
3. 90% of banks cannot afford “Big Data” or Advanced Analytics



- **Large gap between strategy and capability related to cross-selling**

- FACT: 80% of balance growth comes from existing customers
- 62% plan to grow by cross sell and 71% want deeper relationships
- Yet only 10% have explicit cross sell goals, nearly half have no cross-sales metrics, 8% have complete cross sell metrics and another 49% have enabled some reliance

- **Sales analytics fail to focus on new money**

- FACT: 30% of deposit balance growth at the account level is substitution
- Yet only 14% can measure incremental dollars, 22% measure units, 16% dollar growth.

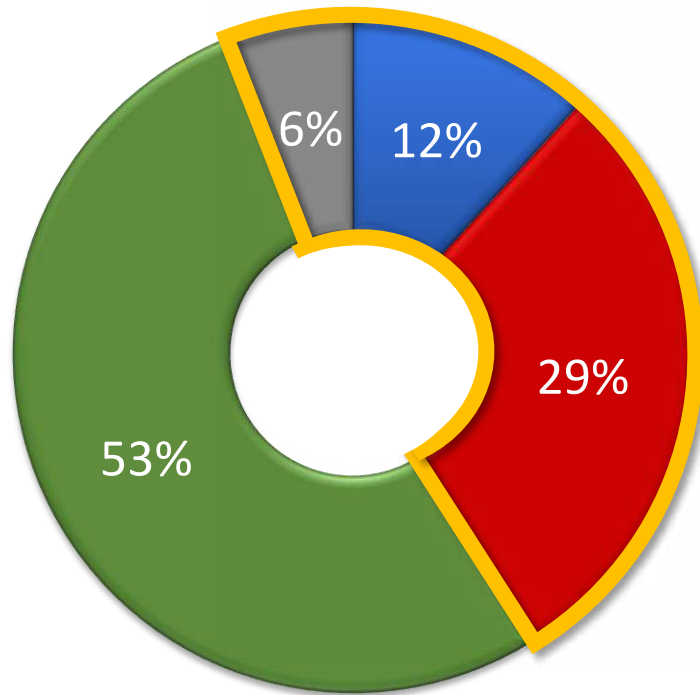
- **Attrition analytics fail to focus on lost money**

- FACT: 80% of deposit dollar attrition occurs within continuing relationships
- Yet account level dollar attrition rates are rarely measured, 18% focus on customer attrition, 27% on product attrition

# Growth focus by product category



## Strategy Focus

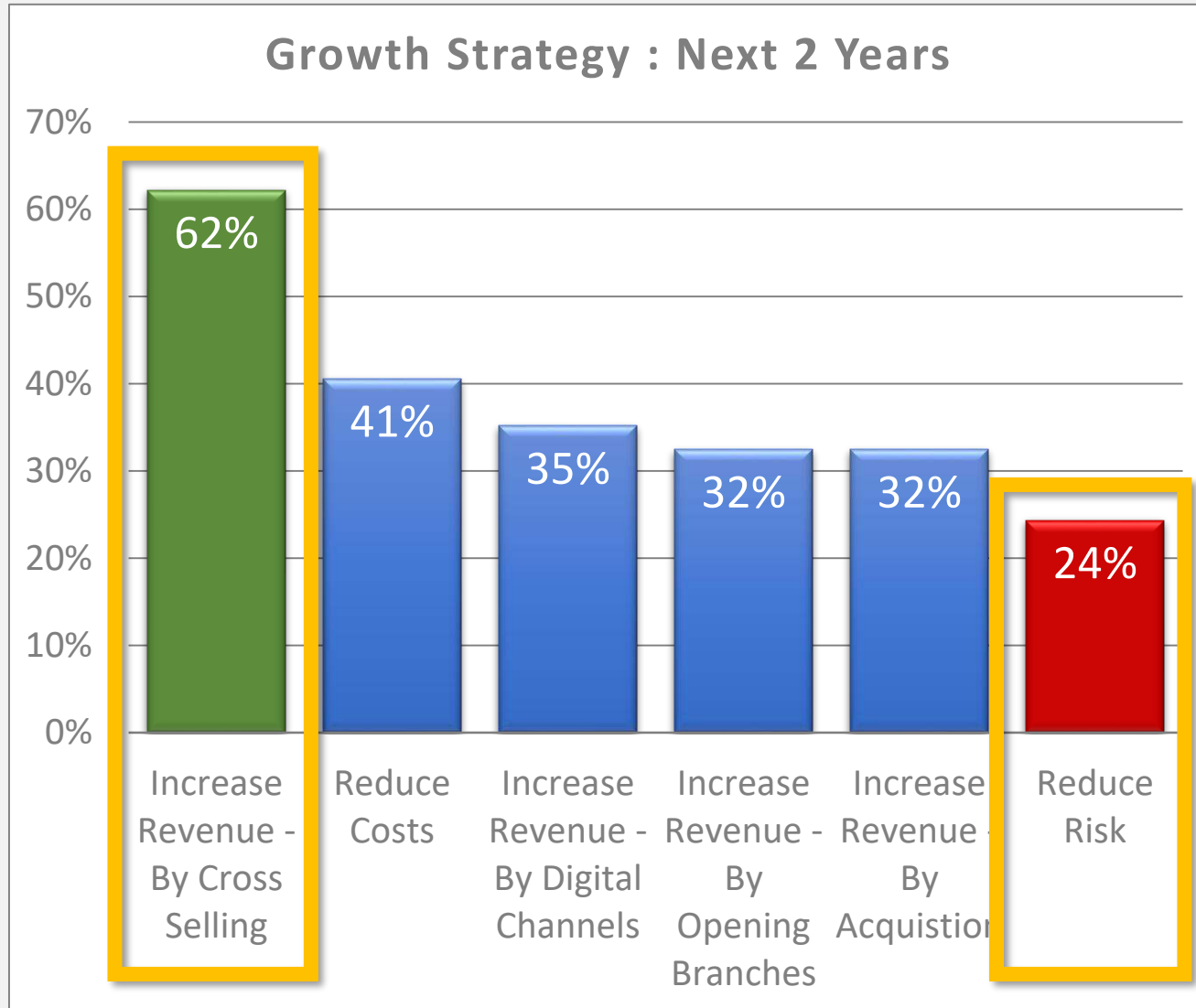


- Deposit growth
- Loan growth
- Balanced growth
- Other (please explain)

Strategy vs ROA, ROE	Average of 2016 ROA	Average of 2016 ROE
Balanced growth	0.6	6.67
Loan growth	0.6	3.80
Deposit growth	0.4	3.23
<b>All Respondents Mean</b>	<b>0.6</b>	<b>5.50</b>

- Imbalance is a drag on performance

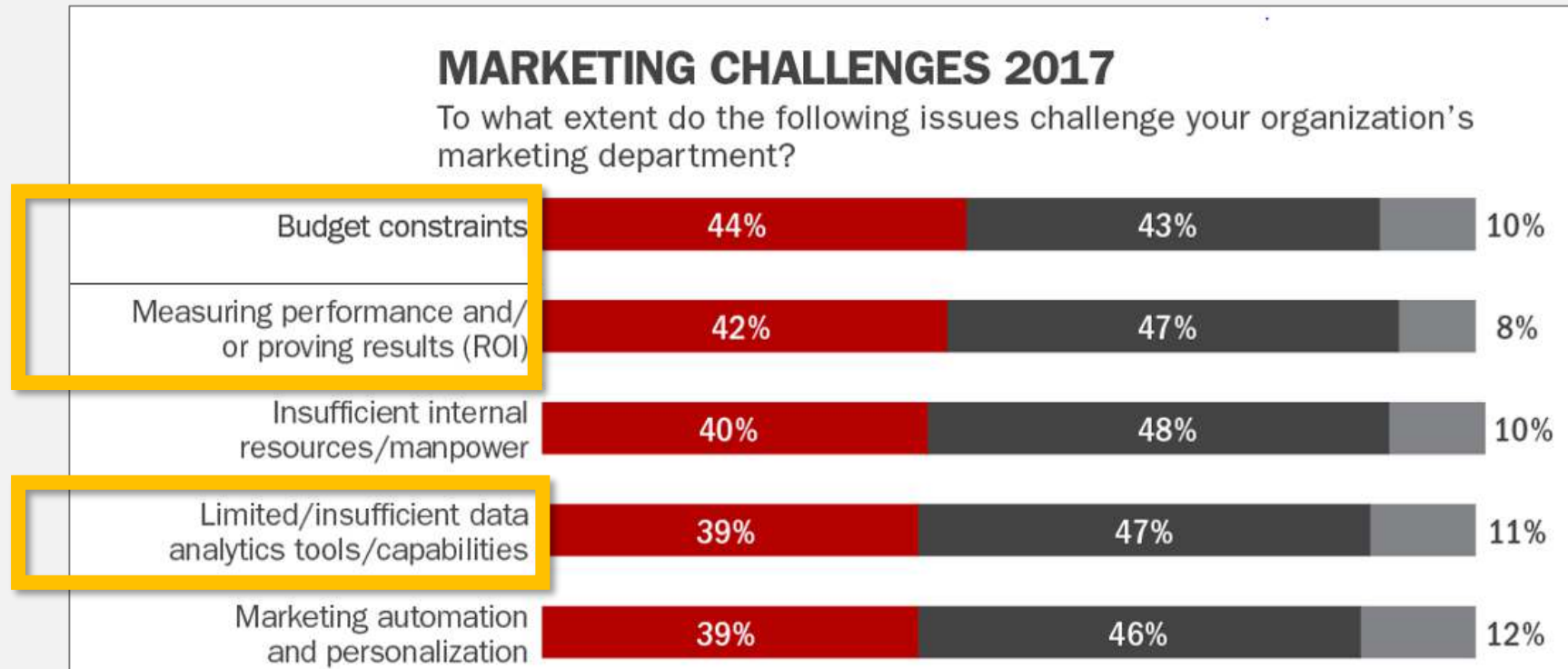
# 2 Year Growth Strategy







# FOCUS MARKETING ACTIVITY FOR BETTER RESULTS



Source: "Financial Marketers Not Ready for the Future",  
The Financial Brand, April 24, 2017

Major challenge Minor challenge Not a challenge

Source: DBR Research © April 2017 Digital Banking Report

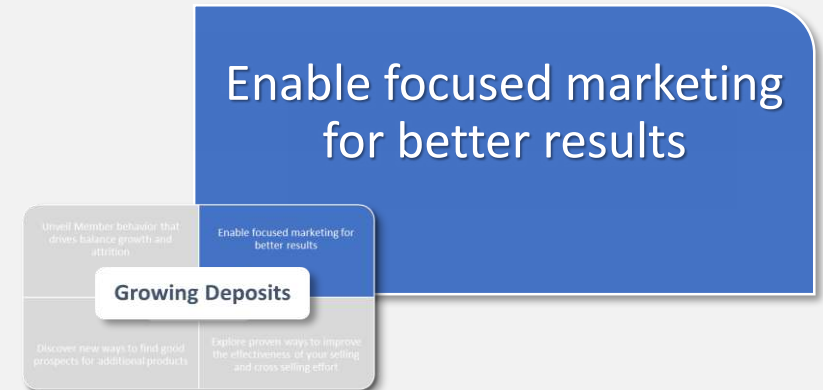


## Ann's challenges are probably familiar to you

### Anne, Vice President Marketing

Anne knows that Return on Marketing Investment (ROMI) is the number one indicator of success for her group. At the top of her agenda is maximizing revenue from existing Members by gathering a greater share of their banking services “wallet”.

Anne's team has developed a host of KPIs for marketing but her sales and retention stats appear to be inflated and don't reconcile to portfolio growth. Anne wants to measure what she manages effectively and have confidence she is optimizing the investments she is responsible for.





## Barriers to success

- **Marketing data not tied to actual portfolio outcomes**
  - Metrics are plentiful but:
    - Conversions, visits, account opens and other activity measures are NOT the end game – dollars are.
  - Balance growth is easily measured but:
    - Product substitution accounts for 30-80% of all account level growth
    - Customer / Member acquisition accounts for less than 20% of new business

## Solution

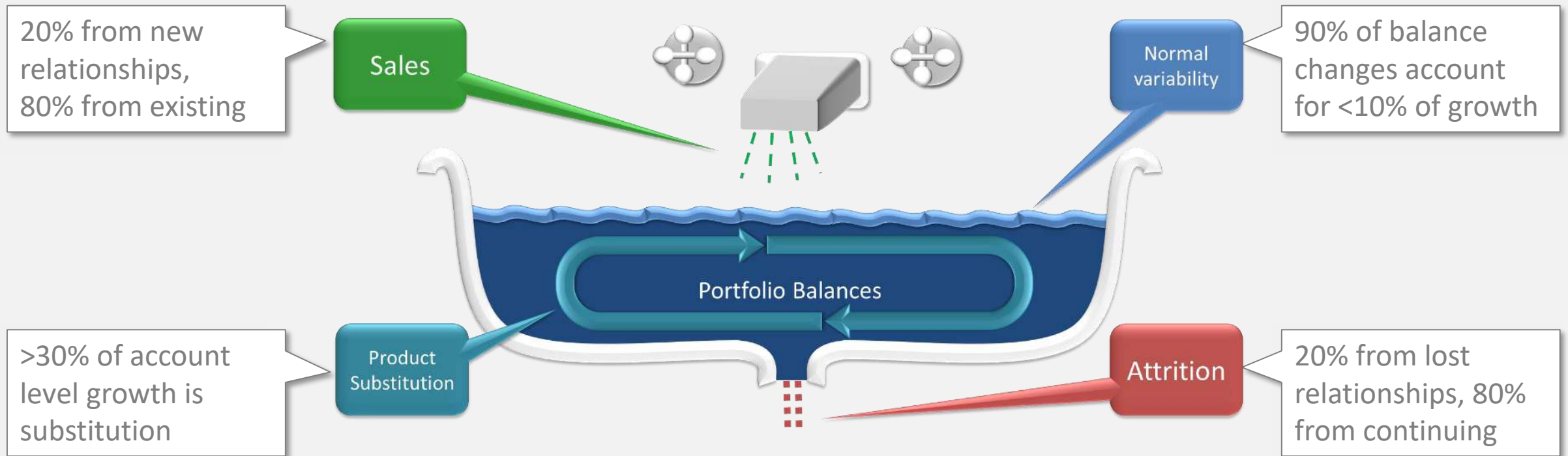
- **Facts that explain 100% of change in the balance sheet**
  - Funds flows classified by type, source and destination of dollar movements
    - Account level flow detail mapping to campaigns and marketing initiatives by time, product, segment, geography, list etc.
  - Test and learn, test and learn...
  - Budget justified by factual analysis

Source: “Financial Marketers Not Ready for the Future”, The Financial Brand, April 24, 2017

# Why is this so hard?



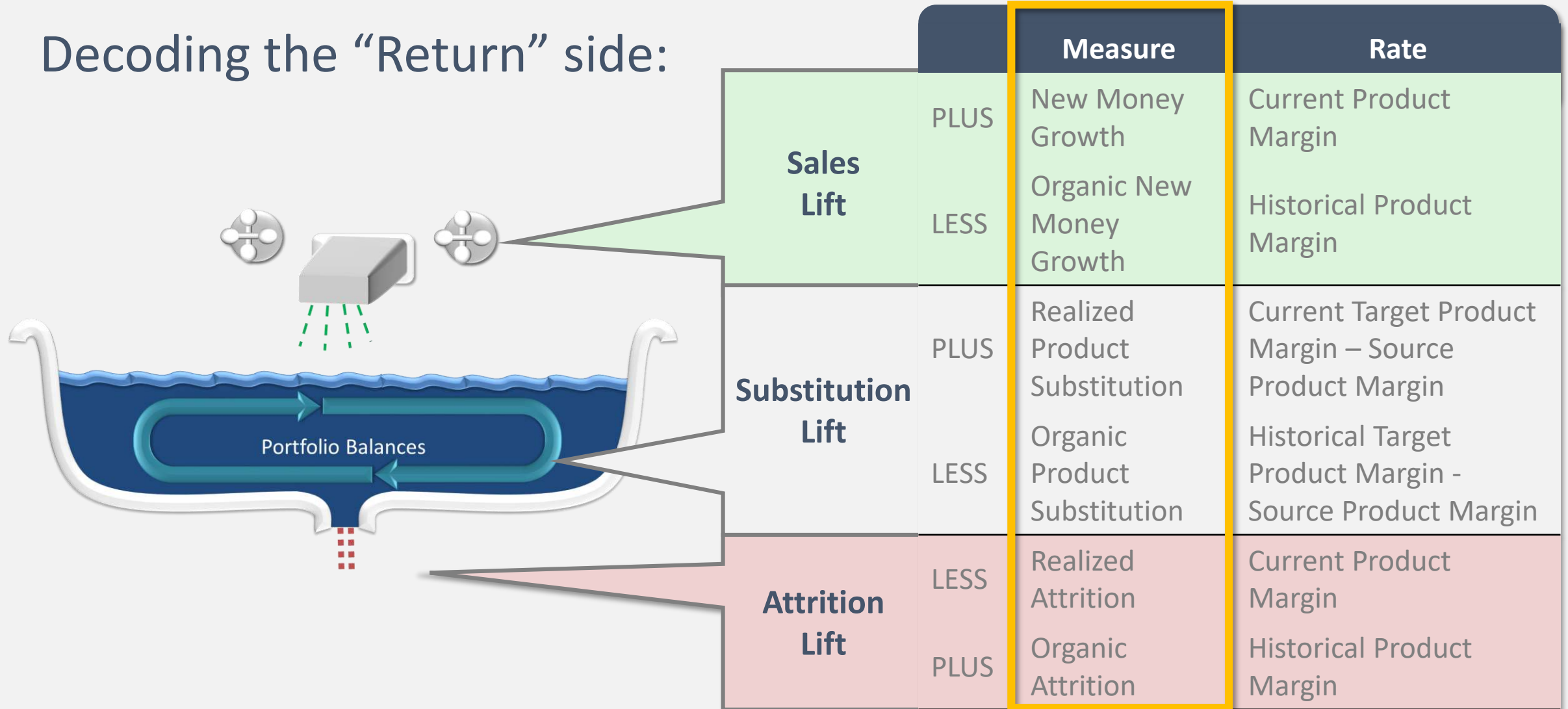
## The “bathtub” model of portfolio dynamics



# Problem solved: the “return” side of ROMI



## Decoding the “Return” side:



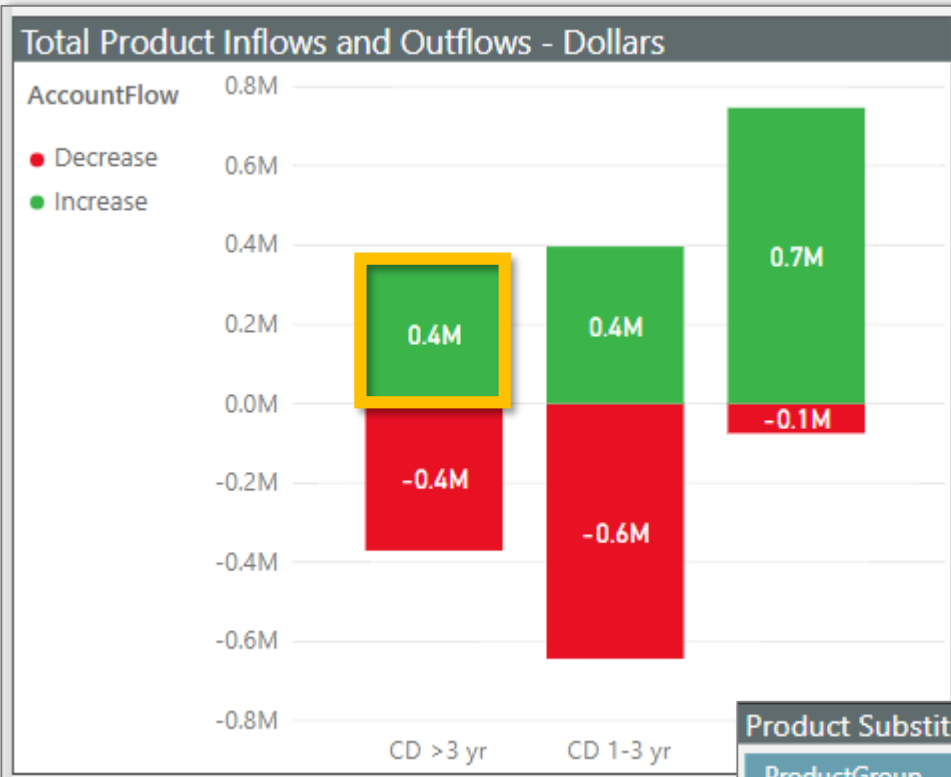
## Barriers to success

- **Cannibalization of existing low-rate funds erodes program value**
  - Core systems do not record the source and destination of money flows
    - Multi-step accounting problem
    - Many-to-many analysis problem
  - Manual analysis is impractical
    - Complex and labor intensive analysis
    - Not authoritative – does not completely explain portfolio changes

## Solution

- **Monitor and react to new dollar flows vs. product substitution flows**
  - Know where growth funding came from
    - New Members are always 100% new money
    - Existing Members / New products
      - New money (true cross sales)
      - Product substitution
    - Existing Members / Existing products
      - New money (incremental sales)
      - Product substitution
      - Normal variability

# From balance change analysis to portfolio dynamics



AccountFlow	Increase
Total DELTA	353,735
NewLost	55,357
InstrumentSwitch	100,000
ProductSwitch	57,718
GroupSwitch	0
ClassSwitch	0
LineSwitch	92,450
DepositLoanSwitch	0
SmallChanges	48,210

Classified account level flows explain 100% of balance change for every product

From-To money flow analysis unveils internal product substitution behavior

**Product Substitution (From ROW to COL) - Dollars**

ProductGroup	CD >3 yr	CD 1-3 yr	CD <1 yr	High Interest Savings	Non-interest checking	Online Bill Pay	Savings	Total
CD >3 yr	57,718			133,224	60,879			251,821
CD 1-3 yr			10,190	46,674	33,367		11,459	101,690
CD <1 yr			27,502					27,502
High Interest Savings	50,448	29,953	460,145		320,862	18,070	41,787	921,265
Non-interest checking		6,999		364,276	5,012	14,102	272,956	663,345
Savings	42,002	2,000	73,284	88,350	280,425		172,960	659,021
<b>Total</b>	<b>150,168</b>	<b>38,952</b>	<b>571,121</b>	<b>632,524</b>	<b>700,545</b>	<b>32,172</b>	<b>499,162</b>	<b>2,624,644</b>





## Phil's challenges are probably familiar to you

### Phil, Director Product Management

Phil heads up the Product Management team and is responsible for designing and pricing products that will drive realization of deposit and loan growth targets by meeting Member needs. Phil is seeking to gain competitive advantage through insights into how Members use products to stay ahead of competitors.

Phil wants to increase the effectiveness of marketing by making it more focused. He wants to understand which products and Members are driving new money growth so he can focus resources on them. He also wants to gain insight into changes in Member behavior so he can reduce attrition.

Unveil Member behavior  
that drives balance  
growth and attrition





## Barriers to success

- **Consumer behavior is fragmented by Core transactions**
  - Changing needs, preferences are difficult to detect which limits intervention opportunities
  - Consumers change product holdings through a series of transactions
  - Behavior insight is lost in transaction complexity
    - Savings > Money Market > CD
    - Loan > Checking > IRA

## Solution

- **Consumer-centric analysis of change**
  - Consumer behavior explains all change in the portfolio. At relationship level:
    - Growth = new money
    - Diminishment = lost money
  - Analysis at account level is required to observe behavior changes:
    - Product substitution
    - Branch substitution
    - Account substitution

# Fragmentation resolved: customer centric analysis



Ending_date	Institution	Branch	Customer	Product	Account	Opening Balance	Account Switch	Deposit Loan Transer	Small Changes	New Lost	Closing Balance
20150630	BANK ALPHA		1352	Annuities		32,628.77	-	-	-	-	32,628.77
20150630	BANK ALPHA		1352	Home Equity Line		-	13,027.60	54,611.80	-	-	67,639.40
20150630	BANK ALPHA		1352	Home Equity Line		62,405.08	(13,027.60)	-	-	-	49,377.48
20150630	BANK ALPHA		1352	Interest Checking		1,496.70	-	-	635.18	-	2,131.88
20150630	BANK ALPHA		1352	Interest Checking		2,129.13	-	-	-	2,150.36	4,279.49
20150630	BANK ALPHA		1352	IRA		9,346.18	-	-	143.58	-	9,489.76
20150630	BANK ALPHA		1352	Money market		113,298.62	-	-	-	10,280.45	123,579.07
20150630	BANK ALPHA		1352	Money market		73,743.64	-	54,611.80	-	5,678.13	134,033.57
20150630	BANK ALPHA		1352	Non-interest checking		-	-	-	(185.61)	-	412.52
20150630	BANK ALPHA		1352	Other revolving LOC		-	-	-	-	-	-
20150630	BANK ALPHA		1352	Savings		655.61	-	-	0.82	-	656.43

These account level changes....

... result from this switch event

Level	Ending_date	Institution	Customer	FROM Branch	FROM Account	FROM Product	TO Branch	TO Account	TO Product	Amount
Small Amounts	20150630	BANK ALPHA	1352	Third Party	Third Party	Third Party			Interest Checking	635.18
Small Amounts	20150630	BANK ALPHA	1352	Third Party	Third Party	Third Party			IRA	143.58
Small Amounts	20150630	BANK ALPHA	1352	Third Party	Third Party	Third Party			Savings	0.82
Small Amounts	20150630	BANK ALPHA	1352			Non-interest	Third Party	Third Party	Third Party	185.61
New Money	20150630	BANK ALPHA	1352	Third Party	Third Party	Third Party			Interest Checking	2,150.36
New Money	20150630	BANK ALPHA	1352	Third Party	Third Party	Third Party			Money market	10,280.45
New Money	20150630	BANK ALPHA	1352	Third Party	Third Party	Third Party			Money market	5,678.13
Account	20150630	BANK ALPHA	1352			Home Equity			Home Equity Line	13,027.60
deposit_loan	20150630	BANK ALPHA	1352			Home Equity			Money market	54,611.80



# IMPROVE YOUR BRANCH NETWORK PERFORMANCE



## Angie's challenge are probably familiar to you

### Angie, Vice-President of Sales at a Credit Union

She knows she could be more effective if she could overcome two key challenges:

- a) Limited insight into the portfolio dynamics of members of her branches, which forces staff to adopt a one fits all sales approach.
- b) Controlling attrition that offsets her sales efforts. Ongoing customers move money to competitors and she has no warning signs enable interventions.

Angie wants to increase deposits by improving the the effectiveness of the branches sales effort and focusing them on attracting new money . She wants sales targets that encourage appropriate behaviors to meet the credit union goals

Discover new ways to find good prospects for additional products





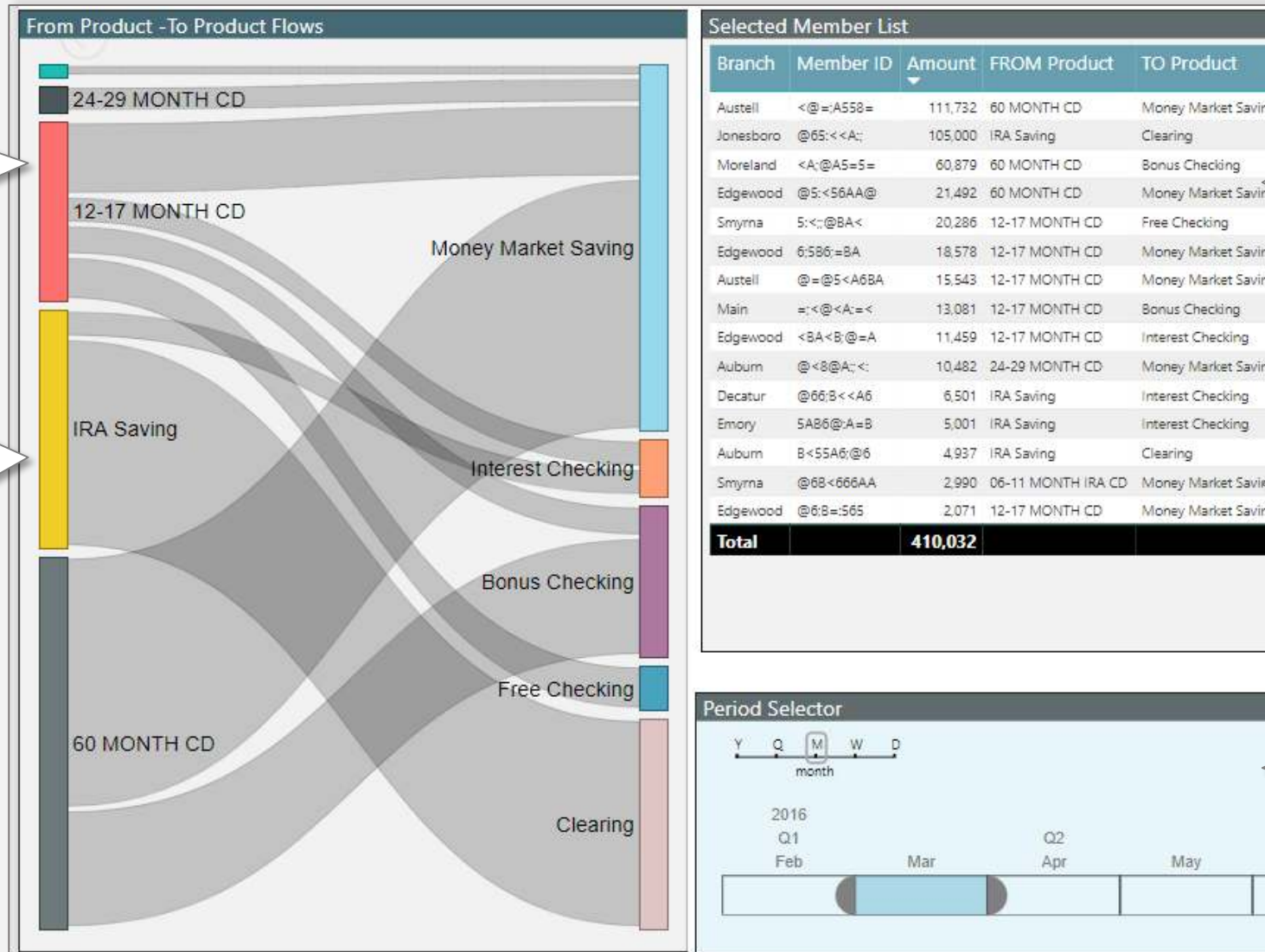
## Barriers to success

- **Not identifying the shifts in customer preferences**
  - Not identifying towards which products customers are migrating
- **Poor intel on look alike audiences**
  - Not capturing the behavior of specific customer segments limits the ability to proactively approach other customers within the same segment to create new opportunities

## Solution

- **Inform your front line the changes in the customers preferences**
  - Overall, trends in product migration
- **Identify customers that can benefit from current promotions**
  - Proactively contact existing clients with “strong value propositions” increases the effectiveness of your sales effort
  - Reduce the need of additional incentive and increase profitability for 8%

# Behavior dynamics reveal opportunities



Visualize money flowing from one product to another

Understand changes in product preference within your client base

Get lists of who has moved money from long term to short term deposits

Same for loans – who is paying off secured with unsecured loans?

Across time, branches, service representative....



## Barriers to success

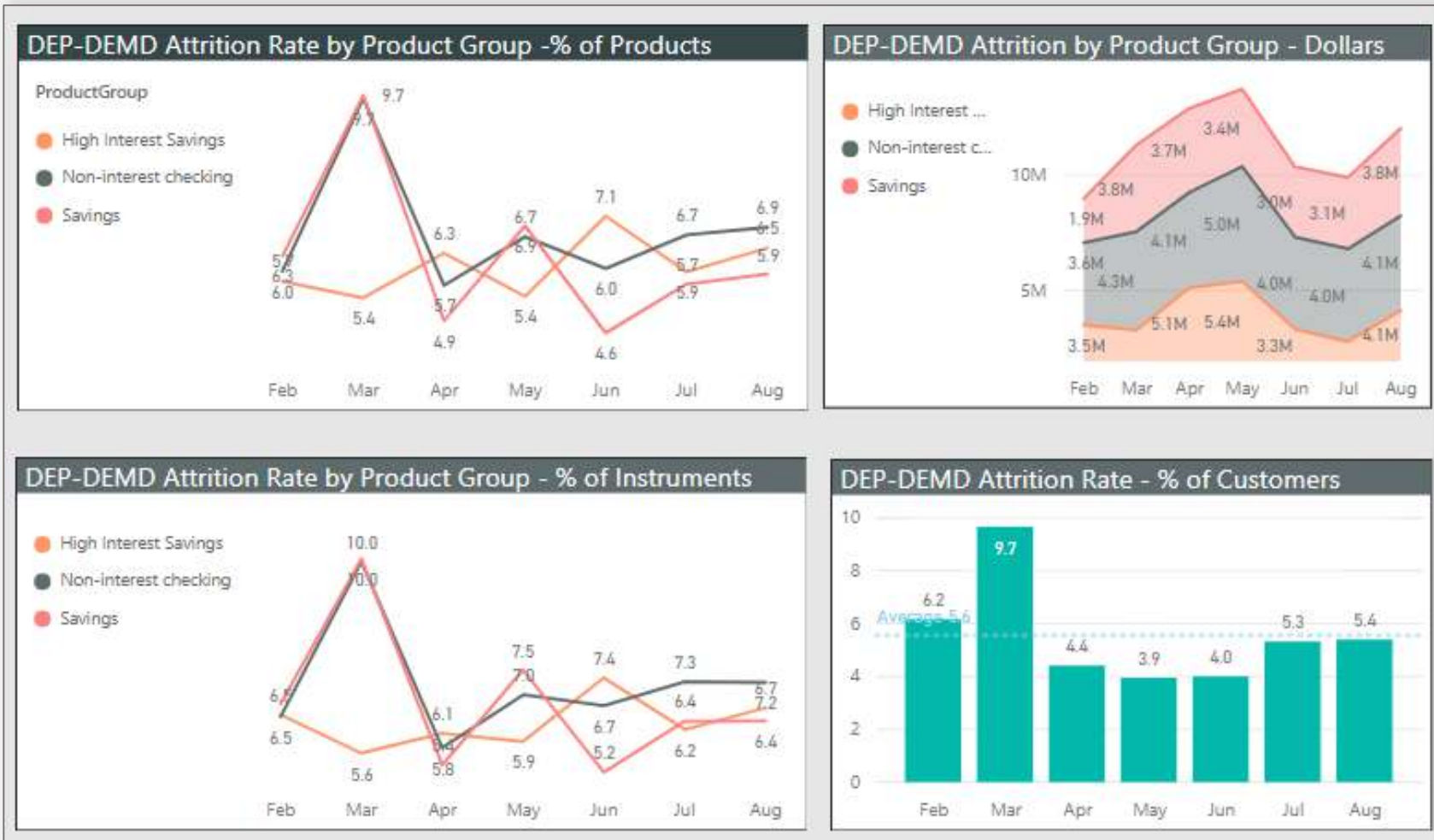
- **Not monitoring attrition with the same fervor than acquisition**
  - [BCG estimates](#) 10-15% of gross revenue/year is lost to Attrition.
  - 80% of deposit dollar attrition occurs within continuing relationships
- **Missing signals of deposits at risk**
  - Branch personal do not get alerts to implement retention strategies

## Solution

- **Introduce attrition targets to the Branches**
  - Again, monitor attrition - net of product substitution – at the account level
    - Know what is happening with your existing relationships
- **Alert your branches of funds at risk**
  - Renew significant deposits early without penalty
  - Monitor flight to liquidity of significant deposits



# As you sell, do not forget to close the backdoor



Understanding the cyclicity of the Attrition enables to create awareness in the channels to work to reduce it

# As you sell, do not forget to close the backdoor



ProductGroup	CD >3 yr	CD 1-3 yr	CD <1 yr	High Interest Savings	Non-interest checking	Online Bill Pay	Savings	Total
CD >3 yr							30,806	<b>30,806</b>
CD 1-3 yr		21,835		288,679	9,892		70,827	<b>391,233</b>
CD <1 yr			2,512	40,650				<b>43,162</b>
High Interest Savings	6,007		3,599	13,138	376,015	4,075	28,805	<b>431,639</b>
Non-interest checking			10,628	604,860	56,845		714,766	<b>1,387,099</b>
Savings	16,784	21,896		17,897	323,358		193,306	<b>573,241</b>
<b>Total</b>	<b>22,791</b>	<b>43,731</b>	<b>16,739</b>	<b>965,224</b>	<b>766,110</b>	<b>4,075</b>	<b>1,038,510</b>	<b>2,857,180</b>

Monitor specific customers flying to liquidity and create tailored retention strategies

Money at Risk					
Product	Product	OrgUnitName	CustomerBK	EventAmount	
12-17 MONTH CD	Money Market Saving	Emory	@: @=8<;8=	51,680	
12-17 MONTH CD	Money Market Saving	Auburn	@5;<6:B=;	10,711	
12-17 MONTH CD	Money Market Saving	North Ave.	@6=5<@BAB	32,630	
12-17 MONTH CD	Money Market Saving	Main	@65:8A5B:	29,976	
12-17 MONTH CD	Money Market Saving	Austell	<@@<6:868	134,029	
12-17 MONTH CD	Money Market Saving	Main	A6==8;;@=	23,956	
24-29 MONTH CD	Money Market Saving	Decatur	@5;56==8:	5,697	
<b>Total</b>				<b>288,679</b>	



## Angie's challenge are probably familiar to you

### Angie, Vice-President of Sales at a Credit Union

Angie manages three different credit union sales forces who earn commission as part of their compensation – the investment, mortgage and in branch sales sales officers get bonuses on sales.

Variable compensation has been a successful motivator for sales staff in the past, but management is increasingly concerned that there appears to be a disconnect between sales volumes reported and portfolio growth that shows on the books. Angie needs to balance the need to create SMART goals that support growth and reduce the sales force churn.



Explore proven ways to improve the effectiveness of your selling and cross selling effort



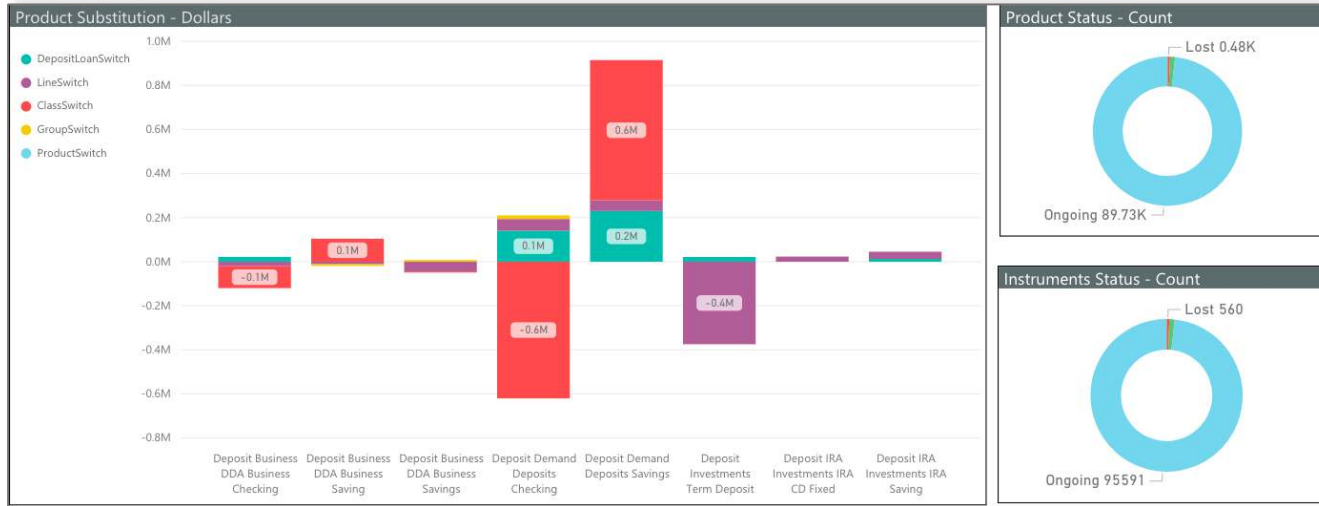
## Barriers to success

- **Monitor the effectiveness of the sales interactions**
  - New Money vs Product Substitution
  - Not measuring the number of customers needs satisfied at every sale completed
- **Work to improve your customer lifetime value by at least 25%**
  - Identify customers that are still not benefiting from services and products you provide

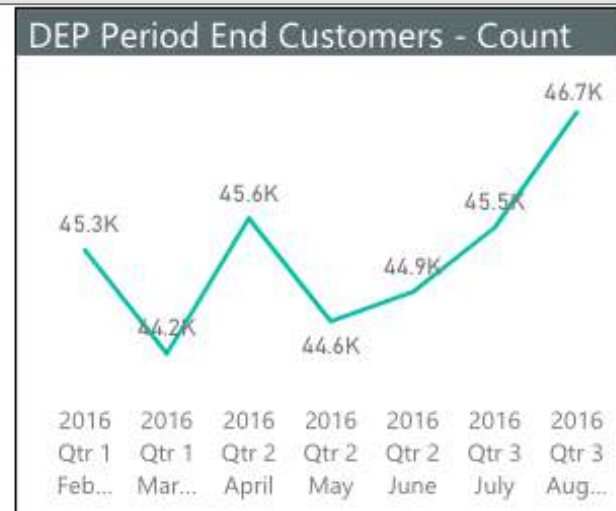
## Solution

- **Monitor New Money**
  - Measure incremental dollars
- **Monitor cross-selling**
  - Talk about the rate of cross-selling trends
    - Overall and at the branch level
- **Focus on reducing the # of single product customers in your portfolio**
  - Renew significant deposits early without penalty

# Monitor the effectiveness of your selling and cross-selling effort



Understand the impact of product substitution and differentiate what is New Money



By branch analysis of the number of new customer count & number of product/Customer

# Monitor the effectiveness of your selling and cross-selling effort



60-70%  
opportunity

New Members with One Product				
Branch	Product	Member	Closing Balance	Product Count
Kirkwood	Money Market Saving	=5B=8B=<<	125,012	1
North Ave.	Money Market Saving	B6<<<;6;8	101,014	1
North Ave.	Bonus Checking	@66:=<=B@	68,692	1
North Ave.	Interest Checking	8B6<;A=;6	66,446	1
Fairburn	Bonus Checking	@@65<5A6B	43,300	1
Smyrna	Money Market Saving	@6;8<B<:B	34,618	1
Jonesboro	Bonus Checking	=B8;@@<<A	34,000	1
North Ave.	Interest Checking	@B:<AB888	29,468	1
Peachtree	Interest Checking	AB@5;A868	26,525	1
North Ave.	Interest Checking	ABA<8A<A8	19,893	1
Moreland	Interest Checking	58@@5@@5:	19,718	1
Piedmont	Interest Checking	5:<@65:5A	15,005	1
<b>Total</b>			<b>793,190</b>	<b>694</b>

Look for customers with the largest balances and the most established Zip codes.



## Barriers to success

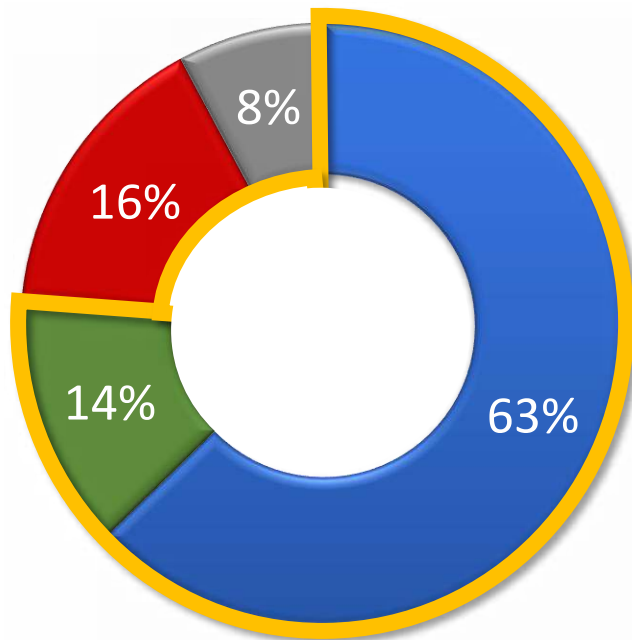
- **Unrealistic and arbitrary sales goals**
  - Unattainable goals are a drag on both performance and customer satisfaction. .
- **Not understanding how sales were accomplished**
  - Inability to measure product substitution at the branch level

## Solution

- **Set goals that reflect the natural market**
  - Remember the “A” in SMART Goals
- **Again, understand product substitution at the branch level**
  - Understand what percentage of sales represent new money vs product substitution



## Incentives & Compensation



- Variable compensation + salary
- Contest rewards and recognition
- No variable compensation
- Other (please explain)

Incentives vs ROA, ROE	Average of 2016 ROA	Average of 2016 ROE
Variable compensation + salary	0.71	5.74
Contest rewards and recognition	0.43	3.14
No variable compensation	0.45	5.35
<b>All Respondents Mean</b>	<b>0.65</b>	<b>5.50</b>

- Be aware of the **behaviors** your incentives encourage





# As you sell, do not forget to close the backdoor

ProductCategory	ProductLine	ProductGroup	Product	Amount	AccountFlow	Branch	Customer	Product	Account
Deposit	Demand Deposits	Savings	VACATION SHARE	90,008	Increase	60	<=68<;66	S25	PAAAAA;=5A;=5
Deposit	Demand Deposits	Savings	SHARE	60,174	Increase	60	@6<;B5:5	S00	PAAAAA;<B8AA
Deposit	Demand Deposits	Savings	Special Purpose Savings Acct	56,198	Increase	60	@=6;AA;B=	S26	PAAAAA;B=8<AB
Deposit	Demand Deposits	Savings	SHARE	48,057	Increase	60	58:@@6;;6	S00	PAAAA6B6AB8AA
Deposit	Demand Deposits	Savings	SHARE	45,000	Increase	60	5;=;6@8@=	S00	PAAAB@8A<<<AA
Deposit	Demand Deposits	Savings	SHARE	37,984	Increase	60	58:@88;AA	S00	PAAAAA8B6@5AA
Deposit	Demand Deposits	Savings	SHARE	30,297	Increase	60	=A656A@B<	S00	PAAAAA6;5:5AA
Deposit	Demand Deposits	Savings	SHARE	25,027	Increase	60	BB5<@; <;5;	S00	PAAAB@8<;8AA
Deposit	Demand Deposits	Savings	SHARE	24,833	Increase	60	BB:5A@8:6	S00	PAAAA8:AA=AA
Deposit	Demand Deposits	Savings	SHARE	23,710	Increase	60	AA;66;;;8	S00	PAAAAA;@6@6AA
Deposit	Demand Deposits	Savings	SHARE	21,949	Increase	60	<@A6A;=;=	S00	PAAAAA@=B=5AA
Deposit	Demand Deposits	Savings	SHARE	20,803	Increase	60	@66888<A	S00	PAAAAA5;:BAAA
Deposit	Demand Deposits	Savings	SHARE	10,005	Increase	60	@6585655;	S00	PAAAAA5;=5AA
Deposit	Demand Deposits	Savings	SHARE	10,000	Increase	60	@=;<;8@;<;	S00	PAAAB@:A5BAAA

Set goal based on historical results and get buy in to push for results



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