

## THE MIGHTY SAVINGS ACCOUNT

by [Steve Brown](#)

Volatility in the equity markets and concern over retirement has increased the effective savings rate in America from a negative %1 back in 2005 to a high of almost 7% last year. In 2010, the savings rate has fallen back some, but it is still a historically healthy 5%+. For banks, now is the opportune time to collect savings deposits. These deposits are more long term in nature and are less interest rate sensitive than money market accounts or CDs. In addition, with the lowest recorded rates in the history of banking, this rate sensitivity has even further decreased.

As a result, banks are capitalizing on this trend by not only marketing savings accounts, but promoting goal-oriented savings accounts. A savings account, because of its duration, usually gives a bank about 2% of net profit margin for every dollar in the account. Retail accounts are a little less, while business accounts are a little more. With a goal oriented savings account, profitability is increased, as duration can be extended by up to 20%. This increases profitability not only now, but in the future as rates rise. Bank of America was the first to come up with this innovative structure back in 2007 with their "Keep the Change" program. Since then, a myriad of banks have successfully come out with their own versions of "focused savings."

In 2010, the market received another round of focused savings accounts. BBVA Compass Bank was the latest entrant, as they released their "Build My Savings" account last month. With no minimum, customers set their savings plan of 6, 12, 18, 24, 30 or 36 months. If the account holder keeps their money in the account past the predetermined time, the Bank matches between 1% and 6% of their transfer amount, up to \$125, for the 6-month plan and \$250 for the longer plans. The percentage is calculated according to the opening balance, the transfer amount and maturity chosen. If accounts do not honor their maturity, they get a \$10 "withdrawal fee" assessed and reset to 10bp of earnings on all balances. Here, we love the fact that clients are rewarded in dollars and not by rate (keeping them from being rate driven). In addition, the withdrawal fee and lower rate ensures profitability. The downside of this account is that it is a little more complicated to administer.

CapitalOne also has a new "Interest Plus" account, which is an online offering only that will match 10% of the previous quarter's interest quarterly if a \$15k balance is achieved. Suntrust has their "Live Solid" account which pays a 2% savings rate bonus (up to \$50) after the first year and Sovereign Bank has their "Triple Interest Savings" which pays either double or triple the standard rate (currently at 15bp) for transfers of \$100 and \$200, respectively. Finally, Fifth Third recently rolled out their "Relationship Account" that doubles the interest rate (currently between 15 and 40bp depending on balance) if direct deposit, savings transfers or 5 debit transactions are completed.

Each of the above structures has pros and cons. Some perform better in up markets, some with higher balance accounts and some with greater account activity. In some cases where there is no minimum balance, like Suntrust, a maintenance fee is assessed if certain minimum balances or transfers are not done to ensure profitability (\$4 per month).

If you are interested in developing a savings account, talking to our Liability Coach or Profitability teams is a good way to start. If not, chose a structure that fits your client base and then test it out

with a variety of rates and balance flows to ensure profitability. By capturing funds now, less sensitive core deposits can be garnered that will definitively add to franchise value.

## **BANK NEWS**

### **M&A**

Bank of America will sell its 24.9% stake in the Spanish bank, Grupo Financiero Santander that it acquired in 2003 for \$1.3B, back to Banco Santander for \$2.5B.

### **Card Purchase**

U.S. Bank purchased the existing credit card portfolio from the grocer chain Kroger Co.'s. The terms of the deal were not disclosed. In addition, US Bank plans to work with Kroger to rollout a series of payment options in its stores.

### **Credit Cards**

In May, credit card debt rose 8% YoY according to Credit Karma, while on a MoM basis debt dropped 1%. By state, PA experienced the largest YOY rise at 25%.

### **Online Banking**

An annual Fiserv survey finds that from 2000 to 2010, households doing online banking rose 6x to 72.5mm or 80% of homes with internet access. Online bill pay grew 8x to 36.4mm or 40% of households with internet. Online bill pay now totals 45% of all payments. As for demographics, those 21-34Y of age account for 28% of online bill pay users, while those 35-54Y account for 48% and those over 55Y for 24%. Additionally, of customers that use this service, they are 13% more likely to hold a savings acct with the same bank. If they hold a mortgage, 10% have done so with the same bank.

### **Mobile Banking**

The same survey reports that in 2010, 30% of those with mobile phones carried out one or more bank transactions or services through their phone. Nearly 30 percent also review bills or pay them through their mobile. A large portion of this increase may be due to more smart phones

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