How CFIs Can Maintain Customer Stickiness

deposits branch strategies business customers

Summary: The hike in inflation to 6.8% in November and the arrival of the Omicron variant have applied pressure for the Federal Reserve to increase interest rates. What will this do to deposits? While rates are still low, it's critical for community financial institutions to retain their customers and their position as primary bank. Here are some tips to help increase customer stickiness.

No one knows for sure when stickers were invented. European entrepreneurs of the 1880s used a gum paste to get their labels to stick. The first self-adhesive stickers were made in 1935 by R. Stanton Avery from Oklahoma. He used a few spare parts and a $100 loan from his fiancée and went on to found one of the biggest label companies that still bears his name.

Avery found a way to make his products stick. How can community financial institutions (CFIs) do the same with their customers? In the current low-rate environment, it is a challenge. It's difficult to know which funds will stay and which will flow out.

Inflation was up 6.8% in November YoY, the fastest rate since November 1982. The Federal Reserve was already under pressure to shrink its $8.67T balance sheet. The goal was to complete the wind-down by mid-2022, but now the Fed has accelerated the timing. This allows the Fed to increase interest rates earlier.

Opinions vary as to what this means for deposits. The last time the Fed reduced its holdings, deposits did not decrease. Up until early November, banks had added $163.51B in deposits. Many experts expect that to continue, at least in the medium term. The Chairman and CEO of JPMorgan Chase said at its last earning's call: "*We're still going to increase deposits for a year, and then there'll be a fairly large reduction over a two- or three-year period, which we should be prepared for.*" Meanwhile, others believe a reduction in deposits is further down the line, if it happens at all, as economic growth could offset the outflow of cash.

Regardless of the timing, to lower the risk of losing customers and protect profitability, institutions need to ensure they are their customers' primary bank. Here are **four approaches to maintain your customers' stickiness**.

1. **Know your customers deeply.** Use every opportunity to gain a complete picture of your customers. Every touchpoint adds valuable information, which good data analytics can turn into actionable customer insights. Customer research — whether from customer surveys or third-party data — can also help refine the customer profile and unearth untapped opportunities to add stickiness.

2. **Target your communications.** Use the knowledge you have gained to tailor your offerings to specific customer needs. For example, if you know an investment customer is concerned with the social and environmental impact of their actions, you can target their communications around sustainable products.

Your communication channels should also reflect your customers' personal preferences. Email has proven a successful marketing channel, but some customers prefer more personal means of communication, such as texts or phone calls. McKinsey's research has found that "*customers who receive personalized bank offers* *across multiple channels are more than 3x as likely to accept them, compared to those receiving offers via a single channel.*"

3. **Provide a "humanized" digital experience.** A recent survey by Deloitte showed that post-pandemic, consumers will continue to use digital channels for simple transactions. However, they prefer a branch when it comes to more complex activities, such as mortgages and loans. The research suggests CFIs have a unique opportunity to increase customer stickiness by blending the human touch with digital channels. Artificial intelligence will be critical in upgrading and personalizing the digital experience.

4. **Protect their data.** All these services hinge on the intelligent use of customer data. Morning Consult research found that the number one reason for customers leaving their banks is better data protection. While bankers know that they have robust ways to protect customer data, they need to explain that. If CFIs can communicate well with their customers on how they are protecting their data, another level of stickiness could be gained.

CFIs have a good record of holding onto their customers. However, it is easier than ever to switch financial institutions. Adding stickiness to your customer relationships will retain those primary bank relationships, even when deposits could start shifting.

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ECONOMY & RATES

Rates As Of: 01/05/2022 01:33PM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.08	0.02	0.02
6M	0.22	0.03	0.03
1Y	0.41	0.02	0.02
2Y	0.83	0.09	0.09
5Y	1.43	0.16	0.16
10Y	1.71	0.19	0.19
30Y	2.10	0.18	0.18

FF Market	FF Disc	IORB
0.08	0.25	0.15
SOFR	**Prime**	**OBFR**
0.05	3.25	0.07