

Key Considerations Amid Industry Disruption

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There's little doubt that the U.S. banking industry has been whipsawed by fast-moving events in recent days. Just a week ago, bankers were mostly focused on the outcome of the Fed's next meeting. Now, they are hoping that swift moves by regulators will curb the fallout from the two biggest bank failures since the financial crisis of 2008.

Curinos believes that deposit churn and position of investment portfolios will continue to be the dominant themes in coming weeks. In fact, both topics have been the subject of increased focus ever since the Fed began raising rates last year; that focus has now entered the mainstream. An increase in customer anxiety, however, means that financial institutions may need to revisit their strategies when it comes to rates and marketing, in addition to contingent funding plans.

The following are some key considerations:

Commercial Focus



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Company treasurers and business owners are operating with a renewed sense of focus on two key questions:

- Is my money safe and sound?
- Do I have a credible back-up plan in place to make and receive payments if there is disruption in my ability to do so through my primary bank?

Curinos expects a continued wave of deposit churn as customers seek to diversify their deposit exposure across banks and expand their secondary banking relationships. The initial phase of this diversification has included a flight to perceived safety, especially to the nation's largest banks. We also expect to continue seeing in-flows into money market mutual funds and increased interest in insured cash sweeps.

If this churn continues, it will result in an accelerated pace of activity (both offensive and defensive) for commercial bankers and treasury management officers. It will also require more nuanced approaches to classifying and talking about deposits.

Banks can differentiate performance in this period of churn with:

- Enhanced analytics to understand evolution of current portfolio
- Targeted strategies to acquire and deepen both primary and secondary relationships
- "White glove" services for potential at-risk customers

Increased deposit churn may ultimately accelerate rate competition as well as provide upward pressure on ECRs.

Over time, we anticipate a new definition of achievable primacy to emerge as companies rethink how they group various aspects of their banking relationships.

Banks had planned large, broad-based price increases for treasury management services in 2023. Increased churn will heighten the focus on strategic use of discounts, both on offense and defense. It will also renew the need for banks to act more quickly on pricing changes.

Retail Focus



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We anticipate an accelerated remixing of uninsured deposits. After all, it has never been easier to move funds with the tap of a finger on a mobile phone. It may take longer to analyze fresh churn in consumer portfolios than in commercial portfolios because there is a lower degree of urgency among consumers than commercial customers. Remember that retail customers have been shifting money to higher-yielding accounts and products since the end of last year.

The recent industry upheaval will likely resonate with the highest tier of customers who are aware (some for the first time) of strategies to maximize FDIC insurance limits. These customers have varying levels of understanding about the mechanics of FDIC insurance and could benefit from outreach, explanation and education. Some will seek solutions through traditional bank products and others will look to deposit network offerings.

Rate is likely to remain a differentiator for customers who are moving funds, but top-of-market offers could generate concern that the institution is facing a deposit squeeze. So far, we haven't seen big rate moves.

There may be an opportunity for providers to expand loan-only relationships to include a deposit relationship as customers seek to diversify their funds, even in cases where banks previously haven't been successful.

Marketing Focus



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Perceptions of safety and soundness rule the day, especially with today's easy access to social media and other digital channels.

Messages of stability and strength will resonate, but too much communication could seem desperate. That said, the institution's value proposition may make the difference.

Increased churn means there is an increased opportunity to capture new balances. Many new relationships may already work with multiple other institutions. The onboarding and deepening of these customer relationships must be at the top of the list.

Given the flight to perceived quality, there are likely advantages in mass media that convey stability, particularly in dense markets where the bank is likely seen as a well-known institution. In thinner and newer markets, institutions may have difficulty getting to net positive balance flow; perceptions of "quality" may be a bit more challenging.

Personalized tone can be critical for communicating safety and soundness. Customer-level personalization that includes cash incentives or promotional rates can help attract balances.

Bank Treasury Focus



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Contingency funding plans are the most important focus for bank treasurers at the moment. Treasury should ensure that stressed cash outflow estimates are sufficiently conservative given the high single-day deposit outflows reported this week. They should also ensure they have access to the preferred sources of contingent liquidity.

Deposit weighted average life (WAL) is and will become increasingly important in the next month as deposit churn accelerates. Recent inflationary pressure and rate increases have already resulted in shorter WAL across customer and product pools. It will be increasingly important that bank treasury tracks this trend to ensure that balance sheet and asset/liability and interest rate risk metrics are tuned to the current environment as they begin processing balance flows that represent very different customer sentiment than we have seen in the recent past. We expect this update will produce a materially different view of bank asset sensitivity.

Longer term, we expect renewed focus on internal liquidity stress testing, specifically focused on short-term (less than 30-day) outflows and portfolio segmentation/concentration analysis.

The prospect of additional regulation for regional banks will require close monitoring.