

THE SCIENCE *BEHIND* SAVINGS BEHAVIOR

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It's no secret that deposits are the lifeblood of banking, but how much do U.S. banks really know about the savings goals and behaviors of their retail-deposit customers? Not enough.

New research conducted by Novantas and the Consumer Bankers Association digs into details about savings behavior, debunks myths and unlocks surprising details about what customers want from their money — and from their bank.

The research found that banks are missing opportunities to improve the fit of their products with the wide range of customer savings needs, actions that can improve loyalty and solidify their rela-

tionships. The research also finds that customers have very different approaches to savings. That means banks may have to consider making some important trade-offs to better meet the savings needs that represent some of the bank's most valuable relationships.

And rate isn't the only lever banks can pull to deepen those customer ties.

AN EXPENSIVE BACKDROP TO SAVINGS

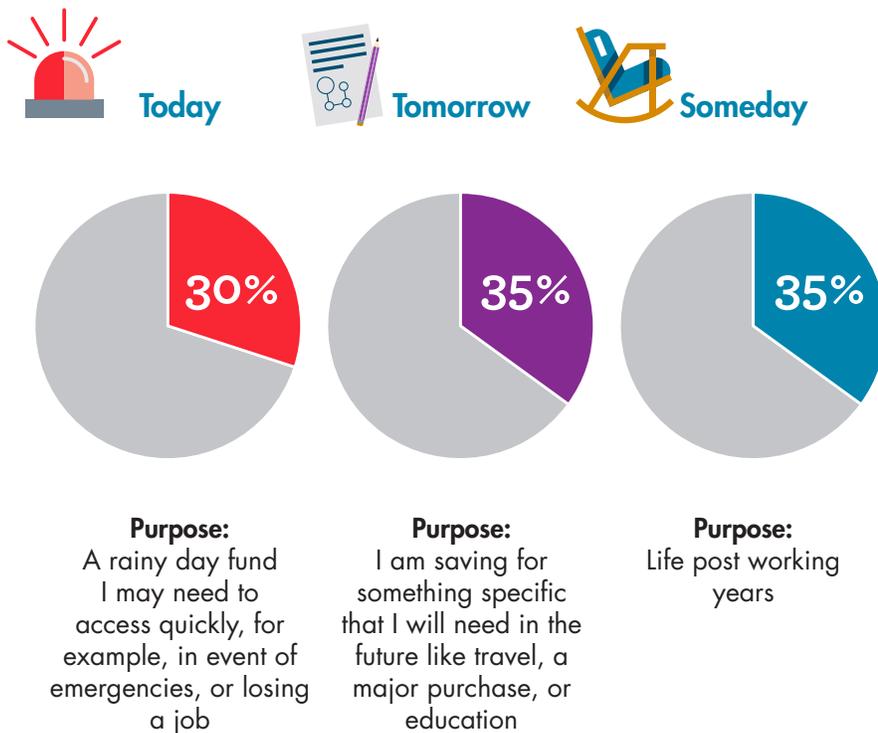
The research, which was conducted in February and presented at CBA Live in April, surveyed more than 3,000 consumers who have total or partial control of their household finances and

have a minimum of \$2,000 in savings. The goals: to identify savings objectives, understand the patterns of savings, examine shopping behavior for new savings products and assess their comfort level with direct banks and traditional brick-and-mortar institutions.

The research focused on pure savings behavior, no matter what the deposit account is called or the type of institution where it is kept.

The survey was conducted at a time when many banks are competing in a race to the bottom. Competition from fintechs and other new entrants is overshadowing traditional economics

FIGURE 1: WHY PEOPLE SAVE



Note: Other/I don't have a plan folded into above framework

Source: Novantas Customer Knowledge | 2019 CBA Consumer Savings & Motivations Research (N=3,007) *sample weighted on age and savings balance

of banking, driving up the marginal cost of funds (MCoF) to an unsustainable level of more than 500 basis points. Some 30% of rate-sensitive balances have moved to direct banks, according to Novantas data.

EVALUATING SAVINGS BEHAVIOR

The research revealed three types of savings behavior. “Today money” is used to pay bills and as insurance against unplanned expenses. “Tomorrow money” is set aside for a particular purpose, such as a vacation or a big-ticket household item. Finally, there is “someday money,” which is set aside for long-term needs — typically retirement. Some \$2.1 trillion of U.S. funds are “today” money, with another \$2.5 trillion categorized as “tomorrow” money. Finally, there is \$2.5 trillion in “someday” money.

The value of the three categories differs substantially, however, due to the importance and impact of price.

Money held in the “today” category, for example, typically isn’t rate sensitive. As a result, Novantas estimates that these funds represent 36% of savings value to the bank. On the other hand, rate-sensitive “someday” funds represent 27% of total value. (See Figure 1.)

Interestingly, although consumers say that rate on those savings is an important factor, they frequently overestimate the rate they receive on those funds, particularly on “today” balances. (See Figure 2.)

Primacy clearly plays a role in savings behavior. Nearly two-thirds of “today” money is held at the consumer’s primary bank, mainly because the customer likes the ease of access to those liquid funds. But that primary bank represents just over half of the “tomorrow” money and only holds 29% of the “someday” money. That means there is a huge opportunity for banks to develop products that can help

snatch those funds from brokerage and direct-bank accounts where they currently reside.

NOT ALL SAVERS ARE CREATED EQUAL

Consumer preferences across these three categories vary widely. Banks can better deepen relationships with their most valuable customers by understanding this range of needs and behaviors. The use of advanced behavior analytics can result in precision targeting and bigger profits down the road.

Novantas has identified five types of savers, ranging from the “careful” saver, who saves money each month and frequently checks the amount of money saved, to the “bank-detached” saver who is comfortable with an online-only provider, but doesn’t pay much attention to rate. (See Figure 3.)

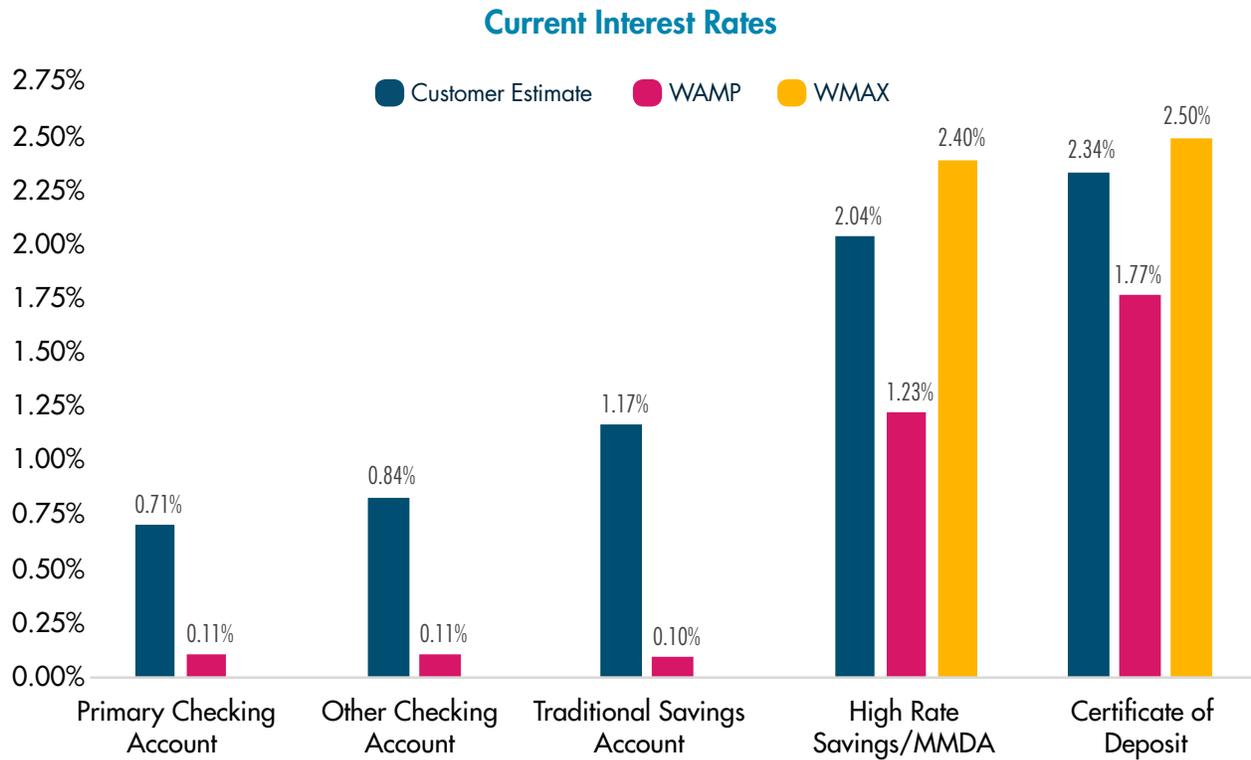
Some of these saver types will only consider keeping money at a bank, while others focus on rate alone. Nearly three-quarters of surveyed “careful” savers, for example, would never consider a provider that didn’t have physical locations, but just 19% of “active shoppers” felt the same way.

The segments also behave differently when it comes to the movement of their money. Nearly all “active shoppers” and 69% of “anxious savers” (defined as those who worry about having enough money and check balances often, but save irregularly) move money between accounts to get the best rate. Just 2% of “traditional” savers (those who are dependent on physical locations and don’t pay attention to rate) move money between accounts.

Banks can create products aimed at savings goals, much like the old-fashioned Christmas Club account. Of the “tomorrow” balances that represent 35% of the savings segment, 6% are saving to travel or buy a large-ticket item like a car or furniture, while 5% are saving for home improvements.

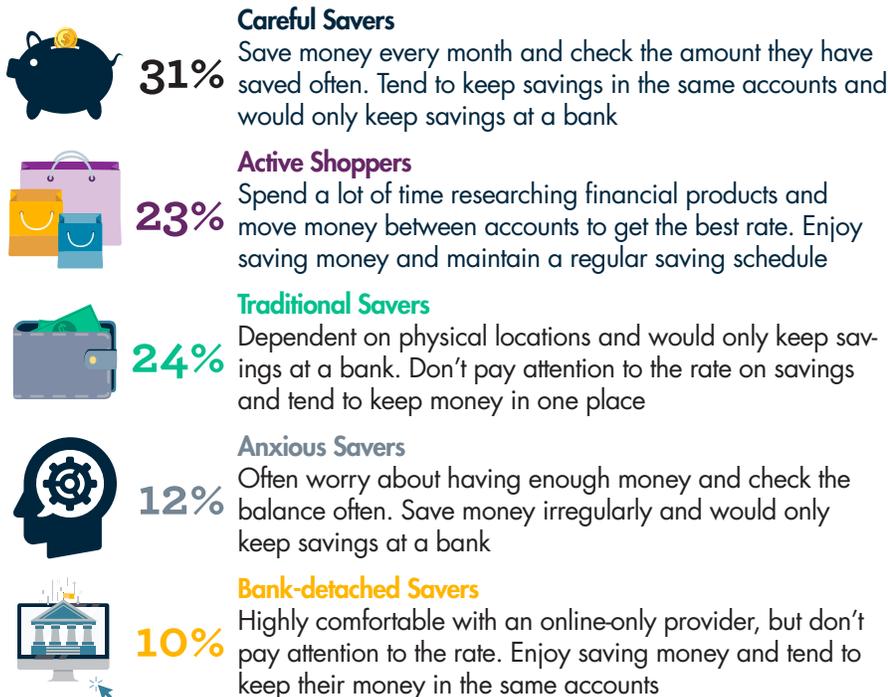
By encouraging customers to save for a specific goal, the savings account becomes more tangible to the saver. Indeed, some fintechs are already engaging customers by communicating about their specific savings needs.

FIGURE 2: CUSTOMERS OVERESTIMATE RATE PAID, PARTICULARLY ON "TODAY" BALANCES



Source: Novantas Customer Knowledge | 2019 CBA Consumer Savings & Motivations Research (N=3007)

FIGURE 3: THE DIFFERENT TYPES OF SAVERS



Source: Novantas Customer Knowledge | 2019 CBA Consumer Savings & Motivations Research (N=3,007) *sample weighted on age and savings balance

WINNING THE WAR FOR DEPOSITS

The battle for deposits isn't going away any time soon, regardless of the Fed's actions. Banks need to find fresh ways to create stickiness by engaging customers on what they consider to be important, not what the banker thinks is important. Tailored and valuable offerings can beat a high rate for many customer segments, so why not give them what they want and save on rate at the same time?

The tools to win the war for deposits are available. It's up to the bank to use them wisely. ■



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