curinos review

Fall 2022

HEDGING Your Bets

The Urgent Need for Scenario Planning

Pitfalls on the Road to Digital Transformation

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a note from the CEO

Welcome to the Fall 2022 issue of the *Curinos Review*.

This issue is titled "Hedging Your Bets" because scenario planning will be essential for financial providers as we start thinking about 2023. Interest rates may hold fast, rise further or even fall next year as central bankers around the world seek to tame inflation. Most experts anticipate a technical or mild recession is the most likely outcome. Still, it is important to plan for a deeper global economic crisis due to the long list of unknowns that includes how the global energy supply will be impacted by Ukraine, the pace at which supply chains resume normal operations and the political environment in the U.S. and elsewhere. For bankers, the trick will be to manage deposits, credit and costs — all of which are critical to long-term performance — in any scenario.

The *Curinos Review* explores pitfalls that are stalling the financial industry's march toward digital channels. Corporate and consumer customers are increasingly embracing digital platforms for more specialized activities, but traditional banks are being stymied by outdated organizational structures and a tendency to throw money at the issue rather than considering customer needs.

We also take another look at the resurgence of home equity amid higher interest rates. In our last issue, we explored ways that providers can capitalize on the surge in volume. This time, we look at how lenders can optimize the value of their portfolio with strategies that include using relationship data analytics to expand the buy box and setting appropriate limits for borrowers.

Treasury management pricing will be a critical issue for commercial portfolios as gross fees fall. That means financial institutions are under pressure to recalibrate the relationship between pricing and earnings credit rates. It's no easy task, but we provide you with a three-pronged strategy to help avoid some common missteps.

This issue also zeros in on small-business customers who historically have been considered a sub-segment of the consumer portfolio. But small businesses increasingly have sophisticated needs that require advanced solutions on a smaller scale, such as managing international cash flows, providing employee payment cards and setting permissions for account access. There is enormous opportunity for financial institutions to provide these services and deepen relationships with these important customers as they grow.

This is just some of the information that we are providing in this issue. Our goal, as always, with the *Curinos Review* is to help you navigate today and anticipate tomorrow.

Sincerely,

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How to Manage a Recession — OR WORSE

By Mark Stuart, Richard Martin, Ken Flaherty and Lindsay Burkhalter

There is little doubt that the immediate impact of the transition to higher rates has been rapid — and this is likely just the beginning. The U.S. has experienced two consecutive quarters of GDP decline, stock markets dropped 20% from 2021 peaks, existing home sales plummeted, consumer confidence is uneasy at best and there's another election around the corner. Elsewhere around the world, central banks also have boosted rates, warned of recession and are wrestling with political upheaval.

Although significant uncertainty remains (especially with the recent news that U.S. inflation rose in August despite declining gasoline prices), the consensus is that the U.S. and many other economies are on the verge of a technical or mild recession. Still, there are many unknowns and few, if any, are willing to bet on one particular outcome. How long will it take to tame inflation? What impact will the situation in Ukraine have on global energy supply? How quickly will supply chains return to normal operations? What will happen in the political environment over the next year or so? It is all confounding to executives and economists alike.

The current degree of uncertainty is highly unusual and demands careful scenario planning. Financial institutions will find themselves positioned to withstand whatever comes next by creating playbooks for a few important areas that underpin long-term performance, namely deposit costs, credit management and operating costs. And the secular trend to digital transformation will continue in any economic environment.

DEPOSITS

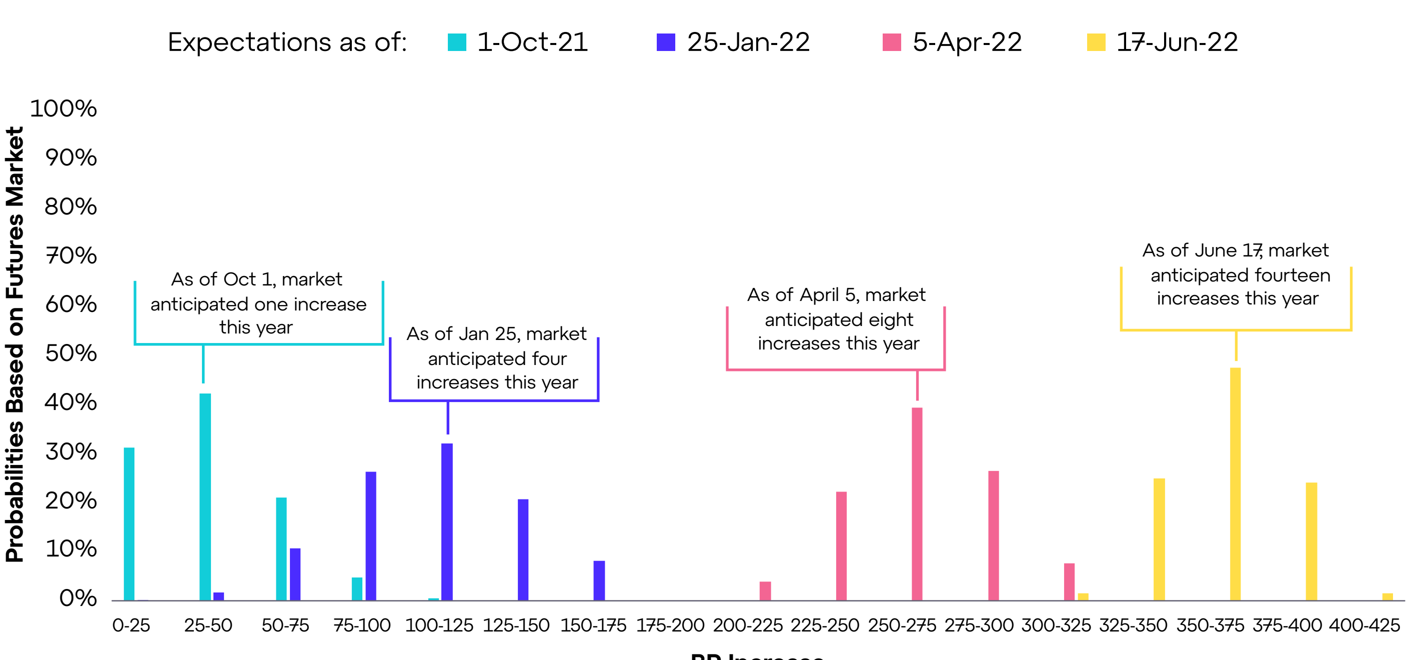
Deposit management has gotten tricky ever since COVID-19 sent a flood of liquidity into bank coffers. The deposit surge triggered a new focus on primary relationships, but the skills of actually managing interest expense atrophied throughout the industry when rates were low. It's now time to exercise those muscles. (See Figure 1.)

The rate indifference and customer inertia that dominated when rates were low have already started to disappear. The recent rapid pace of large rate increases has drawn widespread publicity and depositors are keenly aware of the rise in short-term rates. Increased awareness of higher-rate alternatives will continue to drive up deposit costs. That is especially the case for wealth customers, who are moving quickly and with purpose, and commercial accounts. (See Figures 2 and 3.)

Excess deposits at the start of this cycle can provide flexibility as certain banks tolerate lower deposit growth and continue to execute on growth plans. Other banks with fewer primary relationships will witness higher deposit outflows and will compete on price earlier. Since the pandemic accelerated the shift to online banking, digital disruptors are more prevalent and already offer more aggressive pricing because they have fewer surge deposits than traditional bank counterparts.

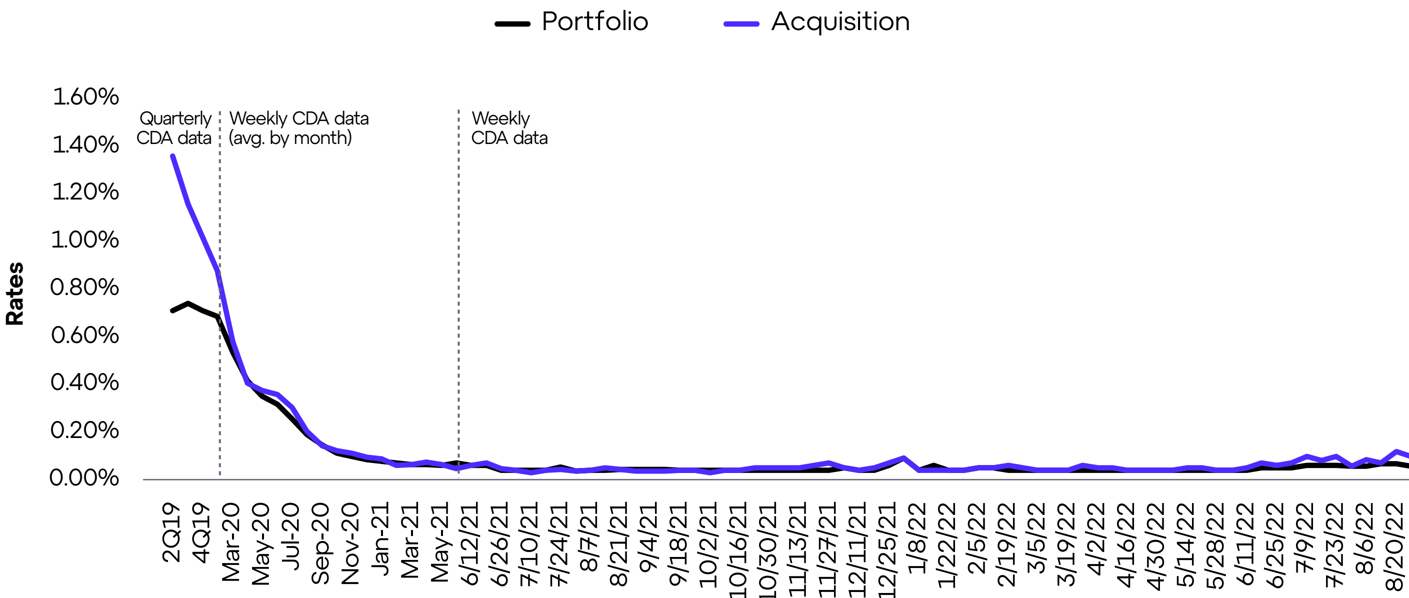
Curinos estimates that interest

Figure 1: Rate Expectations Have Shifted Dramatically and Rapidly



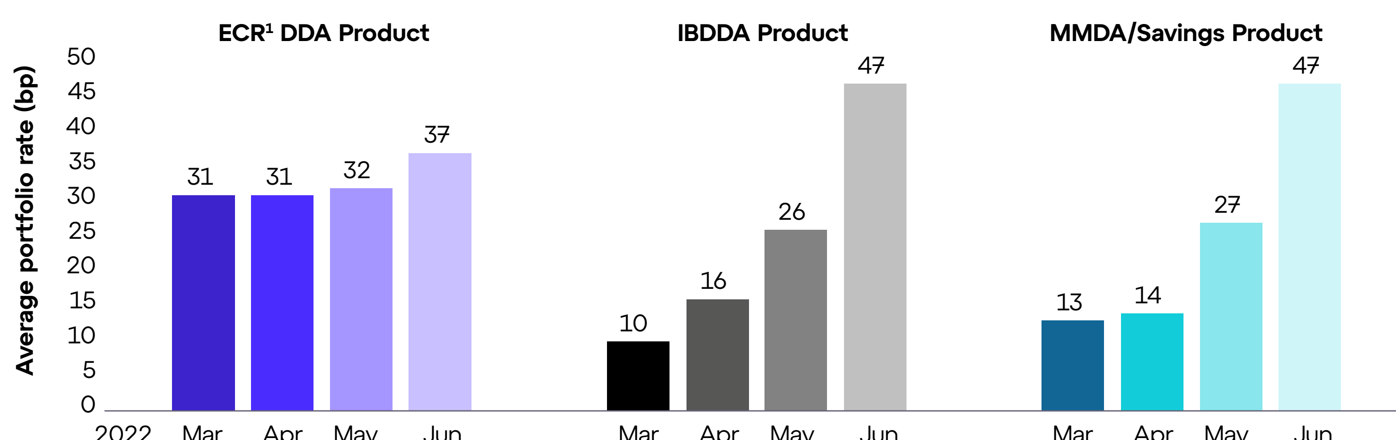
Source: CME Ratewatch

Figure 2: Betas for Branch Savings/MMA Remain Near Zero, But Have Begun to Increase



Source: Curinos Comparative Deposit Analytics (CDA) Database, July '22 | Simple averages displayed

Figure 3: Commercial Interest-Bearing Rates Are Also Rising

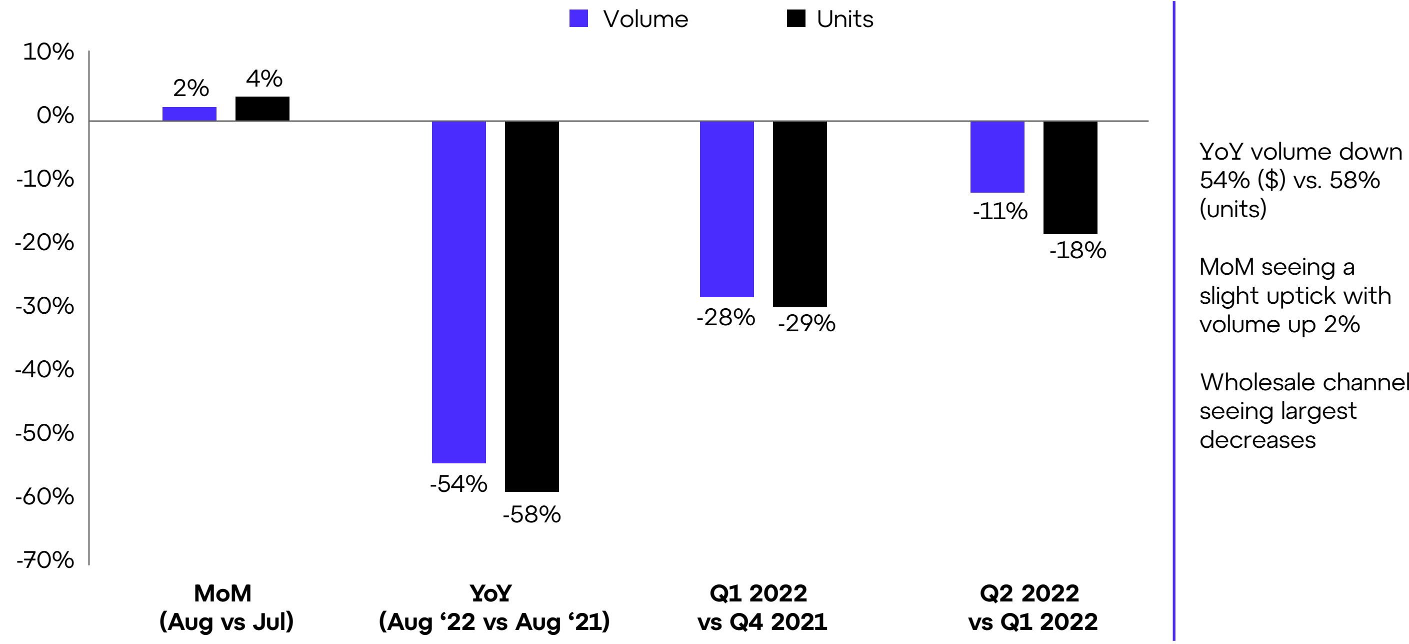


1 ECR = Earnings Credit Rate
Source: Curinos CDA

expense for the top-performing banks in the 2015-2019 rising-rate cycle were 20 basis points lower than the average bank. These banks largely had deposit bases dominated by primary relationships and used data analytics extensively to manage deposit pricing.

The current rising-rate cycle presents new challenges that banks will need to address. That means scenario planning will be critical. The fact is that the Fed is raising rates faster than in any period for the last several decades, creating an awareness of the rate disparity that incentivizes customers to act. There will likely be key thresholds that will drive more churn in different segments of their deposit base as rates rise and that awareness grows. In previous cycles, 1.00% has been a key threshold that drove greater consumer awareness.

Figure 4: Mortgage Volume Velocity, 2022 vs. 2021



Source: Curinos Consortium Data

If short-term rates remain above 3.00% for an extended period, what will the ultimate through-the-cycle beta be? Will there be a continuation of the 150-point gap between the Fed Funds rate and industry deposit rates that existed in the last rising-rate cycle or will increased consumer awareness and technology advances significantly shrink that gap for certain depositor segments?

It will become even more difficult to manage deposit costs in a deep recession. At that point, banks will have to analyze their deposit needs against a declining demand for loans. For example, will the need to rein in costs mean that banks reduce deposit rates even if central banks keep them elevated? And if commercial deposits are already declining in a mild recession due to quantitative tightening and other reasons, will they fall further if the recession becomes severe?

Banks will need both an explicit funding playbook, as well as deposit data and analytics, to manage the rapid rate increases and impact of technology.

RETAIL CREDIT MANAGEMENT

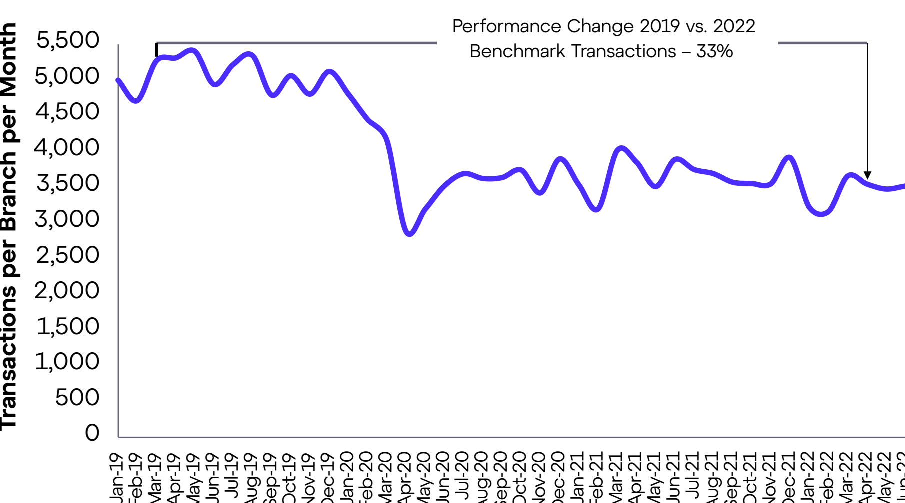
Like deposit costs, credit losses have been low for years. Curinos anticipates minimal credit issues in a technical or mild recession, although the extension of credit could be constrained by reduced demand from clients that are impacted by higher long-term rates. For lenders, that means a need to focus on targeted industries on a bank-by-bank basis. In previous mild recessions, net charge-offs hovered around 1.00%.

A forward-looking approach to credit risk is essential, especially when common credit risk metrics such as credit scores are based on lagging indicators and don't fully capture a borrower's risk profile. It's important for lenders to determine whether their credit-risk appetite should remain as-is or be reined in. A common practice that many lenders actively use today is reducing the debt-to-income (DTI) threshold versus minimum FICO requirements to ensure that, in the event of more stressed cash flow in the future, the borrower's ability to pay will be less affected. Additionally, enacting minimum "cash on hand" requirements is also a useful tool because it helps lenders determine the number of months a borrower can fulfill their debt obligations in the event of income disruption.

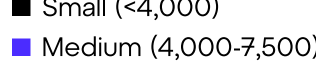
Another complication is the fairly new Current Expected Credit Losses (CECL) accounting standard that has the potential to force banks to recognize significant losses that might never materialize. In an uncertain environment where credit losses can emerge quickly, this has the potential to take a big bite out of the income statement. Banks must continue to enhance their understanding of how CECL models will evolve through a downturn based on changing economic conditions.

Relationship lending will be the gold standard as lenders brace for bumpier credit performance by practicing sound portfolio management. In the case of home equity loans, for example, understanding borrower HELOC usage

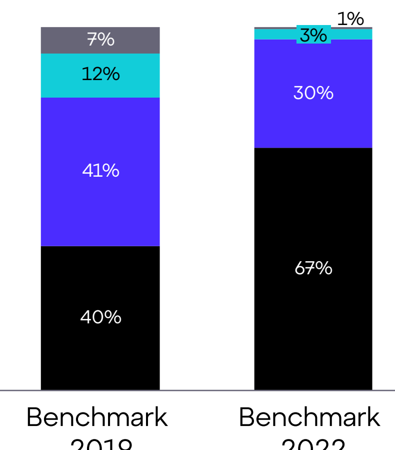
Figure 5: U.S. Teller Transaction Trends



U.S. Transactions Per Branch Per Month



Small (<4,000)
Medium (4,000-7,500)
Large (7,500-10,000)
Extra Large (> 10,000)



Source: Curinos SalesScape Comparative Analytics

patterns and activity is a proven way to determine if the borrower's risk to the organization has become elevated in recent months. A borrower who has fairly predictable usage and payment patterns over certain timeframes may sound an alarm if a lender sees a sudden spike in usage levels and changes within their repayment activity. The main idea behind sound portfolio management is identifying the risk before the borrower actually becomes a risk and draws down the HELOC to unmanageable levels.

Higher sustained rates and an already significantly constrained mortgage market (with more than a 50% decline in the market predicted for this year) will pinch lenders (and especially independent mortgage brokers) that have limited liquidity, technology and scale. (See Figure 4.) At the most basic level, lenders should be focused on retaining their current customer base and finding creative marketing campaigns to target new customers. A hard landing would decrease overall mortgage demand and ultimately drive interest rates lower. The potential for increased delinquencies and credit losses should prompt lenders to conserve capital and maintain appropriate risk reserves. Any uptick in mortgage foreclosures would lead to increased supply and more homes coming to market.

In small business, higher rates will eventually contribute to a decline in lending as supply chain issues and inflation remain as significant concerns. Financial institutions can re-evaluate pricing, promotions, relationships and rate structure to incentivize small business clients to borrow. A deep recession will trigger more revenue declines, increased credit risk and the potential for increased charge-offs due to decreased cash flows used to make loan payments. In that case, financial institutions should re-evaluate the credit box to mitigate risk and shift the product mix to more collateral-secured loans and credit lines.

DISTRIBUTION COSTS

Financial institutions, like other companies, have already begun to rein in operating costs due to concerns about the economy. The shift to digital channels is part of the ongoing effort, especially in commercial banking, which has lagged some of the advances in the consumer segment. Providers must continue to monitor that shift and adjust accordingly to meet customer needs.

For many providers in the U.S. and Canada, the opportunities for additional expense management lie within the branch network. Curinos continues to believe that both countries are still over-branched and the pace of closures should increase in the coming years because branch activity is declining at a faster rate than branches are. While closures must be carefully evaluated and planned to minimize the impact on employees and customers, the reduction of branch-related fee income and wage-related pressures — combined with the shift to online activity — make future branch closures inevitable. (See Figure 5.)

That said, deposit-gathering branches remain important when net interest margins expand as rates rise, so some deep analysis is required. On the flip side, branches will be less valuable in a deep recession because declining loan demand will eliminate the pressing need for deposits. It all means that networks need to be carefully reconfigured for efficiency and profitability.

In evaluating network economics, two opportunities stand out:

First, Curinos has long believed that branches can be more productive and profitable by developing new workforce roles and performance metrics. Today's economic uncertainty makes that more important than ever, but few institutions have taken the leap so far.

Second, there are still too many branches in both a rising-rate and falling-rate environment. Potential closures can focus on thin markets where Curinos believes many banks are experiencing lower profitability and low growth. This makes it hard to justify the investment, especially where they have a market share of less than 6%. Curinos data suggest that regional banks in the U.S. generally have lower growth in these markets over the last three years. And there is still opportunity to accelerate closures in dense markets where customer shifts toward digital channels have reduced the activity within the branch, triggering the need to improve efficiency and productivity.

If identified areas have lower growth than planned, are returns meeting hurdle rates or other profitability targets through the cycle? The tendency is to keep branches when rates are rising and close them when rates are falling. Analytics should be done on branches through a business cycle. Of course, success in the digital domain helps make such decisions easier.

There is little doubt that the current economic uncertainty will unnerve financial institutions in the months to come, but banks can plan for a wide range of scenarios after assessing a complex set of factors that many haven't experienced. As always, planning for multiple outcomes will be critical to allow for a quick pivot as economic conditions evolve. ■

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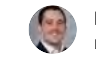
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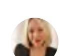
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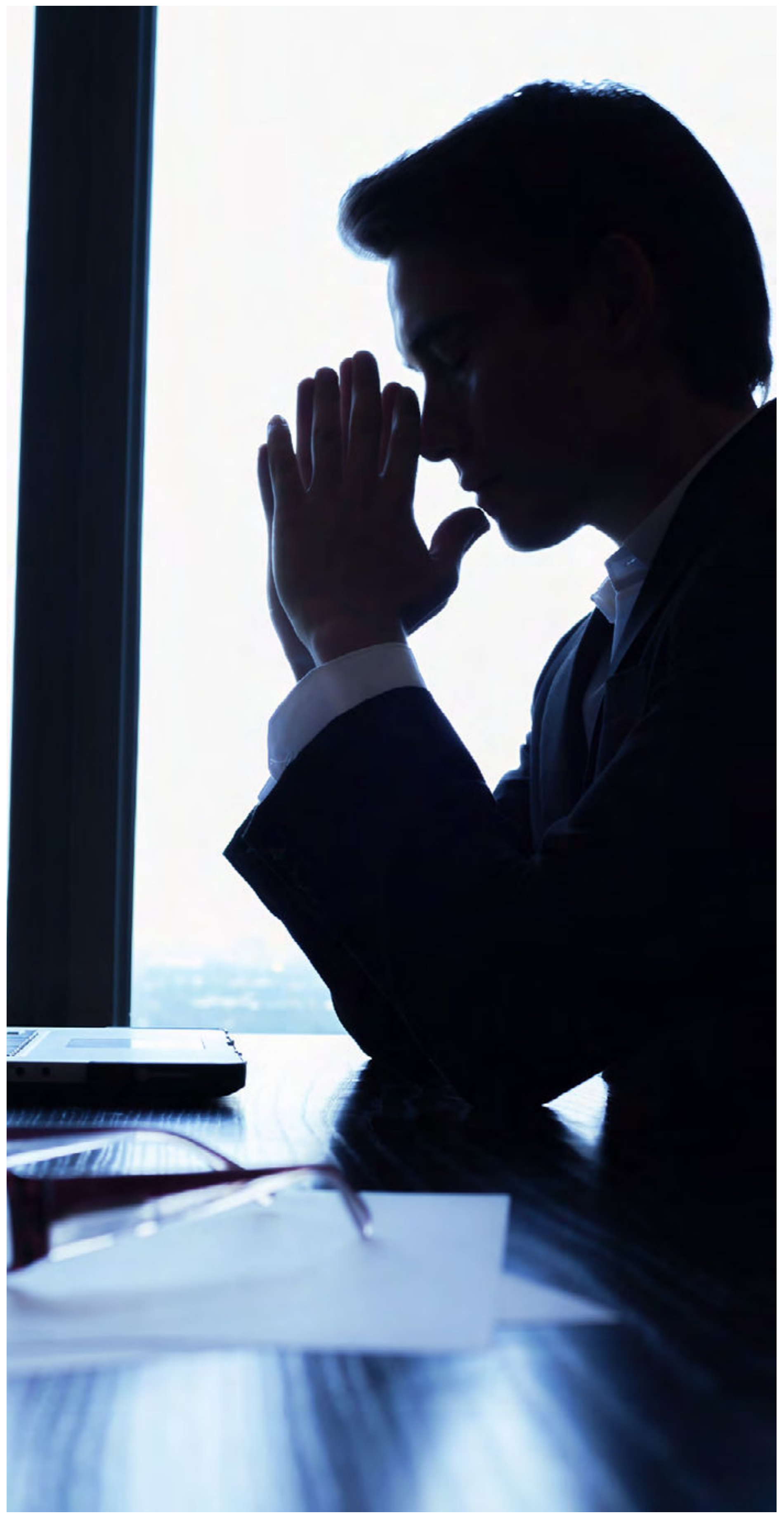


How to Acquire (and Retain) Good Retail Customers in Digital Channels

By Jennifer Kelly Dominiquini

Digital transformation has been a hot topic in retail financial services for at least a decade, but many banks still struggle with the channel. These struggles come even as the pandemic has pushed customers toward digital channels and neobanks and fintechs disrupt the industry.

One of the biggest challenges is that banks spend billions of dollars to attract new retail customers through digital channels, but the yield on those investments today is lagging. For example, the quality of digitally-originated customers is often poor and there continues to be opportunity to improve digital experience for the existing customers. Banks need to do a better job of focusing investments on the things that matter.

Why aren't investments paying off the way they should? There are a variety of reasons: legacy business models, organizational structures and measurements, technology platforms and a budget-first approach instead of a customer needs-first approach. Thus, despite continued digital investment, many providers struggle to measure or produce a solid return.

WHERE IT STANDS TODAY

To start, banks are still well behind challengers when it comes to basic digital functions that customers want. (See Figure 1.) Data from Curinos Digital Banking Hub find that 91% of fintechs allow full mobile account opening, but only 50% of national banks do across product sets. And this comes as digital customer acquisition is up 26% since 2019 as the pandemic dramatically changed customer expectations on where and how to bank, according to data from Curinos SalesScape. (See Figure 2.) We have also found that neo and direct banks account for 37% of primary customer acquisition during this period.

It all means that incumbents are losing ground in the new-to-banking market and are seeing their existing customers open additional accounts with the newer players.

After interviewing hundreds of financial services executives from organizations of all sizes, Curinos has identified a common set of challenges in their digital transformation efforts. These range from technology being viewed as a silver bullet for success to lacking clear definition of digital transformation goals or how to measure success. (See Figure 3.)

The result: branch-originated customers are fewer, but balances for branch-originated accounts are seven times greater than those of digitally-acquired ones. Furthermore, 45% of digitally-acquired accounts are closed within three months, compared with 4% of branch accounts, according to SalesScape data. Given long term digital trends, the challenge is not how to drive more customers into the branches, but rather how to get the same productivity in digital channels as in branches.

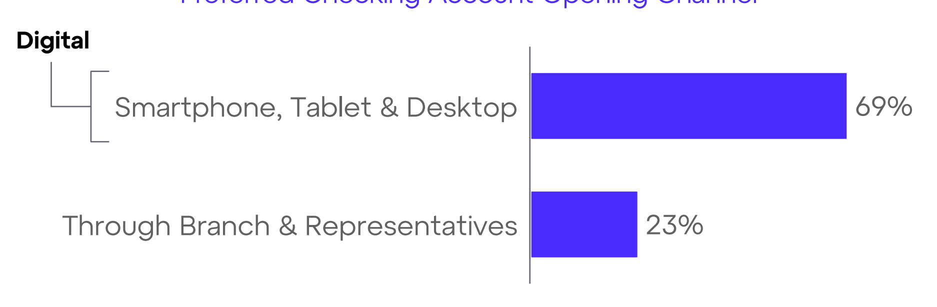
INVESTMENT PRIORITIES

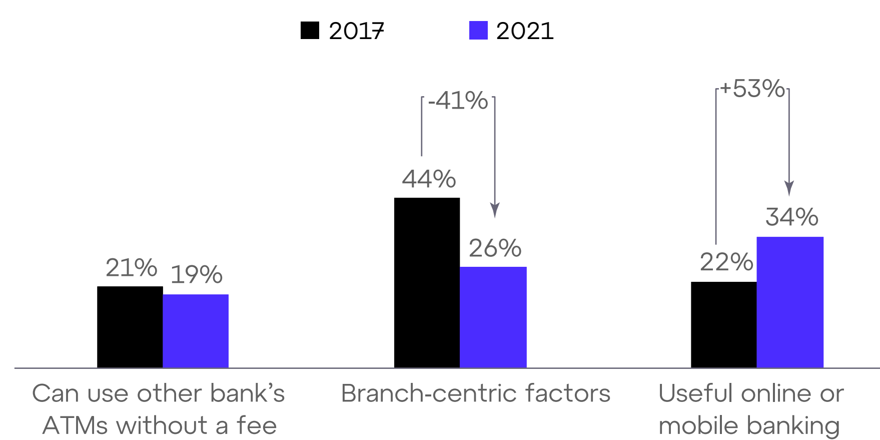
Much of the trouble can be tied directly to a lack of focus on digital onboarding, which gets customers to fund their accounts, use the features of the mobile app, add bank products and services, use their account to pay bills and, even better, set up direct deposit — a key sign of a primary relationship. Furthermore, new-to-bank customers who have a good onboarding experience are far less likely to attrite down the road.

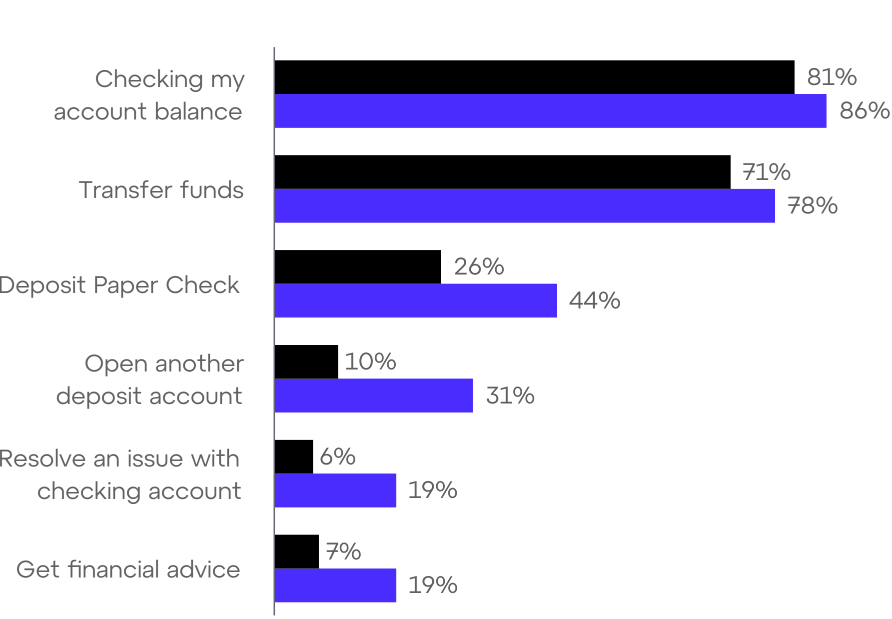
Current efforts to onboard a new client are too often disjointed across product lines and channels. Marketing teams aren't incentivized to build customer lifetime value, but rather to lower cost per acquisition (CPA).

There are many real-life examples of missed opportunities. A colleague opened an online account with a very attractive savings rate. One month later, she was still waiting for the bank to send her a simple reminder email to fund her account. In addition to the obvious need to communicate with the customer, the bank is missing the chance to capture balances and turn a new customer into a loyal customer rather than just a rate shopper.

Figure 1: Consumer Preferences, Attitudes and Consumer Behavior

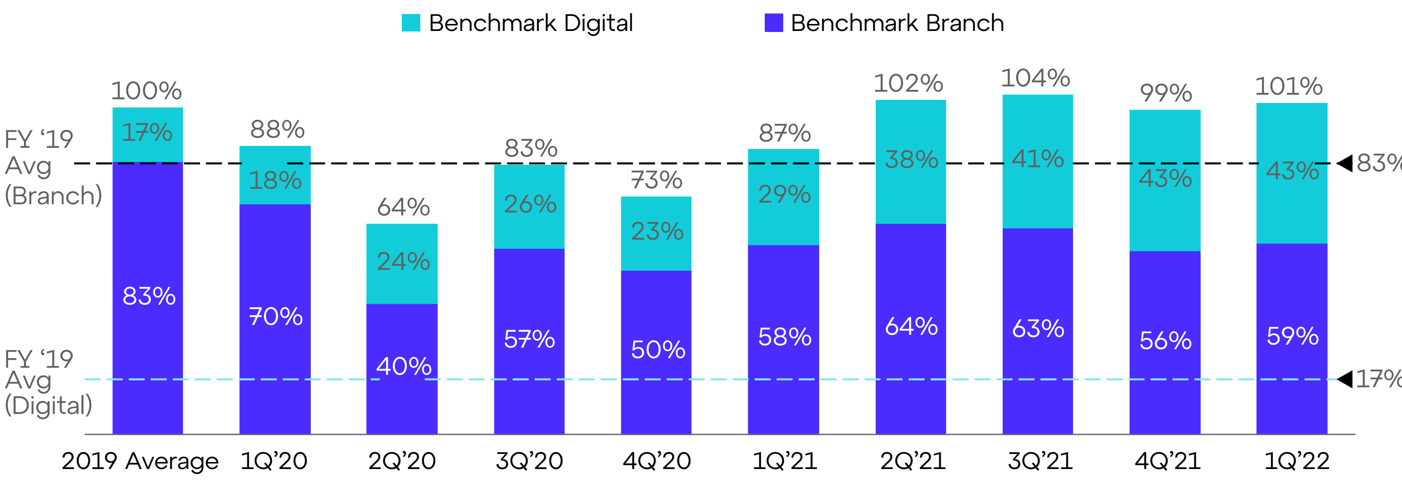






Note: 2017 Shopper (N=13,531), 2021 Shopper (N=13,222), Curinos 2021 Mass Affluent Research
Source: Curinos Analysis
Q: What would the bank do the most to make a bank a convenient place for your checking account? | Q: Of the ways you selected, how would you prefer to open your new checking account?

Figure 2: Customer Acquisition Indexed to FY '19 Performance



Source: Curinos SalesScape, Digital Benchmarking Performance indexed to average 2019 performance combined branch and digital

And just think about the advertising dollars that are wasted when a bank promotes a savings rate and the new customer fails to fund the account.

FOCUS ON THE CUSTOMER, NOT COMPETITORS

The major pitfall is that banks tend to be caught up in a digital arms race, adding mobile features and functionalities based on what other banks are doing instead of what the customer needs — a sort of supply-side view of the world versus a demand-based view. New entrants, meanwhile, seldom compare themselves with banks intentionally, preferring to focus on unmet needs and personalization. Consider, for example, the handful of fintechs that several years ago started to offer customers access to their paychecks two days early if they had direct deposit. These fintechs saw a need among customers who were living paycheck to paycheck and created an appealing product for them — building loyalty at the same time. Traditional banks are now playing catch-up, with some introducing similar products. The same applies to overdraft fees.

Those that argue that the new entrants are niche players fail to understand the disruptive nature of fintech technology. Banks like U.K.-based Revolut started as a money-transfer exchange service for global travelers who were battered by foreign transactions fees and exchange rate commissions. Once established, it secured a banking license to accept deposits and offer consumer credit and it has also now expanded into the small-business segment. Brazil's NuBank, meanwhile, developed a credit card that tapped into unbanked consumers and others who were frustrated by high bank fees. The company, which now services 60 million customers who can conduct all their banking activities on one app, challenged incumbents who controlled more than 80% of the market.

These new entrants, which aren't encumbered by legacy technology or business models, are reimagining the customer experience through a redefinition of faster, easier and more convenient banking. Furthermore, they are personalizing the journey, providing nudges and

How To Improve Customer Engagement

By Andrew Hovet

Providers of consumer checking accounts have many whiz-bang features at their fingertips, so why do they still have problems engaging with customers? These features often even compete with price and interest rates that are the main attractions when consumers consider switching brands, but providers just can't seem to find the holy grail — a channel mix that can retain and grow retail checking clients.

It is clear that accounts that are originated digitally perform worse than those originated in the branch. There are likely a number of reasons for that poor performance, including the fact that digital channels make it easy to open an account without really committing to the institution. Furthermore, young customers who flock to digital channels often don't have large balances yet.

Regardless of the cause, better engagement and a personalized onboarding experience have the potential to improve performance.

At this stage, banks should be doing better — and many of their newest competitors already are. The key is better communication through all stages of the customer journey and through all channels.

PUSHED AND PULLED

Consumers have been pushed and pulled toward digital channels, especially as the pandemic triggered limited access to branches and banks increased their digital marketing output. Teller transactions and sales volumes have edged up from pandemic lows, but it is clear that digital channels are still gaining ground.

U.S. new-to-bank checking account originations have just barely recovered to pre-pandemic levels and, unsurprisingly, the digital channel has made big strides. The percentage of new-to-bank digital checking accounts now stands at more than 40%, up from less than 20% before the pandemic took hold.

But the average balance for digitally-originated accounts at the end of the first month on book is between six and twelve times lower than branch. And the average balances are still significantly lower, even when normalizing for factors such as age.

Adding fuel to that fire, the percentage of unfunded digitally-originated accounts at the end of the first month on book is getting worse, not better. Nearly 70% of these accounts are unfunded, up from 50% a year ago and compared with 6% for branch-based accounts. The percentage of digitally-originated customers who attrite within the first year is roughly two thirds versus only a quarter for those who onboard in person. Given the low level of survivorship for digitally-originated accounts, the balance gap does close over time but is still two to three times lower than the branch.

Curinos sees four factors for these disconnects:

1. Younger people are more predisposed to initiate a new banking relationship through digital channels, and they have less money.
2. Digital engagement provides consumers with better access to more brands, so they're able to shop around more and do it at different stages of their banking journeys. Consumers are more likely to test products and services by installing multiple banking apps on their smartphone than they are to drive from one bank branch to another.
3. Banks that do a lot of digital marketing drive a disproportionate share of communications to digital applications. Often, these campaigns are badly considered and have benefits that just aren't sticky — such as cash offers to open a new checking account.
4. Banks are failing to successfully onboard new customers in a way that establishes them as the primary banking provider.

COMMUNICATION LEADS THE WAY

The root of these problems often boils down to communication. In onboarding, many banks rely on a "batch-and-blast" email approach that falls flat, or a standard journey that is "personalized" for a small handful of triggers, but is still one-size-fits-all in terms of messaging. At a minimum, the email campaign should address the customer's current status so it is sending relevant content at different stages of the process. These include a funded account, activated debit card, first debit-card purchase, direct deposit set up, enrollment in electronic payment services and/or an added savings account. Netflix, Amazon and other consumer-facing brands have set standards in terms of delivering personalized communication based on well-considered funneling and banks can do the same to motivate next steps through reminders, incentives and other prompts.

On the surface, neobanks appear to be leading the way in terms of this type of engagement, with impressive product-based onboarding and retention functionality that is designed to establish and deepen the relationship as quickly as possible. They encourage new customers to transfer funds into the account as soon as it is open. They encourage them to add virtual cards to their digital wallets as soon as possible, not relying on the days (or sometimes weeks) that it can take for a physical card to arrive in the mail. One forward-thinking provider recently announced that most customer journeys can be completed in two clicks on its app. But when it comes to cross-channel engagement during the onboarding window, these same neobanks fall flat. Customers get trapped in fund-your-account or refer-a-friend doom loops or are bombarded with uncoordinated product pushes that undo the trust that was built with sleek product onboarding sequences.

For traditional providers, orchestrating complimentary onboarding experiences across channels is essential to bringing to life the humanity at the heart of the value propositions. That can include proactive outreach from a local branch team to invite customers into the office for a financial review, relevant content from the bank's library or nudges and how-to instructions that spark engagement with the bank's digital offerings and services.

And it doesn't stop there. Consideration must also be taken after onboarding in order to retain customers and have them grow into their new provider's day-to-day banking offering. This is even the case for even for younger customers who haven't yet built their wealth.

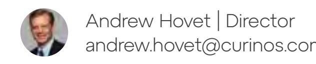


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Figure 3: Challenges that Get in the Way of Digital Progress

- No clear definition of digital transformation goals or how to measure success
- Technology investment is viewed as the silver bullet to digital success
- Efforts are disjointed throughout organization, with no holistic approach for people, processes, assets, data, operations, etc.
- Data and insights to guide digital strategy and measure performance are limited
- Digital not viewed through an omnichannel lens (e.g. contact center, chat, CRM, web, mobile, branch, remote servicing), resulting in disconnected experiences
- Legacy technology and organization leaves no room for rapid, agile experimentation and personalization
- Efforts overly focus on customer acquisition, ignoring onboarding, account funding, engagement and deepening customer relationships
- Quality of digital accounts significantly lag those of branch-acquired customers

Source: Curinos Analysis

insights through the experience to deepen the client relationship and engagement.

BREAK THROUGH THE LOGJAM

With so many banks still organized around products instead of customer needs and benefits, how can they succeed in the digital transformation race? Curinos sees the following steps as critical to breaking through the logjam:

1. **Organization and Measurement:** First, set a goal to acquire profitable customers (as measured over six months of behavior) at an improved NPV of the new relationship. Create a cross-functional and agile team, bringing together people from branches, operations, technology, marketing and product to focus on the customer. Pick the right experience to optimize and then create the organizational focus and metrics around it. Hold people responsible for these objectives and then coordinate across the institution by product and channel.
2. **Improve the Onboarding Experience:** Perhaps the most important experience for new-to-the-bank customers is onboarding. Focus on facilitating immediate funding though tailored marketing campaigns. Companies that excel in onboarding typically have a clean screen, sleek design and require fewer steps than most traditional bank brands. Mobile home-screen dashboards engage customers by providing updates and track activity across products, displaying rewards points, credit score changes and personal financial tools.
3. **Broaden Scope of Data:** Better uses of existing and alternate data are essential to customer focused personalization. There is an increasing need for it to be real-time. Many bank products and mobile features are developed without real-time understanding of what matters to clients and what they think of the current offerings and functionalities. To do so requires thinking about the customer and what they need. Instead of targeting people who have conducted Google searches for 529 plans, why not explore public birth records to attract potential customers who haven't even thought yet about saving for their child's college tuition? Also, banks often only look at rivals in their back yard for insight into products and services. While it is fine to learn from direct competitors, the most compelling new models often are coming from places like Brazil, the U.K. or China. Banks shouldn't benchmark their digital functions and features against other banks, but against their digital experiences vis a vis incumbents and new entrants. Listening tools that peel back the onion on customer feedback, frustrations and delights will also enable banks to better serve clients and ensure what they are building addresses customer pain points and needs effectively.
4. **Increase Pace of Learning:** The historic three-month marketing cycle time and six-month technology enhancement times are obsolete in the fast-changing digital world. Successful players must redesign the learning cycle if they are to create and maintain, not a handful, but potentially hundreds of different personalized experiences. What is needed is personalization and experimentation technology to improve response rates and shorten cycle time. The new business model should enhance the old one that was built on direct mail and bring to the market the advantages that digital offers. The future is: test, read the test and quickly decide on campaigns and campaign adjustments. How to do that? Marketing decision engines, when paired with a dynamic creative optimization engine, drive incremental lift — particularly among the least-engaged customers. It is therefore unsurprising that many neobanks and challengers are constant engagers, continuously testing how they can hyper-personalize customer communications to get their audiences to act. Examples of the benefits of rapid test-and-learn abound: recently a demographic that typically was most engaged after receiving emails that are straightforward, witty or hinged on "fear of missing out" responded much more to messages that emphasized care and safety in the aftermath of Fed rate hikes and the invasion of Ukraine. Without the ability to test and learn quickly, such an opportunity would be lost.

True digital transformation isn't an upgrade to existing capabilities and processes. Rather, it requires a new customer-focused approach to organization, metrics, process and the technology and skills that bring the promise of digital into reality.

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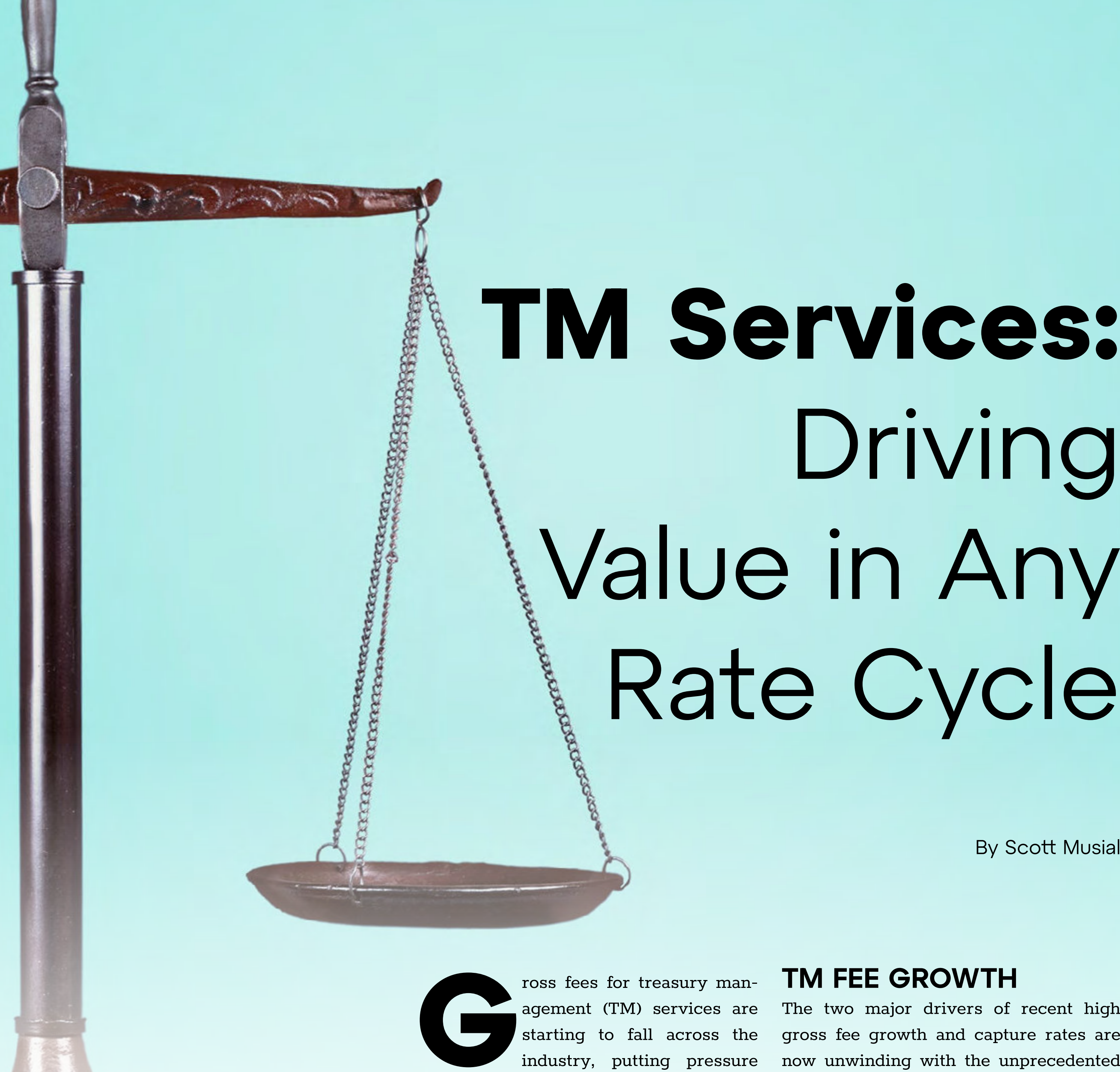


TM Services: Driving Value in Any Rate Cycle

By Scott Musial

Gross fees for treasury management (TM) services are starting to fall across the industry, putting pressure on financial institutions to recalibrate the relationship between TM pricing and earnings credit rates (ECRs).

The trick is to align pricing so that banks are agnostic about whether their clients are paying with fees or balances. To get there, banks need data, tools and processes to create better pricing visibility, as well as strong governance of controls and policies to inextricably link ECR and fee decisions.

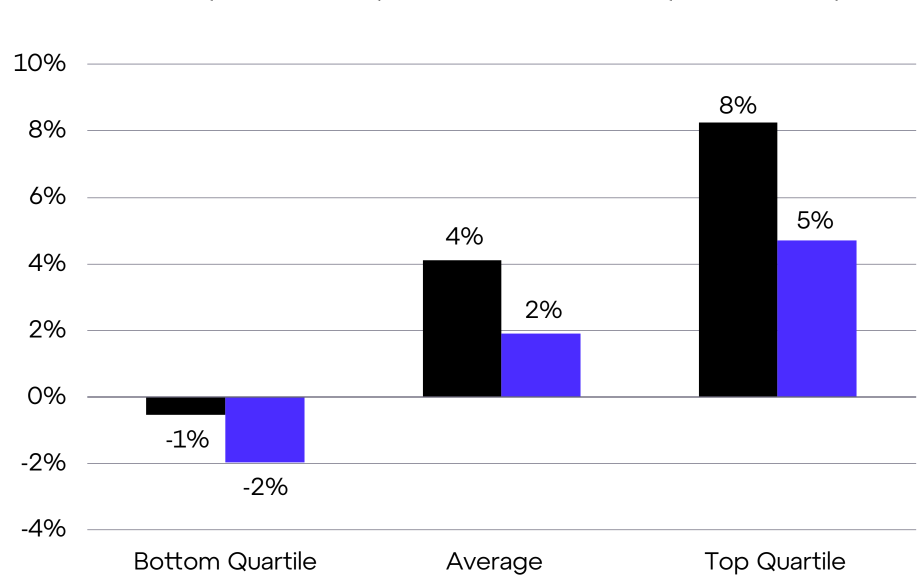
In the end, every pricing decision — from individual clients to entire portfolios — should be considered as an opportunity to grow primary relationships.

TM FEE GROWTH

The two major drivers of recent high gross fee growth and capture rates are now unwinding with the unprecedented pace of central bank rate increases.

TM fee growth has often been above 5% during the pandemic, driven by large increases in deposit assessment fees (DAF). Now that growth, which was already below the low double-digit level experienced in the 2010s, is tapering off as surge deposits flow out of the system. The average U.S. bank (and those that are below average) notched 2% growth or less in the second quarter of 2022 as compared with the first quarter. (See Figure 1.) And although net fee levels after earnings credits remain historically high, the industry is near an important

Figure 1: Average Gross TM Fee Growth By Quartile, 2Q22



Source: Curinos CDA

inflection point because standard ECRs are starting to rise as well. Lower fee capture rates will negatively impact commercial banking performance in the near-term.

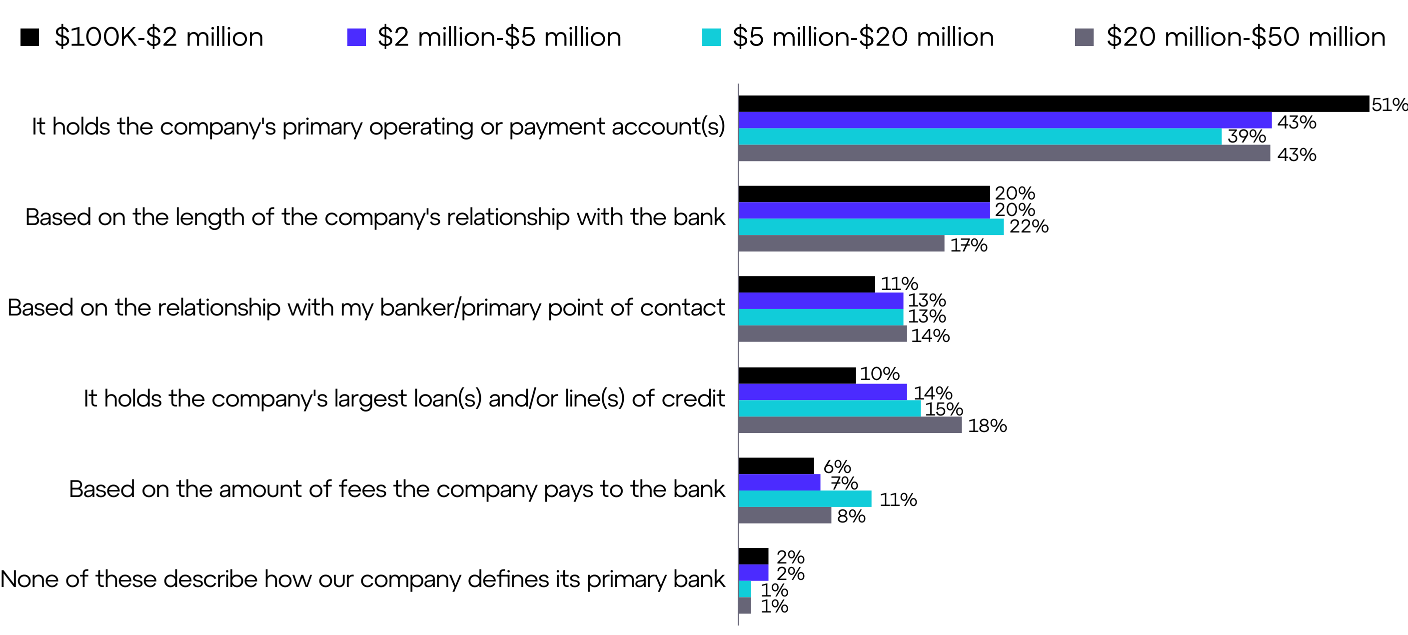
Despite these pressures, TM services are still at the center of the value exchange between banks and their commercial clients. And they will continue to be critical to commercial banking performance in this cycle. Banks that are successful in optimizing the balance between the pricing for TM services and the pricing for commercial deposit, specifically ECRs, will be able to drive value for both their clients and the institution in any rate cycle.

THE TM RELATIONSHIP

A treasury management relationship brings strategic value to commercial clients across many service lines by increasing visibility and access to cash to support operations. Effective treasury management helps to reduce short-term borrowing costs and can have a direct impact on important financial metrics like Days Sales Outstanding. Curinos believes this is why the highest portion of many companies in all revenue segments define their primary bank as the bank with the primary operating or payment account. (See Figure 2.)

Because of these dynamics, banks consider the value of treasury management relationships to go beyond just the fees that are collected. Primary treasury management relationships are a valuable source of stable, low-cost balances, which will become increasing important in the coming 12-18 months. Curinos research shows that primary relationships hold higher deposit balances, have more

Figure 2: Definition of a Company's Primary Bank



Source: Curinos CDA

Figure 3: Value of Primary Relationships

	Performance Metric	Lift from Winning a Primary Relationship	
		SMEs	MM/LC
Financials	Average Deposit Balances	14x	11.6x
	Average Loan Balances	7.1x	11.4x
Product Holdings	Average Number of Accounts	1.8x	6.3x
	Average Number of TM Services	1.5x	2.8x

Source: Curinos CDA

accounts, greater loan penetration, yield stronger credit performance and use a higher number of treasury management products. (See Figure 3.) In addition to higher balances, additional accounts and treasury management products used by a commercial client increase the complexity and cost of switching banks. As a result, treasury management relationships have a much higher tenure than other types of relationships.

COMMON MISSTEPS

Since they can be a source of such valuable balances, banks should view treasury management clients as paying for their services either through fees or with their balances. To properly align pricing to support this approach banks must:

- Position fee pricing across a full spectrum of checking packages, product bundles and account analysis to ensure that the infrastructure and controls are installed to place clients in the right pricing approach
- Structure fees so that clients are encouraged to adopt efficient, low-risk services or pay a premium for manual, paper-based or risky services
- Set ECR and TM fee pricing in tandem, so that the full set of tradeoffs are considered

While these three objectives seem simple in theory, they can become complicated in execution and misalignments often become limiting to commercial banking performance. Some common problems for banks include:

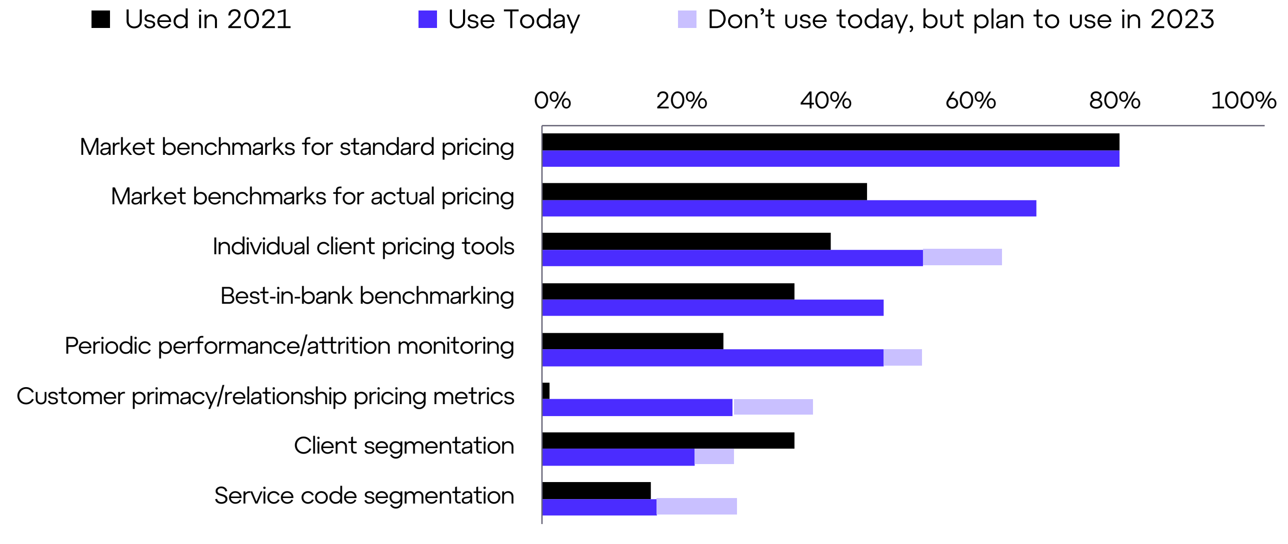
- **Arbitrage between account analysis and checking packages:** Because the pricing of small business bundles can be very attractive to clients who are large enough to have accounts on analysis, savvy clients (or even bankers) will use them as a way to arbitrage higher pricing for the same services on analysis. The opportunity cost from this can often wipe out the benefits of increased adoption from lower-end clients.
- **Over-complication in bundles:** In an effort to give lower-end clients flexibility, bundle lineups can end up being too complicated, either by having too many options or too many ancillary fees. As a result, adoption is either low or there are high levels of fee waivers to get clients to accept these bundles.
- **Misalignment of pricing to risk:** Because the clients who request complicated or customized processing are often considered to be "good" clients, they often receive deep discounts for those and other services. Some smaller banks don't even charge these clients for customized processing. While the relationship may bring valuable balances, a bank can't ensure an efficient value exchange if it doesn't fully charge for all services that it delivers.
- **Double-dipping:** TM fees and ECR pricing are often set in a vacuum, with the net result being that the bank leaves value on the table. For individual clients, this may mean they are getting both deep fee discounting and exception ECRs. At a portfolio level, this may mean a bank pursues a premium ECR strategy but it's not charging the full array of fees at the right levels to ensure it will capture the optimal level of balances it is seeking.

A THREE-PRONGED STRATEGY

The path to optimally-balanced pricing between TM and ECR is three-pronged.

First, better data, tools and processes will bring more visibility and reduce sub-optimal decision-making that occurs when there isn't a full view of relationship and service value. We have seen banks make marked progress in this area this year. Indeed, the number of banks that use or intend to use client scoring

Figure 4: Pricing Tools Used in 2021, 2022 or Planned for 2023



Source: Curinos CDA

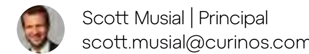
or service segmentation has jumped between 2021 and 2022. (See Figure 4.)

Second, governance can be made strong to inextricably link ECR and fee decisions. This includes putting in the controls and policies to ensure that analysis clients don't have access to small business packages to arbitrage portions of their analysis relationship.

Finally, further instituting primacy scoring into everyday decision-making is critical. Every pricing decision from individual clients to entire portfolios should be made in context of the opportunity to grow primacy.

Developing this level of pricing discipline across TM and ECRs will benefit commercial banks, not only in the current rising-rate cycle, but it also will prepare the institution to optimize value in all cycles. Banks currently have an opportunity to re-baseline TM fees as rates rise and clients will see relative decreases in their hard-dollar fees. The increases that come from enhanced decision-making and governance will also help lock down balances that are at risk of rotating away from DDA accounts as rates rise.

When rates fall again, these approaches will position the bank to collect more fees. A more rounded and coordinated approach to TM fee and ECR pricing will benefit the bank in all cycles and environments.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Unsecured Segment Drives Surge in Small-Business Loans

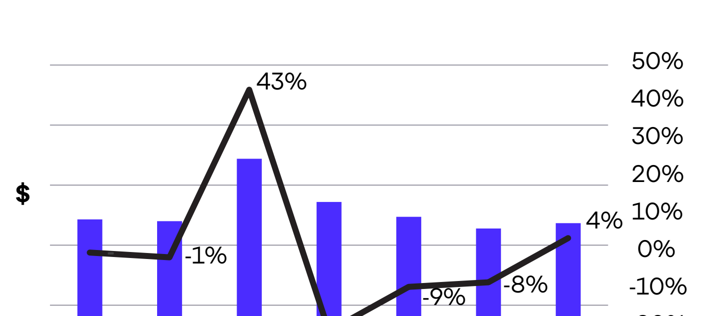
Demand and originations for small-business loans and lines of credit have ebbed and flowed, but were on an upward trajectory this summer. Unsecured lines of credit are the primary drivers of the year-over-year increase, driving 72% of the increase in demand and 35% of the increase in originations.

For more information, watch the replay of our Aug. 30 webinar, "What's the 'Biz' in Small Business?"

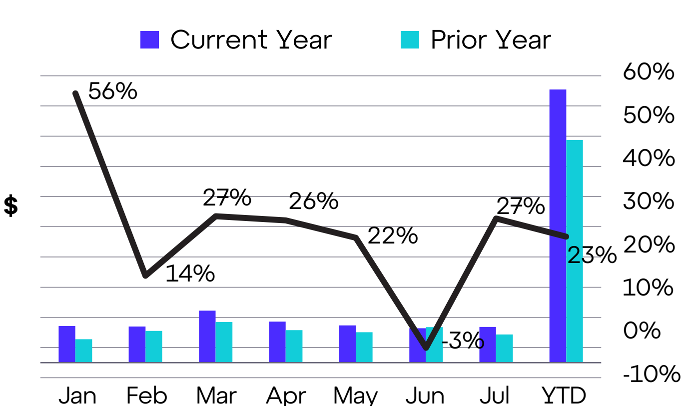
Join our session at the **American Banker Small Biz Banking Conference in Nashville, TN on Oct. 3.**

Demand for Small-Business Loans and Lines of Credit ($)

2022 Monthly Trend

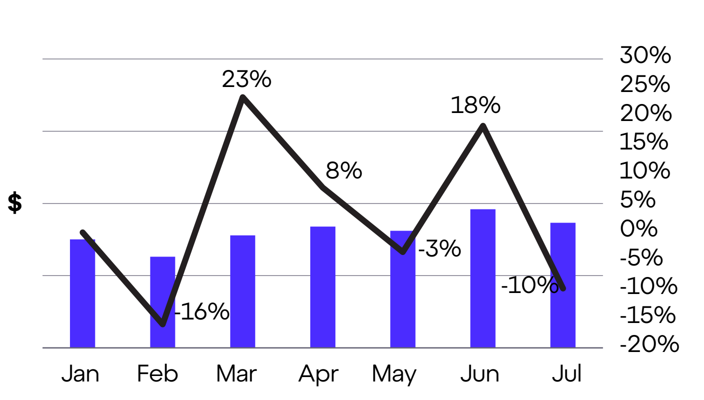


2022 Monthly Trend vs Prior Year

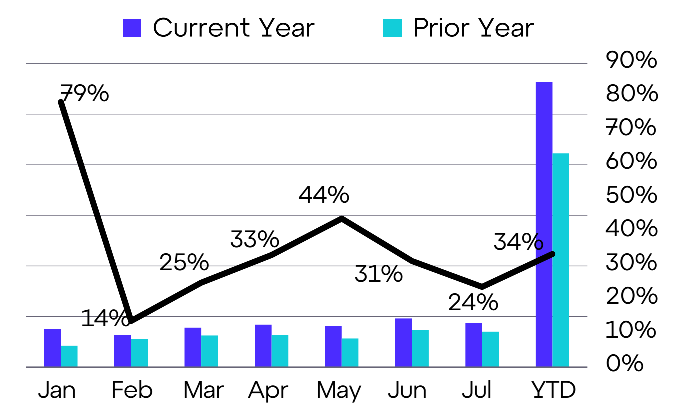


Originations for Small-Business Loans and Lines of Credit ($)

2022 Monthly Trend



2022 Monthly Trend vs Prior Year



Growth by Product	Demand	Originations
Total Markets	100%	100%
Loan	-2%	35%
Secured	-19%	27%
Unsecured	17%	8%
Line of Credit	102%	65%
Secured	30%	30%
Unsecured	72%	35%

Drivers of demand by sector and geography

Sector Mix – Demand $ Variance vs Prior Year

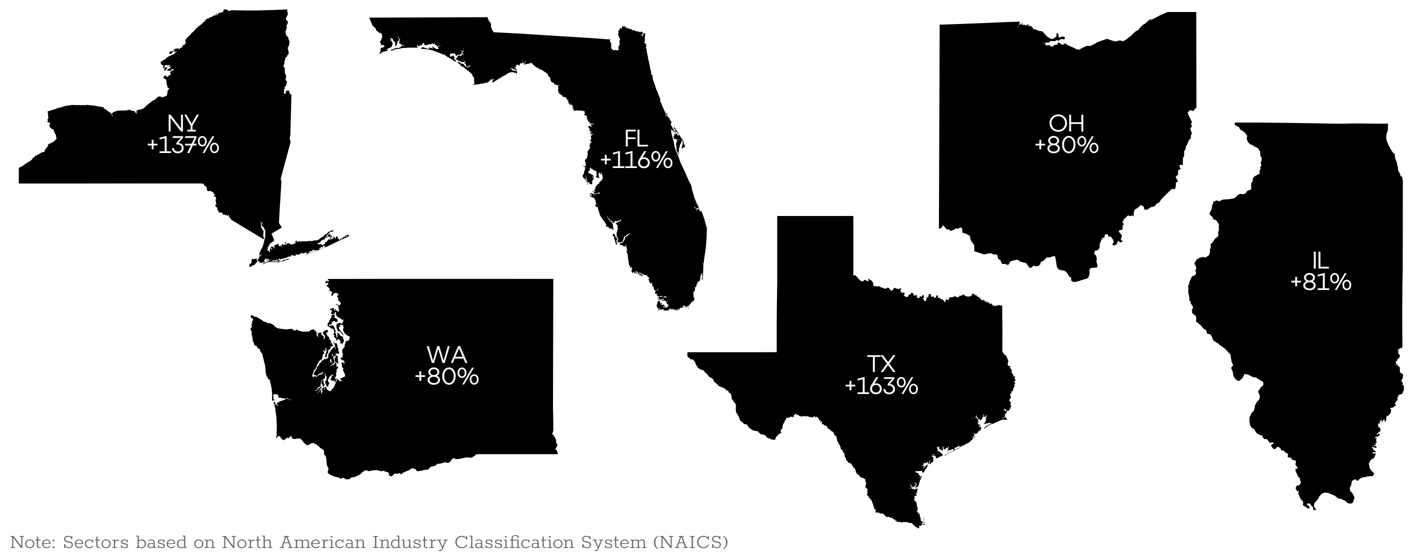
Top 5 Increases

NAICS Sector	2022	2021	Variance
Other Services (except Public Administration)	8.32%	7.49%	0.83%
Accommodation and Food Services	4.20%	3.65%	0.55%
Transportation and Warehousing	11.39%	10.87%	0.52%
Administrative, Support and Waste Mgmt	4.83%	4.49%	0.34%
Arts, Entertainment and Recreation	1.87%	1.59%	0.28%

Top 5 Decreases

NAICS Sector	2022	2021	Variance
Real Estate and Rental and Leasing	9.58%	9.82%	-0.25%
Wholesale Trade	4.79%	5.15%	-0.36%
Finance and Insurance	2.19%	2.56%	-0.38%
Construction	16.31%	16.74%	-0.43%
Retail Trade	8.95%	9.52%	-0.57%

Geography (State) – Demand $ Variance vs Prior Year



Note: Sectors based on North American Industry Classification System (NAICS)
Source: LendersBenchmark for Small Business Lending Originations. Data as of 7/31/22.

The Big Opportunities in Serving Small Business

By Olivia Lui and Rory Pennington

Financial institutions are finally starting to take small-business customers seriously. Their historical preference for branches and larger financial wallets makes the segment a key battleground for the regional banks. And there are significant needs to serve these clients as they embrace a more digital world.

Historically, many banks tended to consider small-business clients as a subset of their consumer customers, with little attention paid to what owners and entrepreneurs actually need from a financial institution. That is starting to change, partly spurred by the wave of new entrants zeroing in on the segment and the opportunities that digital channels create.

There is a long way to go. Curinos sees four key areas of digital improvements that can make a difference in the small-business efforts: International capabilities, speed of lending, onboarding and digital engagement.

DIGITAL PROGRESS TO DATE

To be sure, progress is being made in the way that banks interact digitally with small-business clients. Platform design has been a key area of focus, with efforts being made to improve the delivery of information and create a simple customer journey.

There has been an influx of dashboards that easily and clearly show insights from account or transaction feeds on one interface. Similar with retail customers, the small-business account holder can see accounts and balances, transaction fees and spending data. Providers are also improving the look of the interface, introducing merchant logos and colors that discern between incoming and outgoing transactions.

Functionality has also been a recent area of significant change. Small-business customers can often now categorize each transaction into spending buckets. Banks are also creating receipt management and capture tools to identify individual line items that can be separated by personal or business transactions. And payments are becoming more sophisticated so that a client can easily assess payment options (and associated fees) and identify if the payment is going to a business or a user.

Like with retail customers, banks are also synchronizing digital and branch channels so that the small-business customers can book branch appointments on the mobile app or web platform. The more advanced institutions are also helping customers discern whether their need can be met online or whether it needs to be solved in a branch.

But despite the progress, small-business customers still have many unmet needs that banks can capitalize on to gain advantage. (See Figure 1.)

INTERNATIONAL BUSINESS

Even the smallest of small-business customers in today's world have international customers and vendors, especially those that are engaged in e-commerce. As a result, they have increasingly complex international cash flows that may require products and services that historically have only been available for larger clients. They may need flexibility in payment and checkout options, especially in local currencies so that they remain competitive. They may also need to pay suppliers in advance and in their preferred currency, which may require faster payment processing. This may require multiple currency accounts for cross-border transactions, leading to a bigger need for cash flow forecasting.

While this may seem obvious, many traditional providers haven't addressed these needs, opening the door to fintechs. And the small businesses, which may benefit from basic foreign-exchange derivatives, aren't waiting around for traditional banks to catch up.

LIQUIDITY

Rising rates and economic uncertainty mean that small-business clients may not have a long lens into their liquidity needs. They may need liquidity quickly to take advantage of a sudden expansion opportunity or support the balance sheet in the event of an unexpected cash crunch. In both cases, they may be willing to pay a slightly higher interest rate in exchange for that quick access to liquidity.

Banks have a much broader set of data on these customers than specialty lenders. Transactional deposit data is a solid indicator of the future health of a business and can help banks determine which customers to target and what type of lending support they might need. Does the data indicate a potential cash flow crunch or shortfall? Can the bank offer them a proactive solution — maybe before the client even realizes that it will be needed? Deposit behavior and transaction behavior can also be critical when a financial provider assesses its own credit buy box.

Fintechs often have partial views of this data, but banks often lag fintechs in delivering on small business needs. As with other customers, small-business clients will remember which institution was there to help them in tough times.

ONBOARDING

Onboarding is low-hanging fruit when it comes to small business. As in the consumer arena, there is a difference in account quality (and funding) for accounts that are opened digitally versus in a branch. And it's a massive gap — as much as 70% for some institutions. This is yet another area where fintechs and other new entrants are making progress.

Banks need to remember that small-business customers are coming to the institution with a need, but they may not know what the best product is to meet that need. Account-selection tools can help the business owner navigate the choices by inputting key features about the business, which helps funnel them into the application stage.

Other opportunities to improve the onboarding experience include the ability to upload business documents and do what is needed to set up the account. Banks can pull customers into the process by helping them to assess their needs. Does the business need employee cards? Who has permission to access the account? Does the client immediately need the ability to make instant transfers and virtual cards? The trick is to engage the customer immediately so that they are already using the account by the time the physical card arrives.

DIGITAL ENGAGEMENT

Communication and engagement often tend to drop off once the account is funded. It is up to the provider to convince the small-business customers to get on the platform and use the digital solutions and services.

Like all customers, small-business clients need support. And that support should be available online as much as it is available in the branch. Today, there's often no real-time support available for users. There may be a phone number to call or some tips that might vaguely address a question. But actual real-time support where the small business can connect to a bank representative is often lacking. Indeed, many typical issues — especially when it comes to online verification — push the customer offline and into a branch. Does that really help a customer?

It is essential to engage the small-business customer from the start. Speak their language. Seek feedback. What are their common problems and what tools do you offer that address them? They don't all have the same problems, so look at their behavior and then show them that you have the tools to help with budgets, spending and cash flow predictions.

Banks are finally considering small-business customers as a truly separate group, but the progress seen so far is really just the tip of the iceberg. Small-business customers want and need help. It is only natural that their financial institution provides it. After all, establishing a deep relationship will pay off as the business grows. ■

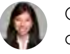

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Figure 1: Services Provided to Small Businesses

Banks provide comprehensive digital servicing · Banks provide partial digital servicing · Banks provide limited/no digital servicing

Start-up	Growth	Management	Future
Product access	Manage reconciliations	Proactive and real time data	Future budget and strategy
Sustainable cashflow	Invoicing and payment tracking	Delegation of finances	Marketing budget
Payroll and benefits	Track and manage cashflow	Expense reporting	M&A and partnerships
Financial support	Financial support	HR	Succession planning
Personal asset protection	Payroll and benefits	CRM	International services
Marketing and brand building	Marketing	Savings and investments	Financial support
Tax management	Expense reporting	Merchant services	
Product launch	Product diversification	Payroll and benefits	
Advice and support	Credit scoring	International services	
Insurance	Expansion and growth	Commercial card management	
Budgeting	Recruitment		
Credit scoring			

Source: Curinos Analysis

How to Manage Wealth Customers As Rates Rise

By Adam Stockton

Wealth customers are already responding to rising rates differently than they have in previous cycles, raising the stakes for financial institutions to better understand the ways in which these valuable customers behave.

In contrast to the last rising-rate cycle in 2016-19, wealth deposits are moving quickly and with purpose. Balances are running off rapidly, affecting private bank checking, money market deposit accounts (MMDA) and cash sweep balances. (See Figure 1.) Betas are also increasing as banks try to keep deposits on balance sheets by offering competitive rates on deposit products at a time when money market mutual fund (MMMF) yields have surged past 2.00%. This behavior is in stark contrast to mass-market customers who have been slow to respond to the new environment.

As competition intensifies for wealth deposits, banks need to create more precise products aimed at these sophisticated customers. Wealth customers, perhaps because of their additional investment options, tend to have different needs than mass-market consumers and often very different degrees of elasticity. Understanding the complicated needs of wealth customers creates opportunities for properly priced and appropriate value propositions that can retain customers without resorting to blanket rate offerings.

TRACKING RATES CLOSELY

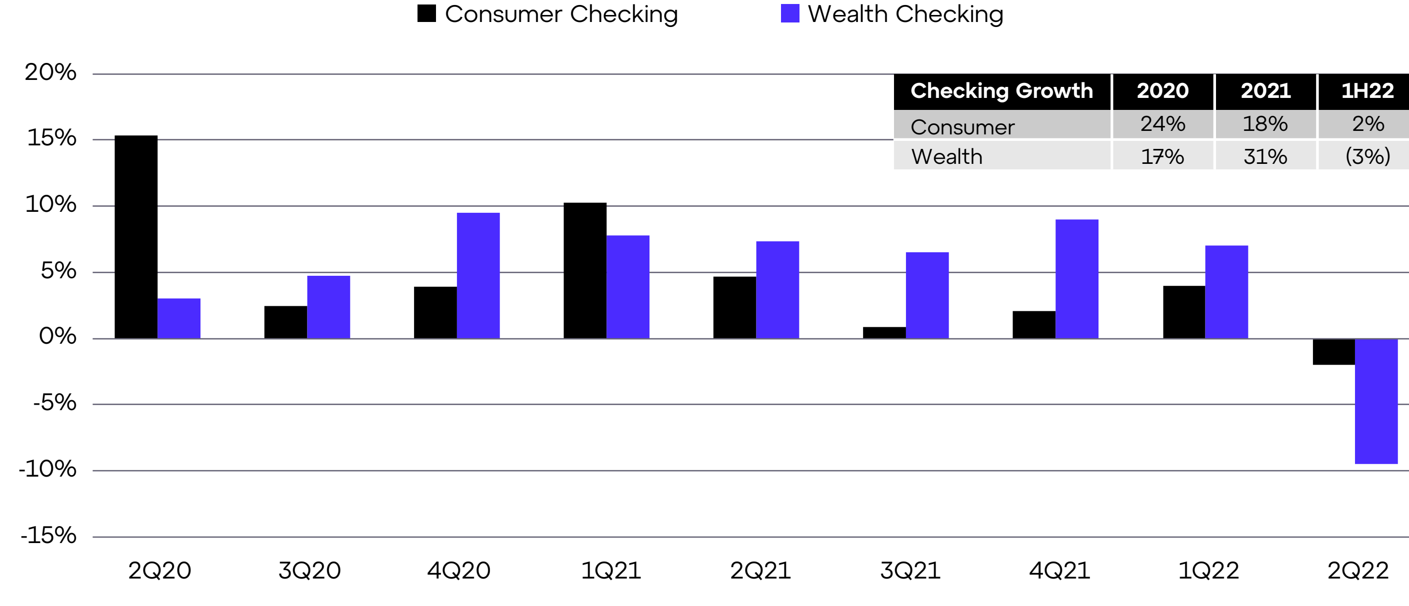
While the average retail customer likely isn't closely attuned to actions taken by central banks, wealthier depositors — or specifically, their financial advisors — pay much closer attention. As the Federal Reserve increased the target for the Federal Funds rate by 2.00% over four months earlier this year, for example, sophisticated depositors expected the higher yield to be passed along for their benefit. As with commercial customers, a financial professional can identify meaningful yield on the cash portion of the portfolio — providing them an easy, value-added win with their wealth customers. If a bank or brokerage won't pay the rate on a deposit, the yield can be found elsewhere.

This rate cycle is very different than the last. The lag in rate increases for wealth customers was more pronounced at the start of the last cycle, both because of the slow pace of Fed movements and also because of the nearly 10-year low-rate environment that preceded it. For a long period of time, investors didn't think of the cash portion of their wallet as providing yield. This cycle has seen near historical rapid rate increases. The opportunity to reclaim yield is top of mind, especially with inflation and market volatility putting pressure on returns elsewhere.

NEEDS CATEGORIES FOR CASH

Curinos has previously examined the ways in which consumers segregate their cash based on needs of "today," "tomorrow" and "someday." Consumers held cash for monthly use ("today"), as a cushion for potential near term demands or needs ("tomorrow") and for longer term security and retirement ("someday"). The longer term the need, the more elastic the price. When rates were low for a long period of time after the global financial crisis, these needs were largely bucketed together and forgotten about. With yields often under 0.10%, there was little imperative to seek returns. Therefore, many

Figure 1: Checking Growth by Quarter by Segment



Checking Growth	2020	2021	1H22
Consumer	24%	18%	2%
Wealth	17%	31%	(3%)

Source: Curinos Consumer CDA, Curinos Wealth CDA

investors allowed significant portions of their cash to co-mingle in a small number of accounts. These accounts often served multiple purposes, with typically rate-sensitive "tomorrow" and "someday" money sitting in checking and sweep accounts because yield-bearing alternatives didn't offer a rate advantage. (See Figure 2.) As rates rise, the naturally rate-sensitive portions of cash in these pools are migrating to products that offer a more attractive rate.

The undoing of this co-mingling of cash began in the prior rate environment, but never finished. With the Fed reducing rates in 2019 even before the pandemic took hold, yields reached sufficient levels to drive significant shifts in balances. But checking and cash balances remain elevated in many accounts. These shifts are beginning more rapidly in this cycle, continuing to undo the co-mingling.

DECIDING WHEN TO RAISE RATES

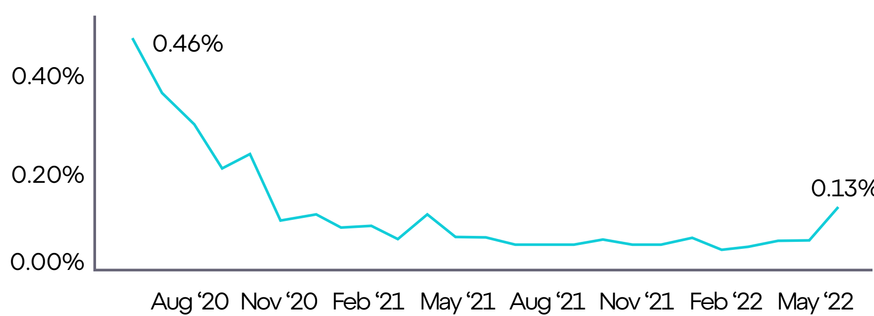
Even with the pressures and faster pace of rate hikes, why are some institutions moving far more rapidly and aggres-

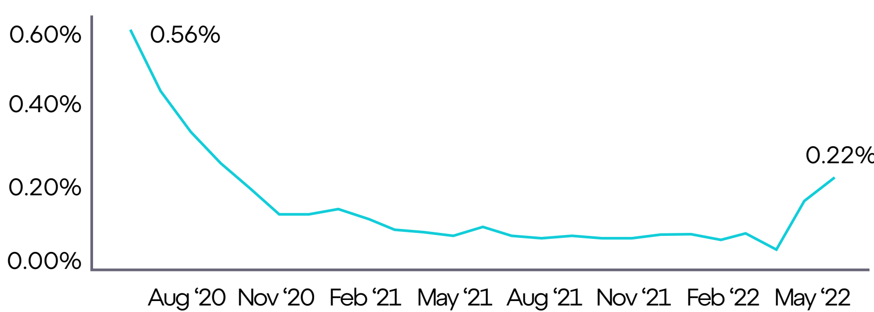
Figure 2: Three Distinct Pools of Cash

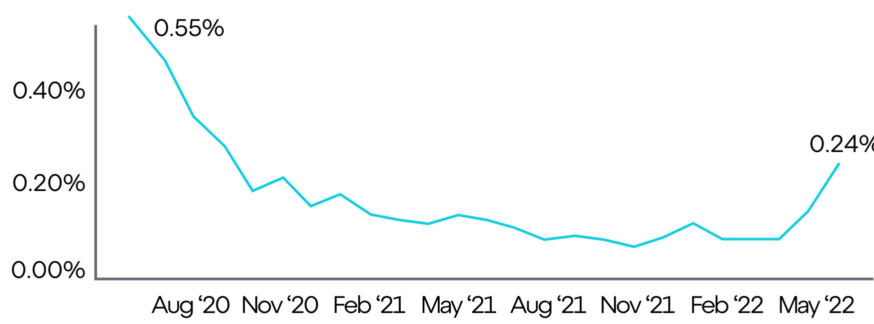
	Today Money	Tomorrow Money	Someday Money
Cash Pool	Funds intended to be used in the immediate term, e.g. spending, near-term investment *Not rate sensitive — purpose-driven cash is convenience rather than rate-oriented*	Funds intended for a specific medium-term purpose, e.g. vacation, education, home repair or vehicle purpose *Moderately rate sensitive — access to funds remains key; typically adjacent to Today Money*	Cash portion of investments looking for stability, low risk but meant as part of long-term investment portfolio *Significantly rate sensitive — no need for near-term access, drives portfolio-level returns*
Most Common Vehicles — Low-Rate Environment	• Checking — balance cushion for expected and likely month-to-month expenses • Sweep — investments sold but intended to be reinvested in the short-term	• Checking — average balances increased with little incentive to open savings account • Sweep — investments sold to time the market would sit rather than shift to lower-risk categories without meaningful yield	• Sweep — Rebalancing kept cash balances stable as a portion of portfolio, but may not have actively reinvested given low/zero yields elsewhere
Most Common Vehicles — High-Rate Environment	• Same categories — these pools are long-term stable	Yield-bearing, zero- (or near-zero) risk alternatives with easy accessibility • Savings/MMDA • Investment Savings • MMMF • Short-term CDs	Higher-yield alternatives with low risk, potentially trading off access • CDs and Brokered CDs • MMMF • Bonds • T-Bills

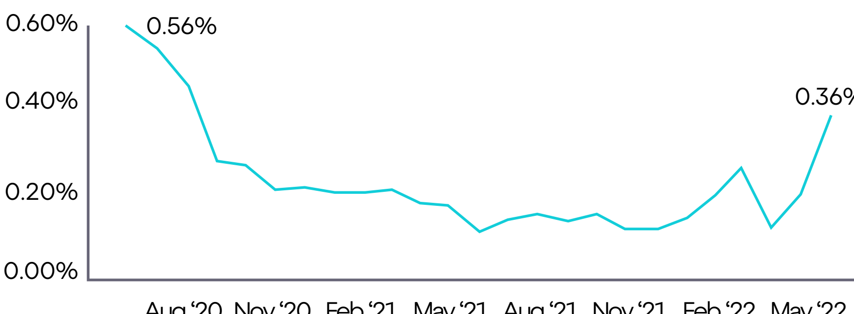
Source: Curinos Analysis

Figure 3: Wealth Acquisition Rates | June '20–June '22









Source: Curinos Wealth CDA Industry Report

sively than in the past? Competitive dynamics and behavioral economics allow for some advantages of moving earlier rather than later. (See Figure 3.)

With the Fed widely forecast to increase rates above 3.50% by the end of 2022, the rate required to dislodge an ultimately rate-seeking deposit is lower now than it will be later. Even a rate in excess of the Fed Funds target and MMMF yields will return to profitability later in the cycle, assuming the Fed continues its upward momentum. This may also allow institutions to retain the rate-seeking portion of cash in deposits rather than allowing them to escape to off-balance sheet fixed income. And it allows for a leg up, even over other deposit-taking competitors.

Additionally, retaining deposits is nearly always less expensive than re-acquiring deposits later in the cycle. In order to dislodge a customer who has moved to MMMF or brokered CDs, that customer will require a rate in excess of those alternatives and a promise to keep pace with near-100% beta instruments.

With rates moving rapidly, many institutions have seen the writing on the wall and are incentivizing customers to move. If a pool of cash will ultimately be rate-seeking, does your institution prefer to keep the cash on balance sheet even if it means an 80%+ beta? Or do liquidity levels allow for rate-seeking funds to move off balance sheet to MMMF or other fixed income alternatives, leaving a smaller pool of deposits, but one that is more stable and at a lower beta?

Either way, understanding the magnitude of competitive behaviors and balance dynamics across the industry is critical, as is an understanding of the trade-offs between acting early and late — and where the cash may end up. Decisions made now will have long-lasting echoes. ■

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What's Next in the **Home Equity Comeback?**

By Ken Flaherty

This year's resurgence of home equity shows no signs of abating as mortgage rates continue to climb. Total originations are up close to 50% year-over-year and the outlook so far is positive for 2023.

U.S. lenders are stepping up to meet the demand. The latest Curinos data show that cycle times (the point from application to disbursement of funds) now average 58 days, down from a peak of 80 days in January. That's good news for customers who are eager to pull equity from their homes for improvements and large purchases.

Home equity lenders should expect the resurgence to continue amid strong consumer spending, positive momentum in home prices and expectations that 30-year mortgage rates will remain above the 4.5% mark throughout 2023.

And there's a new wrinkle: the St. Louis Fed recently reported that the U.S. personal savings rate now stands at a 13-year low of 5.0% due to declining levels of disposable income for consumers. That could mean people who feel financially strapped may decide to tap into equity, further boosting usage.

Curinos recently outlined the opportunities for lenders during this home equity boom, but now it's time to dig into ways that lenders can optimize the value of the portfolio.

TARGET HIGH-VALUE RELATIONSHIP CUSTOMERS

We previously discussed the need to enhance front-line sales strategies that target day-one balance growth. We also examined utilization strategies to help drive net interest income. These tactics focus on product profitability. Depending on how a bank manages profitability, these strategies are highly appropriate.

There are opportunities, however, to create even higher-performing portfolios by focusing on a customer's total relationship that takes all variables into consideration, including risk balancing, utilization expectancy and net interest margin. This is particularly relevant because most home equity customers often already have a relationship with the bank. These variables can be, and often are, leveraged independently by lenders. The process of identifying a target customer who checks all the boxes can help the entire organization achieve higher lifetime value, not just certain segments.

Figure 1: 2021-22 Vintage: Origination Distribution

Customer Lifetime Value (CLV)	FICO Score 800+	740–799	700–739	680–699	<680
<=60	20.54%	14.37%	3.60%	0.82%	0.45%
>60 & <= 70	8.39%	6.59%	1.76%	0.38%	0.22%
>70 & <= 80	14.82%	13.09%	3.53%	0.66%	0.35%
> 80	4.32%	4.47%	1.33%	0.22%	0.09%

Source: Curinos consortium data

ALIGN RISK AND REWARD

The basic fact is that everyone targets the most creditworthy customers, but there is value in expanding the buy box by using relationship data analytics to assess potential customers. There's no question that lenders understand the risks associated with home lending. Most lenders incorporate basic risk-based pricing and risk tolerance within their origination strategies at the forefront to help mitigate their overall exposure to higher delinquencies and losses. Identifying the desired reward or outcome, however, can help establish the risk tolerance needed to achieve the desired outcome. For example, every lender's goal is to minimize high delinquency rates, combined with optimal balance and utilization percentages. But most lenders focus their origination strategies on super-prime, high-credit customers, which results in sub-optimal portfolio utilization. (See Figure 1.) In fact, super-prime credit customers tend to have the lowest utilization levels in the portfolio. A more balanced risk segmentation will allow lenders to retain their overall risk tolerance, while also attracting a more diverse customer base that allows for higher-balance and utilization segments that ultimately help achieve the expected reward.

SET APPROPRIATE LIMITS FOR BORROWERS

We previously discussed how sales strategies that focus on extending high credit lines (even if the borrower doesn't need it) tend to result in low utilization and higher capital expense costs for lenders. (See Figure 2.) More than 80% of open HELOCs sitting in portfolios have a line size that excessively exceeds the borrower's actual drawn balance. Although this may drive short-term origination growth, it creates expense challenges from capital charges on the unused portion of the borrower's credit-line, not to mention sub-optimal utilization performance across the entire portfolio.

Traditional lenders may want to take a page from the fintech playbook, where new players are once again stepping up to address a longstanding industry challenge. Many fintechs that are relatively new to home equity are offering borrowers a conventional HELOC product that requires a fully-funded draw at the time of closing, mirroring the repayment qualities of a home equity installment loan. This new approach helps lenders eliminate unnecessary and excessive credit lines, while minimizing the impact of capital charges on unused line amounts.

PRIORITIZE THE PIPELINE

Home equity operations are a touchy subject among lenders. While the industry has improved cycle times by more than 10 calendar days in 2022, total cycle times still hover above 60 days at many lenders. One way in which lenders can gain some efficiencies in the origination processes is to prioritize the active home equity application pipeline based upon customer retention and likelihood to draw. One such example is applicants who have a high propensity or known need to take an immediate draw for a debt payoff or consolidation. It may make sense to move these customers to the front of the line, ahead of others who may have less of an immediate need. Similarly, a decision to streamline a relationship customer's refinance application should be deemed as a means of retention strategy while also prioritizing and optimizing the pipeline.

Figure 2: Despite its resurgence, home equity still creates challenges for lenders.

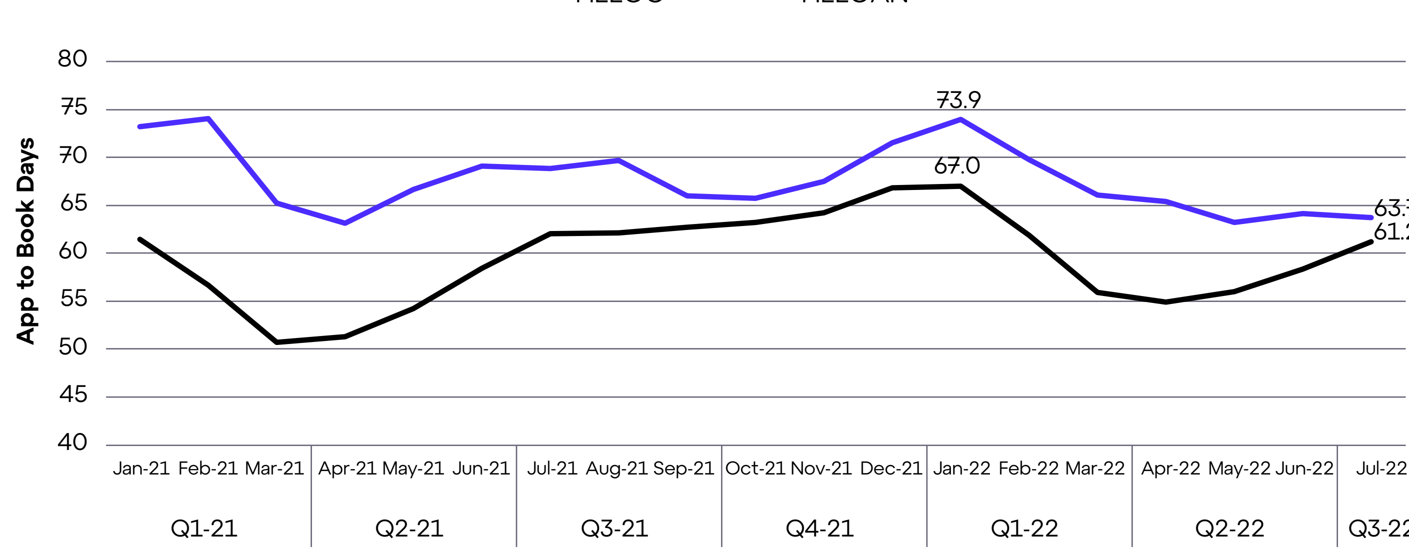
Commitment Size Range	$0–$50k		>$50k	
Balance Ranges	22.0%		78.0%	% units in portfolio
	$0 Bal	$10k–$50k	>$50k	
	37.0%	33.7%	29.3%	% units in portfolio
	70.7			

THE CHALLENGES:

- More than 70% of all open HELOCs have an active balance of less than $50k
- Only 22% of open HELOCs have a credit line of $50k or less
- More than one-third of open HELOCs have a $0 balance

Source: Curinos consortium data

Figure 3: Home Equity Cycle Times



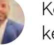
Source: Curinos consortium data

STRATEGIC PORTFOLIO MANAGEMENT

The importance of sound portfolio management can't be underestimated. While day-one utilization performance is key for today's origination strategies, a simple yet proven strategy to stimulate utilization on existing portfolios is through balance-build campaigns. For many lenders, these are simply reminders to non- or under-utilized HELOC customers that they have a credit line available for an immediate draw. Some lenders will even go as far as sending immediate access checks to existing HELOC customers to help incentivize line usage. Other lenders are launching e-mail campaigns to existing HELOC customers suggesting immediate cash access through their retail online-banking portal with a cash transfer to their check or savings accounts.

And what about a personalized message that highlights the uses for the line? "We have noticed that you aren't using your home equity line. Here are some ways in which it can be used" can be an effective reminder.

The home equity market has seemingly shifted this year in a way that benefits traditional lenders, but anticipating what may be next for origination and portfolio management strategies always seems more challenging and, at times, unclear. With little sign that this resurgence will slow, it will be crucial for lenders to understand the market, target customers and set realistic financial results.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At the Podium with Curinos

We are always delighted to share our insights at industry conferences or our own events. Here is a sampling of them. Please reach out to the session leaders or *Curinos Review* Editor Robin Sidel if you missed any of these events and would like to know more about the content that was presented.

AUGUST

Rory Pennington, principal digital analyst, joined **Director Olivia Lui** on Aug. 4 to cover small business banking needs in a webinar titled "Small Business Needs Big Banking." They were joined by Matthew Acton Davis, global head of sales for Revolut. ■

Olivia Lui, director, appeared on the Curinos (F)insights podcast with host **Rutger van Faassen, head of new markets and industry ecosystems**, in August to discuss how financial services providers can manage the decline of overdraft fees. ■

Director of Consumer Lending Lindsay Burkhalter and **Rutger van Faassen, head of new markets and industry ecosystems,** hosted a webinar titled "What's the 'Biz' in Small Business Banking?" on Aug. 30. ■

SEPTEMBER

Director Olivia Lui moderated the panel "Champagne Executive Briefing: What's Next For Digital Banks?" at Finovate Fall in New York City on Sept 13. ■

Curinos Director Adam Stockton, along with guests **Vineet Singh, director, pricing at Scotiabank, and Nicole Ow, head, retail Investments at BMO Financial Group,** spoke about "Targeting products, treatments and pricing toward customer segments" in Toronto at the 8th Annual Retail Deposit Optimization and Strategic Management Conference on September 13th. ■

Pete Gilchrist, EVP, Head of Retail Deposits & Commercial Banking, and EVP Andrew Frisbee spoke about "The Outlook for Bank Deposits" at the Barclays Global Financial Services Conference on Sept. 14. ■

Director of Consumer Lending Lindsay Burkhalter spoke on a Finovate Fall panel, "Buy Now, Pay Later: A Great Product for Customers Or a Debt Trap?" on Sept. 14. ■

Directors Adam Stockton and Peter Serene discussed "Deposits Past the Tipping Point: Trends for CDA Subscribers" in a Sept. 20 webinar. ■

Director of Real Estate Lending Solutions Rich Martin spoke about "Assessing Mortgage Pricing Competitiveness" at the TMC (The Mortgage Collaborative) fall conference in Chicago on Sept. 23. ■

Managing Director Sarah Welch and Director Adam Stockton spoke about navigating the tightrope walk of the current deposit environment through dynamic marketing in a Sept. 28 webinar called "How Agile Deposit Promotions Will Help You Navigate Market Uncertainty". ■

News you may have missed

A snapshot of relevant developments in recent months

JULY

The Wall Street Journal reported the U.S. personal savings rate is down sharply as Americans who built up savings during the height of the pandemic are now dipping into their cash reserves. ■

Meta announced plans to shutter its Novi crypto digital wallet on Sept. 1. ■

Sky News reported that UK digital lender Starling withdrew its application for an Irish banking license. ■

Former executives of Stripe, SoFi and other financial-services companies launched Uprise, a financial-planning service aimed at Gen Z consumers in the U.S. The company says the service is free, but accepts "tips" from its customers. ■

GoHenry, a U.K.-based challenger bank that caters to children, announced the acquisition of Pixpay, which focuses on the same demographic in France and Spain. ■

AUGUST

Grasshopper Bank, a digital bank that serves a businesses, raised another $30.4 million of capital from investors including existing backers such as Patriot Financial Partners and Endeavour Capital Advisors. The latest round brings its total funding to $160 million. ■

In a speech at the VenCent Fintech Conference in Little Rock, Ark., Fed Governor Michelle W. Bowman said, "Failure to innovate can undermine a bank's competitiveness, posing a threat to safety and soundness just as innovating recklessly can." She also said that the Fed's real-time payment system, called FedNow, would launch in mid-2023. ■

The FDIC issued cease-and-desist letters to five firms, saying they made false representations that stated or suggested that certain cryptocurrency products or stocks in brokerage accounts were FDIC-insured. ■

In the latest tie-up between credit unions and banks, Florida-based Harvesters Credit Union agreed to buy First National Bank Northwest Florida, which is based in Panama City, for $275 million. ■

SEPTEMBER

The Office of the Comptroller of the Currency named Dr. Yue (Nina) Chen as Chief Climate Risk Officer to help develop and implement climate risk management frameworks for the federal banking system. Dr. Chen previously served as the first Executive Deputy Superintendent of the Climate Division at the New York State Department of Financial Services (DFS). ■

The Consumer Financial Protection Bureau warned that scammers are impersonating CFPB employees to defraud consumers, especially older adults. ■

Bloomberg reported that Walmart is close to launching a digital bank account. Citing people with knowledge of the matter, Bloomberg said the company will soon start offering the account to workers and some online customers as part of a test of the new service. ■

The Justice Department issued a 46-page report called" The Role Of Law Enforcement In Detecting, Investigating, And Prosecuting Criminal Activity Related To Digital Assets." The report concludes that "The emerging technologies and markets associated with the rise of digital assets have created new opportunities for criminal actors to harm individual victims, avoid regulation, evade economic sanctions, raise funds for terrorist activities, and launder ill-gotten gains." ■

A survey from WalletHub found that more than 6 in 10 Americans think the Fed isn't doing a good job and 44% say they aren't financially-prepared for a recession. ■