# Becoming a Deposit Growth Machine

How removing inefficiencies can propel institutions to growth and profitability

MANTL

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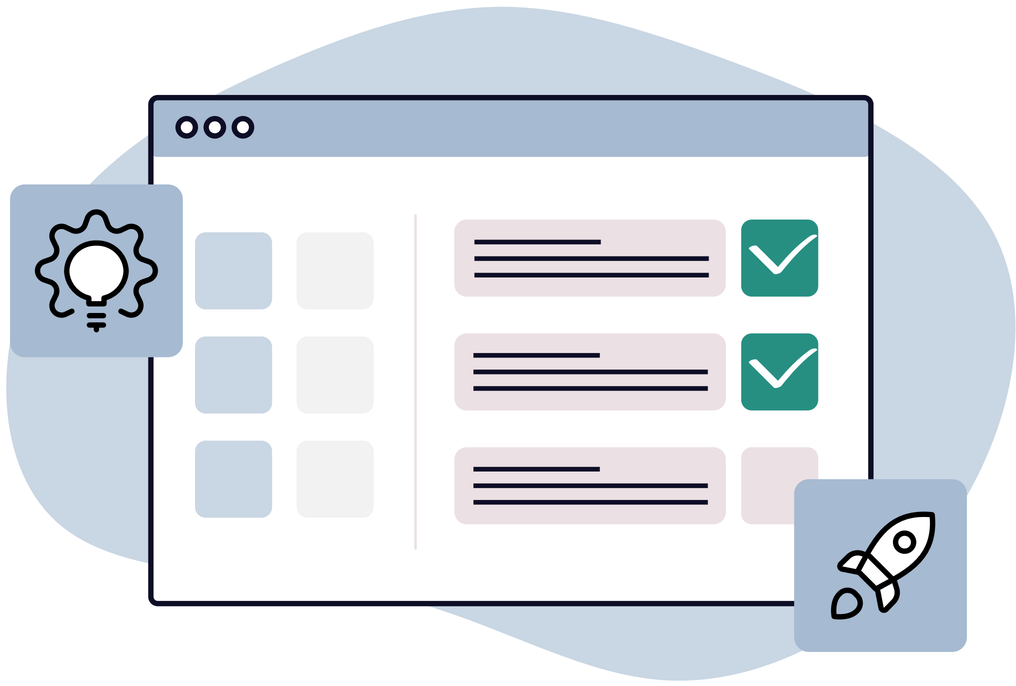
# Introduction

Inefficiency is an unusual way to lose money for banks and credit unions. It's not like loan losses, fraud, or cost of funds, where it's easy to tally up the effect on the organization's performance. Instead, the losses are expenses created by staff work – when opening new deposit accounts for example – that did not need to be completed by human hand. The waste comes from people doing the work technology should have done.

It's scale that's the problem. When an institution ramps up deposit gathering, staff cost – as well as inefficiency across the organization – soars to six or even seven figures as people move paper to its required destination. Tack on tech purchases made by the institution and it should be maddening to leaders how much they're spending without eliminating more waste.

MANTL made this guide to reveal operational inefficiency so that institutions know why it is a competitive opportunity, where they should focus within their organization, and how much they can be gained from addressing it.



# Competitive Landscape: Why Turn to Efficiency

The need to retain and grow core deposits is on every industry leader's mind. As the Federal Funds Rate increases, funding competition has begun to come home to financial institutions. Leaders are looking for ways to build resiliency in their institutions as the current rate environment strains the balance sheet.

Asset-liability management requires a delicate dance right now. Institutions want new loans booked at higher rates before they offer higher rates to depositors. Pressure, though, is mounting for higher deposit rates. Already, certain financial providers are marketing rates at around 5% for certificates of deposit, and 4% for savings accounts. While loan portfolios are still growing, institutions saw it softening in the fourth quarter, compared to the third quarter of 2022. What if deposit competition escalates even more – with inflation eating at depositor balances with each passing month – without loan growth keeping pace?

Leaders would be wise to remain wary of a checkmate in which they need to buy depositors in order to keep or attract them, especially if loan growth is not available in sufficient volume. Many now consider a second strategy to support profitability: Improved efficiency.

Since the back office is a top contributor to inefficiency, institutions now focus on account opening to reclaim operating income because its effects are so far-reaching in terms of missed relationship growth, higher branch costs, unsuccessful marketing spending, fraud, and exploding backroom hours.

Better to widen the margin between operating expense and revenue, while also maintaining net interest margin (NIM), than to focus only on NIM with no other tools to support profitability. What's more, those that eliminate friction for businesses and consumers when opening an account are the most likely to see both wider NIM and improved efficiency. They will be better at attracting funding, and better at making money with it.

Let's take a deeper look at inefficiency and how it affects institutions.

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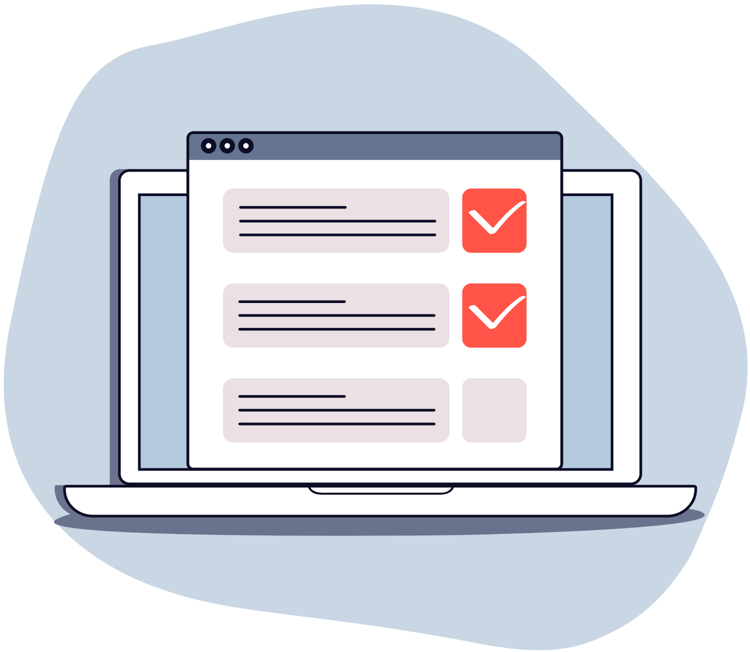
### Boom in Digital Account Opening for Businesses

The demand for digital account opening is so pervasive from businesses of all sizes that 85% percent of banks plan to deploy digital account opening for small businesses, according to research from Cornerstone Advisors.

“The plans to go digital—and fast—aren’t surprising considering the interest that banks are seeing for digital,” said Cornerstone Research Director Ron Shevlin.

For existing business customers or members, perceived levels of interest in digital account opening is just as high, Shevlin reported.



## Digital Becomes Imperative

To grow deposits, most organizations can either build more branches or promote digital account opening. While building a branch is an option on the table for some, it won’t pay off for years, if ever. The cost of a de novo location “easily ranges from $1 million to $4 million,” according to HTG Architects, a firm that designs and builds branches throughout the Midwest.

Branching is not the first-place leaders look in years where they’re watching expenses, or when they need deposits this quarter. That means **digital deposit gathering is the most viable option for reaching new consumers and businesses. It’s also what account holders prefer.** Most importantly, between 66% and 75% of small-to-medium-size businesses want digital account opening, according to Cornerstone Advisors.

But, there’s a catch. Not all digital account opening is created equal. Often institutions are losing money to inefficiency and then they’re incurring opportunity costs on top of that. Banks and credit unions need to address these challenges to raise deposits successfully. Let’s break down the four most costly consequences of inefficient account opening to look out for.

# 4 Costly Consequences of Inefficient Account Opening

1. ***Operational inefficiencies lead to poor application experience***
   For most deposit-gathering campaigns, trying and failing to provide a great digital experience is where the inefficiency problems begin.

   About **72% of industry leaders review their own account opening process as fair, poor, or very poor**, Cornerstone found in its survey of 75 executives from community-based financial institutions. In fact, leaders ranked account opening first – before external market conditions, team capacity, or marketing – as the greatest factor limiting the institution's growth.

   But how is it limiting growth? Look at it from the perspective of a new account holder. What happens when they apply online or on the app?
   About 56% of financial institutions report 60% or more of consumer deposit accounts are opened via a relationship manager. And, about 61% of institutions report 80% or more of their commercial deposit accounts are opened via a relationship manager. The majority of consumers and businesses end up at a branch. Then, since only 12% of banks and credit unions offer omnichannel account opening, branch staff can't always see the application.
   Institutions purchased technology to handle all of this, but instead, branch staff does the work – all while making potential account holders frustrated that the process wasn't really digital.

2. ***Poorly converting applications leads to wasted marketing dollars***
   Now, let's suppose the institution spent marketing dollars to get the business or consumer to apply in the first place. It takes about $10 in marketing costs to get one application, which is not at all far-fetched today when so many players compete for ads on Google and social media. But only 10% of applications become new, funded accounts, according to data gathered by MANTL.

   Leaders can apply their own math. What are you spending to get a new account at that conversion rate?

   Data gathered by MANTL shows that institutions – especially ones still depending on staff to open the mainstay of new accounts – convert just 10% of applicants into depositors. If an institution needs 100,000 applications to obtain 10,000 accounts, it needs $1 million in just marketing costs alone! If each account is funded with $100 (the typical minimum for a checking account), the institution spent $1 million in marketing to raise $1 million in deposits.

   Low conversions translate into unacceptable costs, and that's without adding on other operational costs, such as the cost of your technology and staff. Waste continues from there.

### *3. Weak controls lead to increased fraud losses and cumbersome manual review queues*

Leaders must also consider regulatory cost. Chief operating officers tell MANTL that manual account opening and review is occupying up to 60% of their team's time. Manual reviews of all new accounts are not uncommon. Using a $50,000 salary in the back-office as a benchmark, institutions lose about $250,000 annually in wasted staff effort, and that's just headcount for Anti-Money Laundering and Know Your Customer operations.

Errors increase significantly when audit teams need to work through huge inflows of new accounts, such as when an institution needs to take in 100,000 applications to acquire 10,000. Banks and credit unions find $150,000 or more in fraud – and scale only adds to this number – according to customer data gathered by MANTL.

Reviews also catch additional documentation needed from account holders, steps not completed when they were applying or when they were at the branch. These misses pile on their own cycle of waste due to additional staff time, and manual steps to back-fill documentation.

### *4. Low customer trust leads to less share of wallet*

The final blow for institutions is the experience provided consumers and businesses.

Here are the questions leaders think of when they report account opening is hampering growth:

- Can you imagine starting an online application, having a question and visiting the branch, but staff there can't see the application you started?
- Can you imagine finally getting through all that, and then a back-office audit finds the bank needs more information?
- Would you open another account with the same organization?
- If another institution offered a better rate and a working, fully-digital process, would you consider moving money there?

**Applicants who make it through all of the unpleasantness tend to deposit 13 times less than those provided a better experience.**

Paying staff to **move paper becomes more than drained profits, it hamstrings the organization's reputation by driving people away.**

We can now define what institutions must do to cut these problems out at the root.

We need the **right technology** to reduce our labor and marketing cost by X, increase our profit margins and new account openings by Y, and boost our operational efficiency by Z,

**Allan Rayson**
Chief Innovation Officer & CTO
Encore Bank

# How to be intentional about weeding out waste

Institutions that have overcome inefficiency, and achieved incredible growth, say that it was their approach to buying technology that created their success. It was not a “we need tech” approach to digital transformation.

Banks and credit unions should define tech buys based on a specific desired outcome, said Allan Rayson, Chief Innovation Officer and CTO at Encore Bank, Little Rock, Ark. The $3.5 billion bank achieved unprecedented growth in 2021 with 95% asset growth, 119% loan growth, 107% deposit growth, and 1,276 new loans worth approximately $740 million. Rayson also was named American Banker’s 2022 Digital Banker of the Year.

“We need the right technology to reduce our labor and marketing cost by X, increase our profit margins and new account openings by Y, and boost our operational efficiency by Z,” Rayson said. “At Encore Bank, we’re trying to achieve an efficiency ratio well below the industry average.”

# Digital Transformation Defined by Efficiency

Technology can overcome all of these challenges, but only if institutions use what they know about inefficiency to define the problem technology must solve. Here are each of the inefficiencies that derail profitable deposit gathering:

- Application submission rates are as low as 10%
- The majority of consumers (60%) and businesses (80%) end up going to branch staff to open their account
- When account holders change channels, staff at branch can't easily see and help with applications
- When all the deposit campaigns are complete for the year, they created massive audits volumes to the tune of $250,000 in additional staff cost per year
- People also have limited capacity for catching errors, when institutions need 100,000 applications to get 10,000 accounts, fraud becomes rampant causing losses in the range $150,000 or more
- Applicants become more reserved about adding funds to a clunky banking experience and deposit 13 times less than those provided a better experience
- The account-opening experience requires in-person visits in a process that's supposed to be digital – causing low account acquisition – most significant factor preventing growth. By targeting inefficiency with technology, institutions have found real results.

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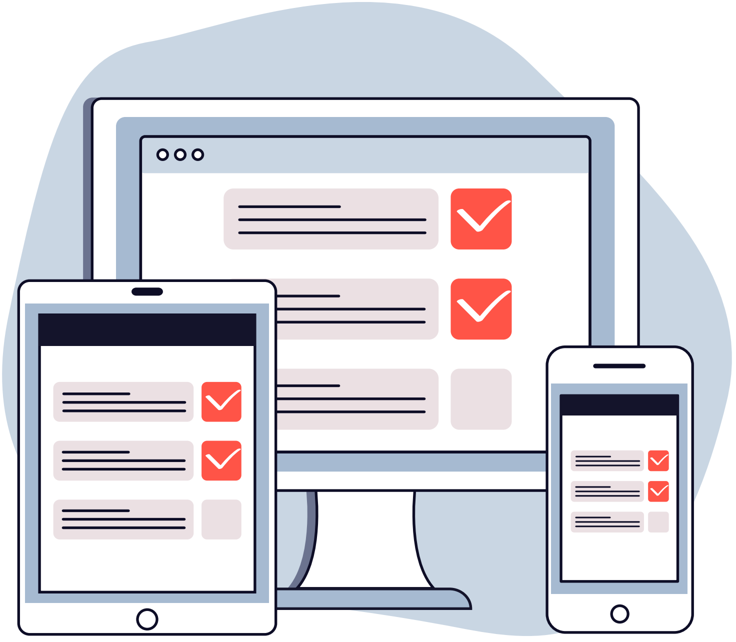
Encore Bank has zero developers on staff. "But we're an organization that's only three years old and we've grown from $120 million in assets to almost $3 billion during that short time," Rayson said. "That shouldn't be possible, but it is with the right tech partners. We probably rely on our fintech partners more than most banks — and I see that as a strength."

For Encore Bank, and many other institutions partnering with MANTL, removing inefficiencies has made the institution into a deposit growth machine.



## What you can expect from MANTL

- Average KYC/AML automation: **92%**
- Average improvement in initial account funding: **4x**
- Average improvement in application conversion rate: **3x**
- Median time to open a consumer account: **3 mins**
- Median time to open a business account: **16 mins**
- Real-time core integration for optimal back-office automation
- Omnichannel platform for easy transition between online, branches, call centers, and remote sales staff

# About MANTL

MANTL is a finance technology firm offering omnichannel account origination software for banks and credit unions. Our customers have raised billions in core deposits to date.

Consumer Deposit Origination by MANTL
is among the fastest and most performant solutions on the market, empowering net-new prospects to open accounts in under three minutes, enabling existing account holders to open additional accounts with just one click, and reducing fraud by as much as 67%.

Commercial Deposit Origination by MANTL
is a first-of-its-kind solution that reimagines account opening for businesses of all sizes by automating up to 97% of application decisions.

Founded in 2016, MANTL is a privately held company headquartered in New York with the backing of prominent venture capital investors. For more information, visit mantl.com.

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