

# Powering Profitability by Winning Core Deposits

Five key questions your financial  
institution needs to answer



## Introduction

The Spring 2023 liquidity crisis emphatically showed how vital it is for financial institutions (FIs) to win and then retain core operating account deposits. More than a year later though, this remains a struggle for banks and credit unions. Excess deposits continue to move to interest-bearing products, and \$700 billion in small and medium-sized business (SMB) deposits are projected to move from one institution to another in 2024.<sup>1</sup> Institutions that fail to execute on a strategy to win and retain core operating deposits will struggle to grow and increase profitability.

Succeeding in the battle for core deposits requires a shift in your institution's approach to winning SMB and commercial customers, from product-centric to customer-centric. Instead of putting the burden of product selection on the customer, you need to recommend the right solution, to the right individual or business, at the right time.

To do that, your institution will need to evolve your business strategies and make smart investments in technology to deliver the experience your customers expect.

Is your institution positioned to compete for those critical core deposits, or at least taking steps to do this in the near future? That depends on how you answer the five key questions posed in this paper.



QUESTION ONE:

Do we know which  
customers are  
profitable and how to  
add more like them?

# The need

Before your institution adds more core deposits, you need to figure out which types of customers are going to move your bottom line in the right direction. That means looking at your own portfolio and asking some hard questions, such as:

- Which of our customers are driving profitability, and which are not?
- How many customers are loan-only? And if they promised us deposits during deal negotiations, were those accounts ever moved over?
- What products and services are our profitable customers using and what other solutions should they be using?
- Are customers in particular industries more profitable than others?

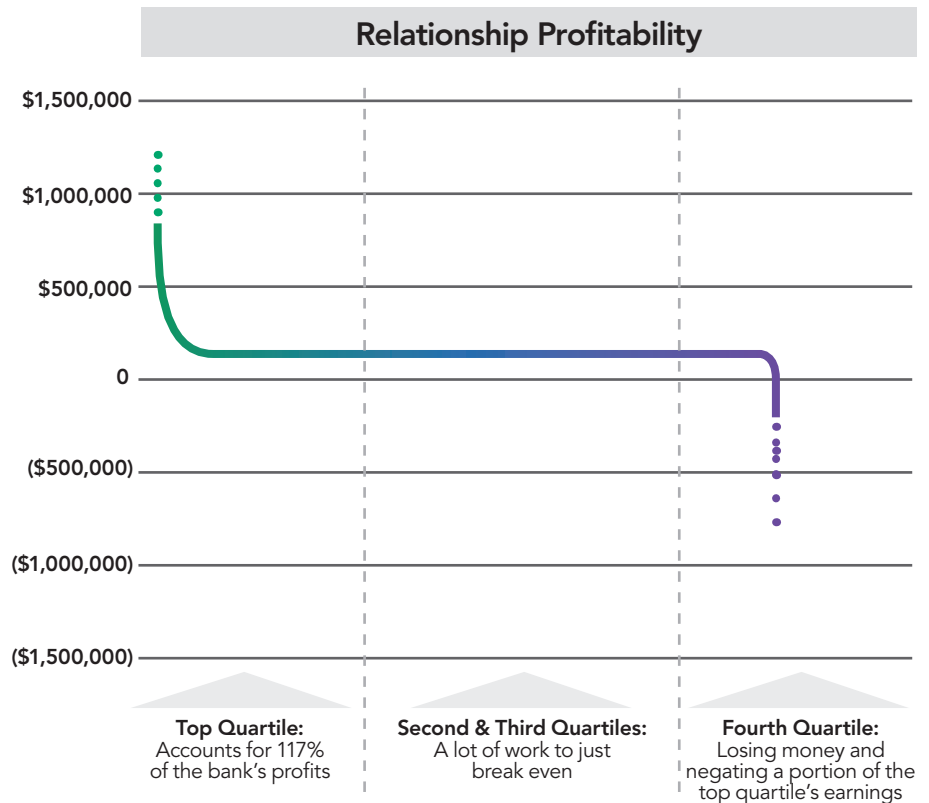
Some of those in the “unprofitable” column will be ones you’d be better off cutting ties with. But there will be others that have profitability potential—if you can give the right product offerings at the right time.

Meanwhile, the profiles of customers already in your “profitable” column can guide you to the type of new customers you want to win—and the type of offerings that will interest them.

Sounds simple enough, but the reality is that many institutions don’t have a true understanding of the profitability of each customer. As a result, their portfolios include a significant number of net negative customers that are dragging down the bottom line.

## The downward pull of unprofitable customers

When you don’t have a good grasp of customer profitability you can end up with a portfolio like the \$20 billion regional bank we profiled a few years ago, in which the top quartile of customers accounted for 117% of the bank’s profits, while the bottom 75% were a net drag on the bottom line. In fact, 46% of all the bank’s customers were unprofitable.<sup>2</sup>



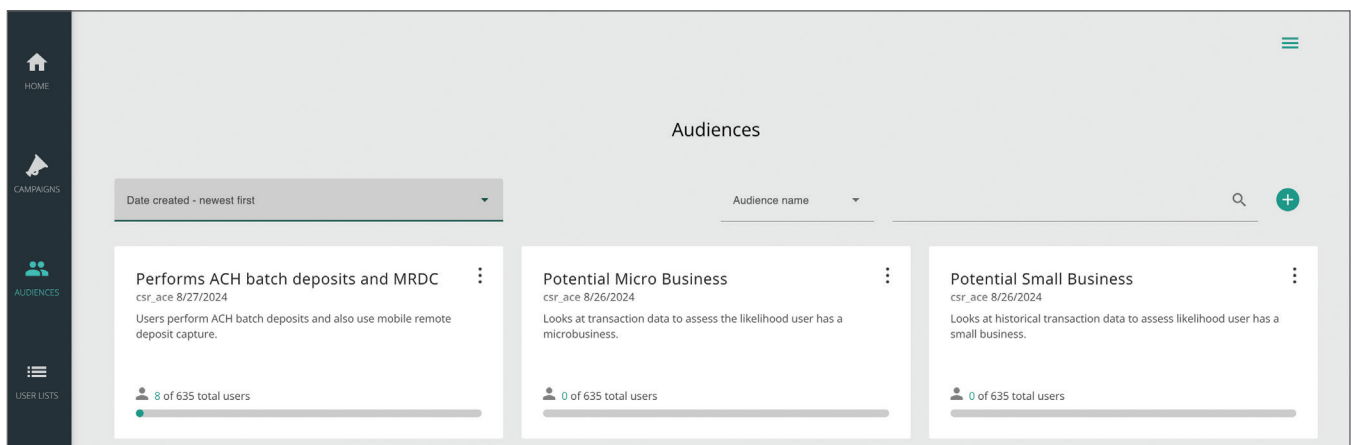
# The solution

You need tools that enable you to sift through your customer data and surface insights that will help you build out high-potential segments to target.

Knowing whether a specific business has an average deposit size of \$54,175 versus \$62,435 probably won't help. Knowing which businesses in your portfolio have average deposit sizes of over \$50,000, have business checking accounts and make more than 10 check transactions each month? Now you have an audience segment likely to be interested in a business package that includes ACH, wire, and positive pay.

Once you've identified your segments and their members, now you need to go after them with a targeted approach—spearfishing rather than casting a net.

For larger commercial customers, that may be as simple as providing your relationship managers with call lists. But for SMBs, where scale is needed, you need a "surround sound" approach to targeted outreach, from timely email campaigns to customized experiences on your digital platform, ensuring your offers can be seen and easily acted upon.



Segmentation tools can enable you to quickly create an SMB audience for targeted outreach.



QUESTION TWO:

Are we focused  
on products or  
relationships?

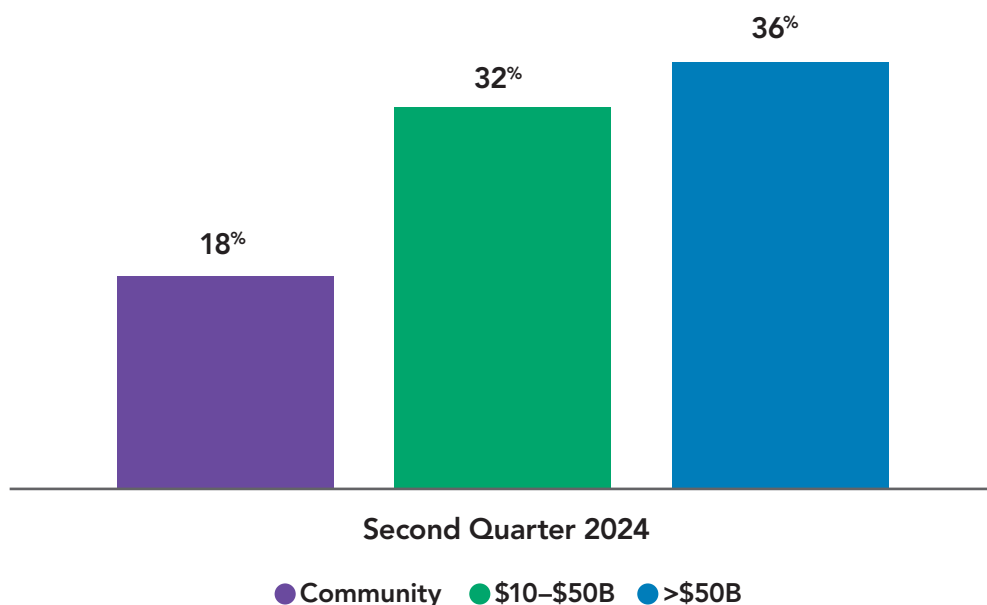
# The need

The push for deposits—as well as pressure on net interest margins—has nearly every institution we talk to declaring their intention to move away from doing loan-only commercial deals. Yet the percentage of commercial loan opportunities priced in Q2 2024 that included cross-sell of another product remained low, at 18% for community institutions, 32% for the \$10 billion to \$50 billion segment, and 36% for institutions with assets over \$50 billion.<sup>3</sup>

It's a sobering metric, but it also highlights a significant opportunity for institutions that offer value propositions compelling enough to convince customers to move over their core operating accounts. These relationships tend to have greater share of wallet, higher credit quality, higher retention rates, and greater profitability. Relationships that include credit, deposits, and treasury products have an ROE of 17.2%, compared to 11.1% for credit-only relationships.<sup>4</sup>

And if you're offering the sort of solutions that lead to commercial customers bringing over their core deposits, future deal conversations become easier, as these customers tend to be less price sensitive. Many institutions lead with a loan to win a commercial relationship and push conversations about moving over deposits and adding other treasury services down the road. But often, after giving a price break in return for the promise of future deposits, they don't take steps to ensure those deposits are eventually moved over to their institution. And because moving core operating accounts can also have a significant impact on business operations, the promised move can be significantly delayed or just never happen—leaving the institution with a loan-only deal with a below-target return.

## Approximate Percentage of Opportunities With Cross Sell



# The solution

Cross-sell that adds core operating accounts and fee-based solutions to new and existing customer deals requires deal conversations with customers that focus on the full relationship rather than individual products.

Your relationship managers need tools that help them understand those customer needs, as well as the profitability of the relationship and the impact of each pricing decision on that potential return.

Relationship managers and treasury officers also need a system for seamless collaboration on those

deals, ensuring the right products are offered at the right price, to meet your customers' needs and your profitability targets.

Finally, when customers make commitments during deals to bring over deposit accounts, you need a tracking system that ensures those promises are eventually kept, or—if delays are occurring—that you're taking steps to head off any operational barriers that might be causing the bottleneck.

Treasury Services 1

Commercial Cards

Add Services

Overview

ACH 1

Current Scenario (1 of 1):

Scenario 1

New

Manage All

EARNINGS CREDIT

Default Currency: USD

Eligible Balance

Effective Rate

Negotiated Rate

\$0.00

0%

0%

OVERVIEW

Service Group

ACH

Opportunity Subtotal

Applied Earnings Credit

Total

ACH

Edit

Service	Volume (Monthly)	Unit Price	Standard Unit Price	Variance (Annual)	Revenue (Annual)	Pre-Tax Income (Annual)
Same Day Per Item - 01141	0	\$1.25	\$1.25	0%	\$0.00	\$0.00
Total					\$0.00	\$0.00

Here are some concerns:

We recommend these product(s) to be included in your opportunity. Click here to add them in now.

Hide Message

ACH

- Per Item Fee
- Per Batch Fee
- Per Batch Fee
- Per Item Fee
- Setup Up Fee

Here are things to consider:

Generate External Treasury Services Pricing Quote

Generate Internal Treasury Services Pricing Quote

Set Services From Template

Invite an RM Partner to your deal

Ask a question

AI-powered virtual assistants can provide timely insights and advice to RMs and treasury officers as they price opportunities, and even invite them to collaborate across teams.






QUESTION THREE:

Are we meeting  
our largest  
commercial customers  
where they are?

# The need

In their quest to increase profitability through improved efficiency, many larger businesses have made significant investments in ERP solutions to improve workflows within and between departments. These businesses often have groups of employees who spend their entire day within these ERP systems—except when they have to hop over to their financial institution's system to handle payments and reconciliation. Access, security, user rights—all of those tasks have to be duplicated when the ERP is separate from the financial institution's system. That's why these businesses are pushing their financial institutions to integrate directly with their business ERP solution—to streamline access and eliminate manual processing.

The bigger the businesses, the more they prefer to manage their cash flow within their own system—enriched by direct feeds of their banking data—as opposed to accessing their financial institution's portal.

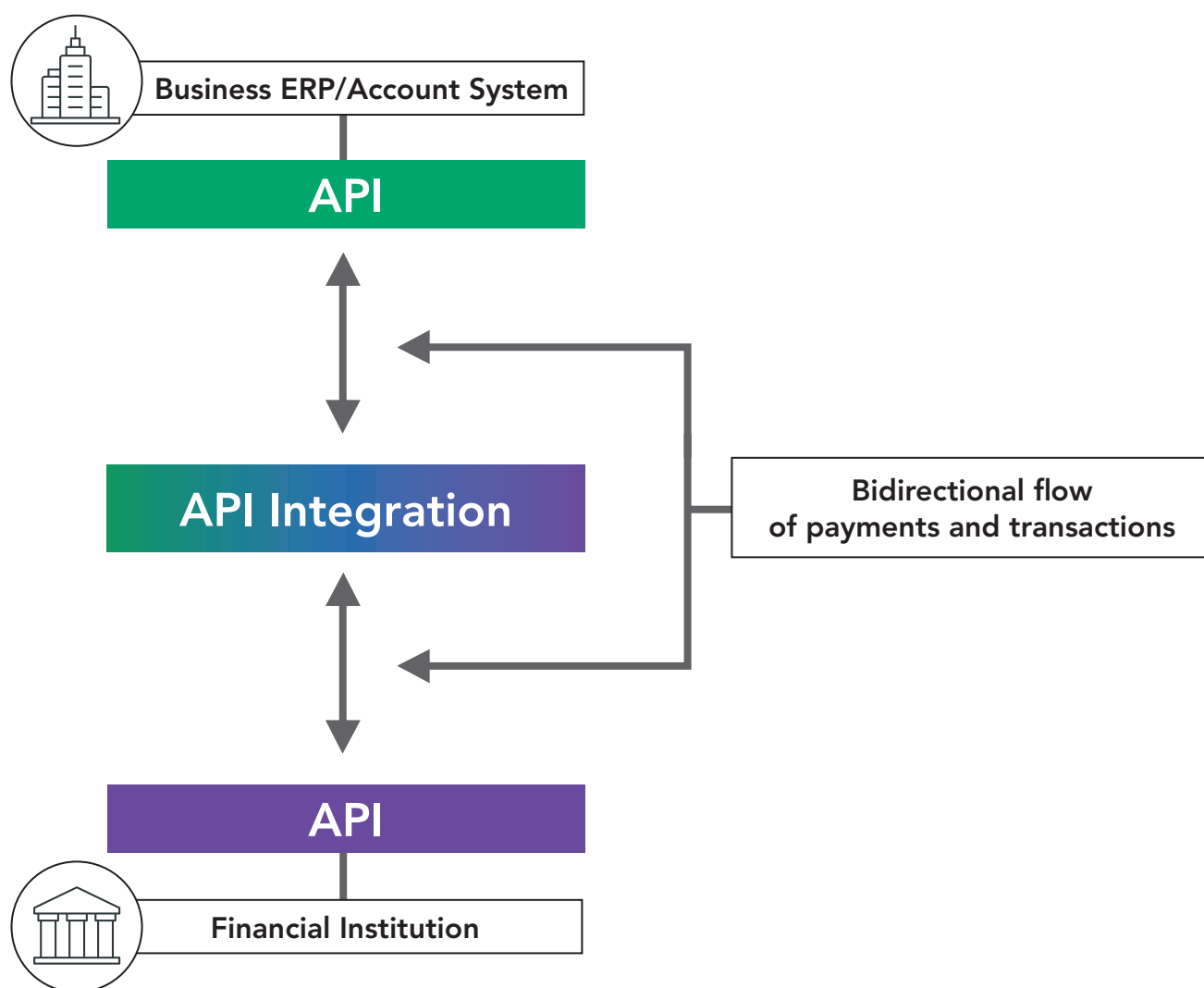


~65% of  
businesses with  
>\$250m  
in revenue prefer  
to use either  
their TMS or  
ERP system.<sup>5</sup>

# The solution

Many FIs can already accept large payment files through secure file transfer (SFTP), but businesses now expect more, especially as new instant payment solutions emerge. Large businesses want seamless, real-time integration with their financial institution, and FIs need to upgrade their technical infrastructure in response.

Your institution needs to determine where and how you can extend your technical architectures to support API integration with the dozens of different ERP solutions in the market. Whatever path you choose, direct integration with ERP solutions is becoming a must-have when competing in the large commercial segment.





QUESTION FOUR:

Do we offer the  
digital tools that  
SMBs demand?

# The need

SMBs are often treated as the anti-Goldilocks, given a false choice between retail solutions that don't meet their needs and commercial management solutions that are far more complex (and expensive) than what's required.

It's not surprising that, in a Fall 2023 McKinsey survey, 41% of SMBs said they were likely to switch their primary bank within 12 months<sup>6</sup>. Pair that statistic with Accenture's forecast that SMB banking revenue in the United States could reach \$100 billion in 2025<sup>7</sup>, and the opportunity—and massive amounts of potential deposits that will be on the move—is clear.

While financial institutions struggle with SMBs, fintechs have done a great job of understanding specific problems at specific types of businesses and offering specific solutions to those problems. SMBs have shown they're willing to pay for solutions that save them time and money and are adopting these offerings at rapid rates.

SMBs are looking for adjacent solutions that help grow their business, manage their cash flow, and improve efficiency of administrative tasks. And they say they welcome the opportunity to buy these solutions from their bank or credit union. Take, for example, merchant services, an offering that not only deepens the SMB relationship with the bank but also drives the SMB to hold higher deposit levels and transaction volumes at that bank.

A large graphic consisting of a '2' and an 'x'. The '2' is colored with a gradient from green at the top to blue at the bottom. The 'x' is colored with a gradient from blue on the left to purple on the right.

The average DDA balance for merchant services customers relative to other business bank customers.<sup>8</sup>

# The solution

To give SMBs the tailored solutions they expect, you must have a digital platform that can combine easy-to-use banking solutions with fintech solutions that solve specific needs. The platform must have the extensibility to seamlessly integrate those fintechs and the configurability to deliver these solutions within an optimal user experience.

But these capabilities won't make an impact if SMBs aren't aware of them. Banks and credit unions need tools that can leverage data to identify specific customer needs and do targeted outreach, including through their digital banking platform.

The screenshot displays the Thrive digital banking platform interface for a business user, Wendy LaLonde. The interface is organized into several key sections:

- ACCOUNTS:** Lists four accounts with their current balances and available balances:
  - LANDSCAPING ACCOUNT:** \$25,031.60 available, \$20,197.65 collected.
  - LANDSCAPING DISBURSEMENTS:** \$5,284.65 available, \$5,081.40 average collected.
  - MY CHECKING:** \$1,215.10 available.
  - PERSONAL VISA:** \$1,639.20 available, \$204.35 minimum payment due.
  - BUSINESS LINE OF CREDIT:** \$33,598.56 current balance.
- RECENT ACTIVITY:** A table showing transactions from yesterday and Monday, April 29:

Transaction	Amount	Account
AT&T Bills & Utilities	-\$70.00	My Checking
Qapital Transfer	-\$16.79	My Checking
Wholesale Lockbox Income	\$3,843.28	Landscaping Account
Kroger Groceries	-\$41.35	My Checking
ATM Deposit Check #2862	\$2,029.19	Landscaping Account
Qapital Transfer	-\$16.86	My Checking
Paid Check #28848	-\$29,123.47	Landscaping Account
- ACCEPT PAYMENTS:** Buttons for "Send an Invoice" and "Payment Link".
- YOUR CASHFLOW:** A line chart showing cash flow from March to July, with a highlighted point for May 2, 2024, at \$335,079.
- TRANSACTION APPROVALS:** A message stating "All caught up! No transaction approvals needed." with a "Go to Activity Center" link.
- BUSINESS INSIGHTS:** A section titled "Revenue appears to be trending upwards." with an "Open Insight" link.
- YOUR FINANCIAL TEAM:** A section titled "Invoices from 5 clients." with an "Open Insight" link.

A callout box at the bottom of the interface states: "Embedded apps can make it easier for SMBs to handle key activities—like sending invoices and accepting payments—within your digital banking platform."



QUESTION FIVE:

Can we win  
depositor trust  
by protecting  
them from fraud?

# The need

All that work to win customers and their core accounts can be undone if you can't protect their money. And fraud attacks are becoming more sophisticated and widespread.

The incidence of payments fraud in U.S. organizations rose to 80% in 2023, with check fraud remaining the most prevalent form, according to research by the Association of Financial Professionals.<sup>9</sup>

Meanwhile, LexisNexis Risk Solutions calculated that every dollar North American financial institutions lost to fraudsters in 2023 actually cost \$4.41 in 2023, when factoring in fines, fees, and investigation costs. And that sobering number didn't even include the cost of churn: 79% of respondents to LexisNexis' survey "acknowledged a negative impact of fraud on customer trust."<sup>10</sup>

Clearly fraud is a huge problem for financial institutions. But looked at through a different prism, it could also present an opportunity. Adoption rates for tools like positive pay are on the rise, but a 2023 Datos industry survey found that still only about 35% of financial institutions business customers are using it. That survey also found that only 31% of regional and small banks proactively sell positive pay to their commercial customers, and 30% of those institutions simply give positive pay to their customers for free. Meanwhile 61% of the customers currently getting positive pay for free said they'd be willing to pay for it!<sup>11</sup>



## Of businesses familiar with positive pay but not yet using it:

**44%** probably or definitely will consider using check positive pay in the next 18 months.

**42%** probably or definitely will consider using ACH positive pay in the next 18 months.<sup>12</sup>



# The solution

To keep fraudsters at bay, and keep customers and the core accounts intact, financial institutions need to keep up with the technology and the competition. The Jack Henry 2024 Strategy Benchmark study found that fraud is the leading technology banks and credit unions planned to invest in for this year and for 2025.<sup>13</sup> It's no wonder that Gartner projects that the Fraud Detection and Monitoring market will grow rapidly—from \$32 billion in 2022 to \$109 billion in 2030.<sup>14</sup>

Your institution's goal should be to create a multilayered approach to fraud, using a comprehensive suite of solutions, to:

- Control access via tools like multifactor authentication, password encryption, entitlement control, etc.
- Detect behavior anomalies and generate real-time alerts to prevent fraud losses (see image)

New Dispute

[Back to Transaction List](#)

Member Name:JOHN KENNEDY  
6969 REGAL AVENUE  
LINCOLN, NE 68505

Tax ID Number:\*\*\*-77-3333

Account Number:555  
Account Type:DDA  
Branch:Downtown Branch (1)

Transactions to be disputed:

Process Date	Tran Type	Card #	Amount	Description
4/19/2024	POS Debit (2)	1255	\$31.01	AMAZON PRIME Mktp US*57X6JC3

Dispute Reason:Incorrect Amount

Reason Detail

Total Days:88 (Weekend/Holiday Expiration)

Dispute Date:09/24/2024

Due Date:12/20/2024

Card Number:4334 5487 4414 1255

Disputed Amount:31.01

Dispute Description:

Notes:

Attachments:

Here's a potential concern

Documentation is required for this dispute reason. Please have the customer provide the receipt that shows the correct amount.

Warning

Supporting Document

Browse...Add

Next

Cancel

AI-powered solutions can now prompt bankers on ways to quickly resolve customer payment disputes.

# Conclusion: An Important Q&A

Technology is leveling the playing field in the battle for core deposits, making it possible for banks and credit unions of all sizes to compete. To gain an edge, your institution's business strategies must be aligned with its tech capabilities.

## **That means asking these difficult questions:**

- Do we have a segmentation strategy that identifies the right customers, and then the tools to target and win them, at scale?
- Do we have the solutions and tools our teams need to effectively cross-sell to new and existing customers?
- Can we enable our large commercial customers improve efficiency by integrating their systems with ours?
- Can we provide the digital self-serve tools that enable us to win and support SMBs at scale?
- Are we staying on the forefront of fraud prevention technology, and are our customers understanding and using the tools we provide them?

The answers you get may lead to some uncomfortable conversations and some necessary pivots in strategy and investments.

Fortunately, Q2 digital strategists have conversations like these every day with more than 250 commercial clients, ranging from smaller community institutions up to some of the largest banks in the world. Our client list includes nearly 60% of America's Best Banks and more than 40% of the Best Credit Unions, as recognized by Forbes.

We'd love to share our expertise and advice with you. Just click on this [link](#) or [scan the QR code](#) to start the conversation.



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Q2 is a financial experience company dedicated to providing digital banking and lending solutions to banks, credit unions, alternative finance, and fintech companies in the U.S. and internationally. With comprehensive end-to-end solution sets, Q2 enables its partners to provide cohesive, secure, data-driven experiences to every account holder—from consumer to small business and corporate. Headquartered in Austin, Texas, Q2 has offices worldwide and is publicly traded on the NYSE under the stock symbol QTWO. To learn more, please visit **Q2.com**.

<sup>1</sup> "2023 SME Survey," McKinsey & Company

<sup>2</sup> "Profitability Profiles: The Story of Deadweight Bank," Q2 PrecisionLender, 2021

<sup>3</sup> Q2 PrecisionLender, 2024

<sup>4</sup> Ibid

<sup>5</sup> Unlock the treasury management treasure chest: Evolve your offering, grow your opportunity," Accenture, 2022

<sup>6</sup> "Five Ways for Banks to Better Serve Small Business Clients," McKinsey, & Company, Dec. 12, 2023

<sup>7</sup> "How to Win in SMB Merchant Acquiring," Accenture, 2023

<sup>8</sup> Ibid

<sup>9</sup> "2024 AFP Payments Fraud and Control Survey Report," Association for Financial Professionals, 2024

<sup>10</sup> "7th Annual LexisNexis True Cost of Fraud Study: Financial Services and Lending Report," LexisNexis Risk Solutions, 2023

<sup>11</sup> "The Opportunity Your FI Is Missing by Not Effectively Selling Positive Pay," Datos-Novartica, 2024

<sup>12</sup> Ibid

<sup>13</sup> "2024 Strategy Benchmark," Jack Henry, 2024

<sup>14</sup> Gartner

**For more information about Q2, contact 1-833-444-349.**