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STICKY DEPOSITS

INSIGHTS

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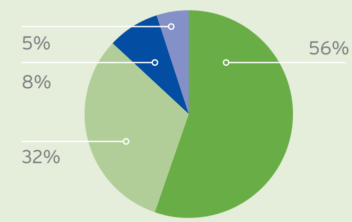
To attract and retain core deposits, banks can't rely on competing on pricing alone. Instead, institutions need to tailor their product offerings to the specific business segments they are looking to reach. This will help build long-term loyalty.

KEY METRICS

Which of the following best describes your expectations for how core deposits at your bank will move in 2025?

Source: Bank Director's 2025 Risk Survey



- Core deposits will moderately increase
- Core deposits will decline
- Core deposits will remain stable
- Core deposits will significantly increase

KEY TAKEAWAYS

- Sticky deposits start with segmentation, not pricing. Banks must align tools and services with the real needs of their target customer base.
- Embedding fintech into core platforms gives banks a way to create personalized, high-utility environments for commercial clients — reducing churn.
- The deposit strategy should be evaluated across the full lifecycle, from onboarding to cross-selling to behavior monitoring.
- Community banks can gain an edge by focusing on deepening relationships with commercial customers — all while delivering modern digital experiences.

After a turbulent period for liquidity, community banks are placing renewed focus on the durability of their funding base. For banks looking to attract and retain core deposits, the challenge is no longer just about rates — it's about relevance.

In today's competitive environment, "sticky deposits" are not the byproduct of customer inertia or a business owner living near a branch. Instead, they're increasingly the result of a bank's strategic segmentation and digital capabilities. Customers are looking for smarter banking experiences, and banks need to step up to meet these expectations.

That requires rethinking the one-size-fits-all model banks have traditionally offered. Community banks need to take what they already do well — providing high-touch relationship management — and incorporate more customer insights to better tailor products and services for their clients.

"Banks need to stop chasing deposits broadly and instead build products for the segments they're best positioned to serve," says Kirk Coleman, president of Q2, a digital banking provider.

To achieve this, banks must know the types of businesses they want to reach — such as title companies, logistics firms or homeowners associations — and tailor their operational strategy, not just their product catalog, to fit the individual needs of each segment.

"The banks that win are the ones that build their own" community, Coleman says, "They don't just add a product; they build a full-service ecosystem for a specific customer set."

With respect to your bank, which five risk categories are you most concerned about for 2025?

Respondents were asked to select no more than five options.

Source: Bank Director's 2025 Risk Survey; selected responses included

- 84% Cybersecurity
- 69% Fraud
- 58% Interest rate risk
- 55% Regulatory
- 51% Credit
- 43% Compliance
- 37% Liquidity
- 31% Strategic
- 23% Operational
- 6% Reputational

Why Digital Access Isn't Enough

"It's not just about giving customers more products," says Shon Cass, chief experience officer at Texas Security Bank, the $1.2 billion subsidiary of Texas Security Bankshares in Dallas. "It's about giving them the right tools to run their business more efficiently. If you do that, they have no reason to go anywhere else."

Banks learned a hard lesson in how easily customers can move their money in the spring of 2023, when three regional banks suffered a significant outflow of deposits and eventually failed. Since then, the cost of deposits has increased as interest rates have remained elevated, leading banks to compete on rates to keep customers. In the fourth quarter of 2024, the cost of deposits at community banks increased 23 basis points from a year earlier, according to the Federal Deposit Insurance Corp.

Even this year, liquidity remained a top priority for a significant number of bankers. Thirty-seven percent of senior executives and board members responding to Bank Director's 2025 Risk Survey named liquidity as a top concern.

This underscores that it's untenable to solely compete on interest rates to build long-term loyalty.

"At the core of sticky deposits is still a relationship," Coleman says.

The industry is also facing a generational shift. Business owners — especially younger ones — increasingly expect their bank to deliver the same seamless digital experience they receive as consumers. But a significant number of banks aren't offering services that could ease the lives of their business customers. For instance, 27% of respondents to Bank Director's 2024 Technology Survey said their bank offers payroll services to small-business customers. Less than a quarter said they offer accounts receivable capabilities, and 17% said they provide cash flow accounting.

"Mobile and online banking are table stakes today," says Cass. "Having access isn't enough. Customers also need tools that help them manage accounts receivable, payments or cash flow — and they want that without leaving their bank's ecosystem."

Tailored Tools, Tighter Relationships

Texas Security Bank has leaned into this idea by embedding fintech directly into its digital banking platform. Working with Q2, the bank created a suite of tools for business customers, including invoicing and click-to-pay capabilities, escrow sub-ledger tools and cash flow alerts.

The tools are accessible from a single app, offering flexibility and personalization — key ingredients for holding onto deposit relationships. At the heart of this strategy is the idea that a core deposit is no longer just a transactional account. It's a gateway into developing a broader relationship with the client.

"Every business owner is different," says Cass. "So, we give them a range of options. They can choose the tools that fit their workflow and their needs. That's what builds value and stickiness."

That's where platform-based banking, with embedded fintech and an ability to gather customer data in real time, can offer an advantage. Real-time insights into where deposits go when they leave a client's account — whether toward wealth management providers, crypto wallets or other external financial services — offer banks a new lever for proactively serving customers. Armed with this knowledge, banks could tailor more products and services to keep those funds from leaving.

Retention also requires patience, which may mean onboarding slowly, but with intentionality. Once a customer is in the fold, cross-selling and advisory engagement are vital. As Cass points out, business owners still crave relationships — not to complete transactions, but to gain advice, education and peace of mind.

"If it's a relationship-led account, you have to move at the speed of the customer," says Coleman.

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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.

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