2023 Revenue Challenges
What Bankers Are Planning

The Bankers' Perspective

Banking Industry Research by

strategycorps

Introduction

In 2022, StrategyCorps published the results of two surveys we did of hundreds of bank and credit union leaders. This provided firsthand bankers' views on the broad revenue pressures facing the industry at that time, and in our second survey, more specific reaction on overdraft/NSF policy and pricing changes and the replacement revenue strategies for this dominant and increasingly scrutinized fee source.

The direct banker feedback from these surveys was sometimes similar to what industry followers (namely, industry analysts and media) were saying. Sometimes quite dissimilar. From both survey results, the frontline banker perspective proved very insightful in terms of what bankers were thinking, planning, and doing.

As 2023 gets underway, we felt like it was time again to get direct input from bankers on what their plans were this year to address common revenue challenges. Like before, we surveyed hundreds of bankers and got useful insights that other bankers can reference and apply as they formulate and implement their own plans to address the revenue headwinds of the coming year.

We complemented these survey results with our quick view from our vantagepoint of working with over 350 financial institutions on replacement and enhanced revenue strategies and comparing these survey results to trendlines we are seeing from our proprietary database of over a billion retail banking performance data points.

We are pleased to provide this enlightening information to assist you and your colleagues as you decide what plans need to be made and implemented in 2023 to combat the revenue challenges your financial institution faces.

Note: *The sum of the percentages of the responses exceeds 100% because respondents could choose multiple responses.*

INQUIRIES

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02 What are your action plans for overdraft/NSF policy and fee changes?

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05 What are your plans to address the higher cost of core deposits?

06 What are your action plans for new customer growth?

07 Please tell us your area(s) of responsibility

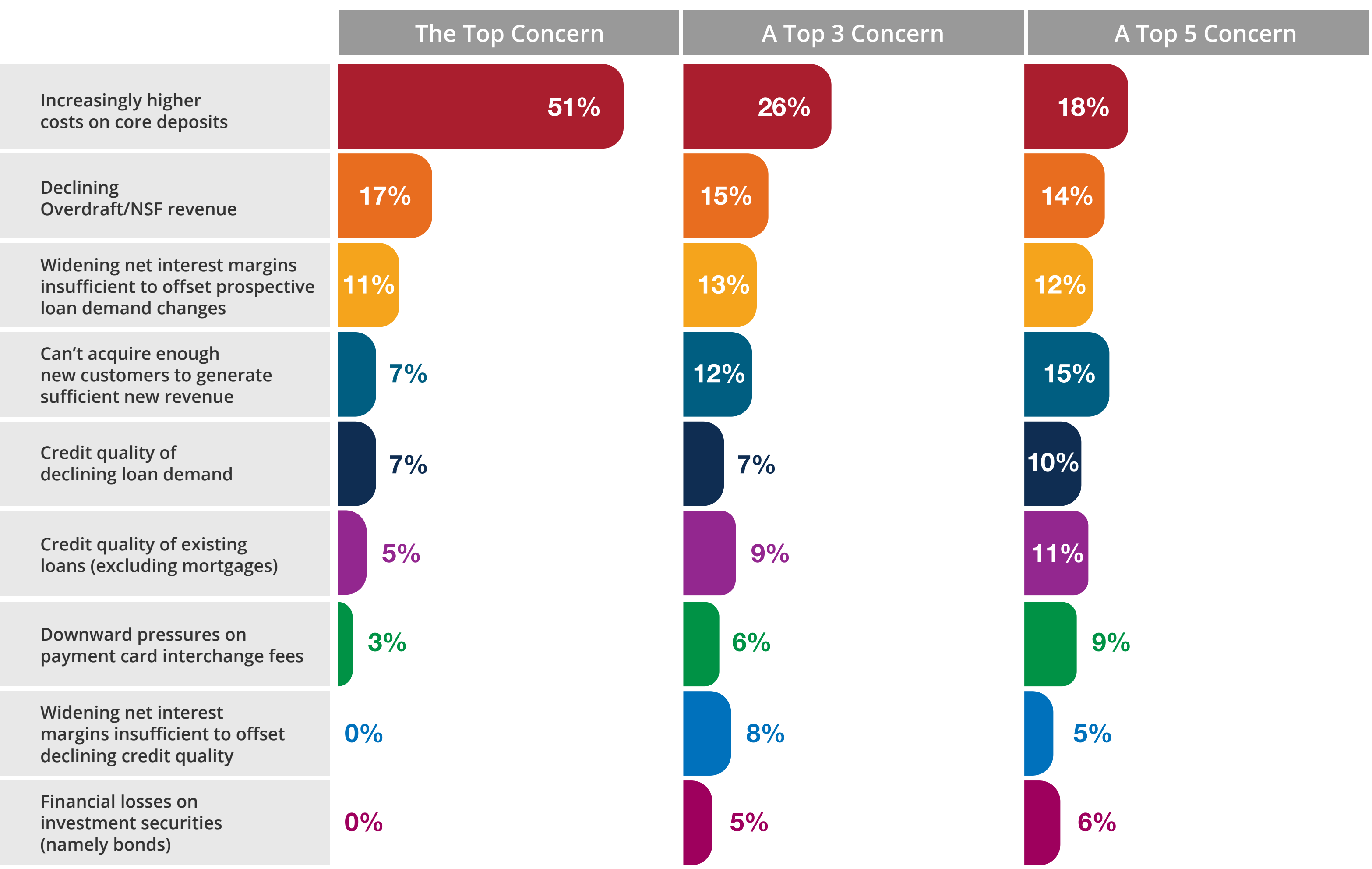
01 What are the top revenue concerns facing your financial institution in 2023?

(Please rank order at least your top 5)

Our View: Gone are the days of parked money costing FIs just a few basis points of interest. Rising rates and the popularity of high interest rate savings accounts ranging from traditional banks like Capital One to digital banks like SoFi are siphoning off deposits or requiring the incumbent FI to pay higher rates to retain these fluid deposits.

Regarding OD/NSF, since our OD/NSF survey we've seen more and more community FIs respond with pricing and policy changes that were pioneered mainly by the mega- and large banks. ODs/NSFs aren't making a comeback so better find some other fee revenue source - fast.

While net interest margins have expanded recently (but are now contracting again), bankers feel this isn't enough to offset the revenue from the downtick in sustainable loan demand. Despite this, credit quality doesn't seem to be a concern...yet.



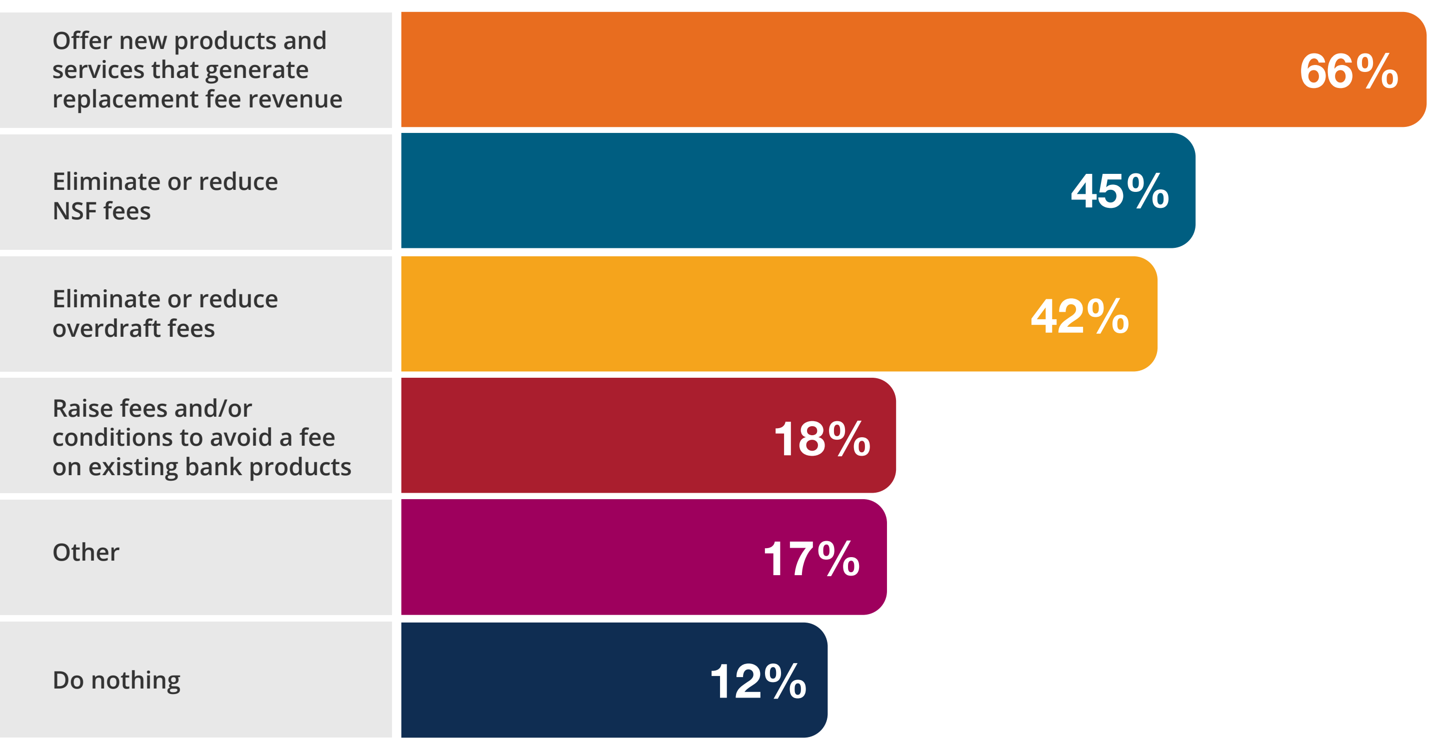
02 What are your action plans for overdraft/NSF policy and fee changes?

(select up to 3 top actions)

Our View: Unsurprisingly, out of 6 choices, offer new products and services was most frequently in the top 3 actions. Great idea for another survey question, "what exactly are these new products and services?" (Be on the lookout for our next survey that will be asking this question!)

The elimination or reduction of OD/NSF fees has increased in popularity since our 2022 OD/NSF survey as the reality has started to sink in that the "do nothing" option isn't really an option if you care about dependable levels of revenue from this service.

It's also inevitable that other fees, namely service charges, will be making a comeback to generate replacement revenue. There better be more value than the typical vanilla checking account to increase that fee or make it more difficult to avoid, or your customer service/call center personnel will be putting in overtime.

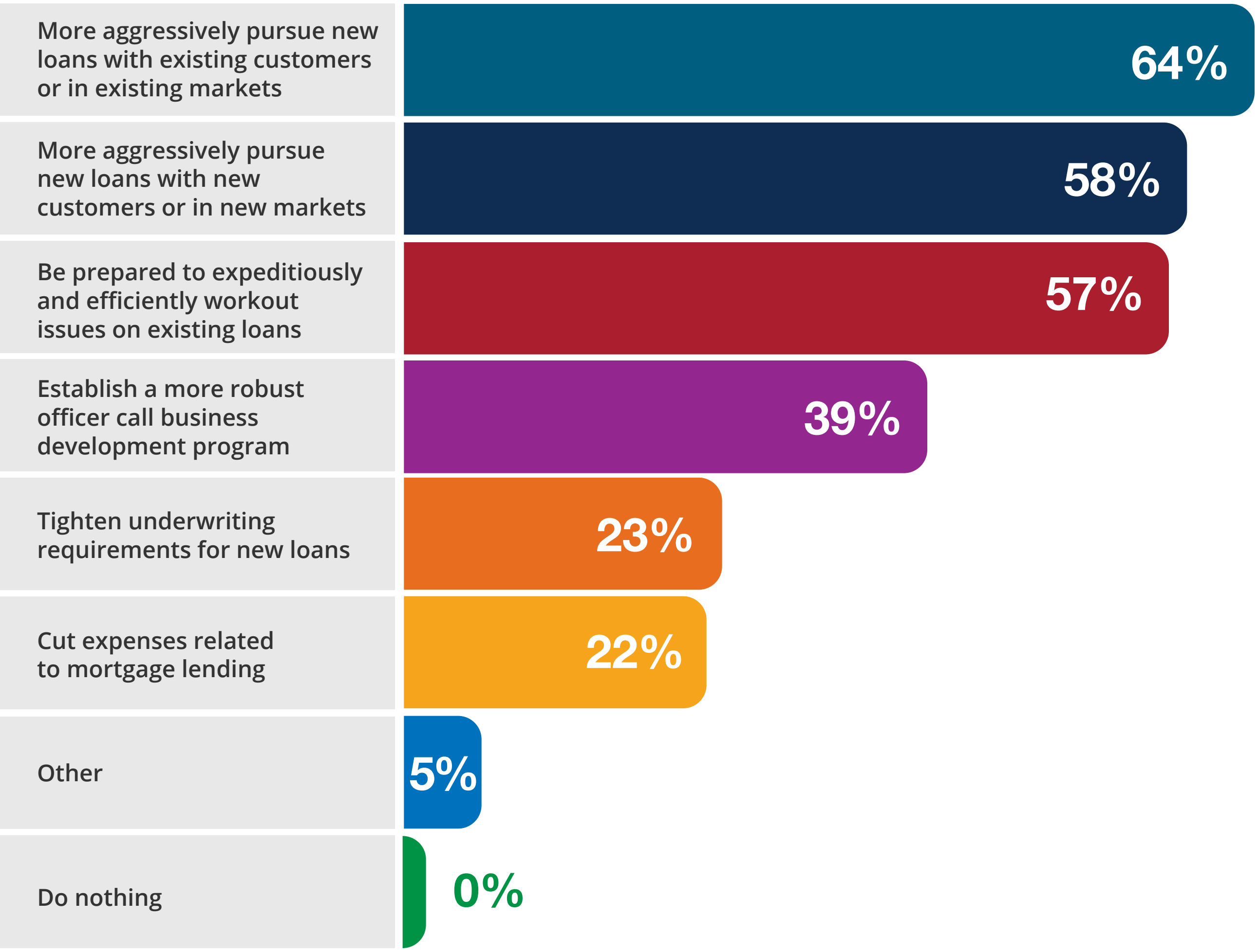


03 What are your action plans for loan quality and demand?

(select up to 3 top actions)

Our View: Well well...the top 2 action plans of more aggressively seeking new loans from existing and new customers compared with the third top action of workout preparation means – current loans' credit risk over-rated? Under-rated? Unknown? Who cares? Low worry workouts available if problems arise? Guess we'll have to wait and see.

To more aggressively pursue and procure more loans means you need more productive salespeople utilizing a more effective officer call biz dev program, which must be the reason for this being the fourth most popular action. Interested to see how that fits works for FIs that don't have a robust call program in place currently.

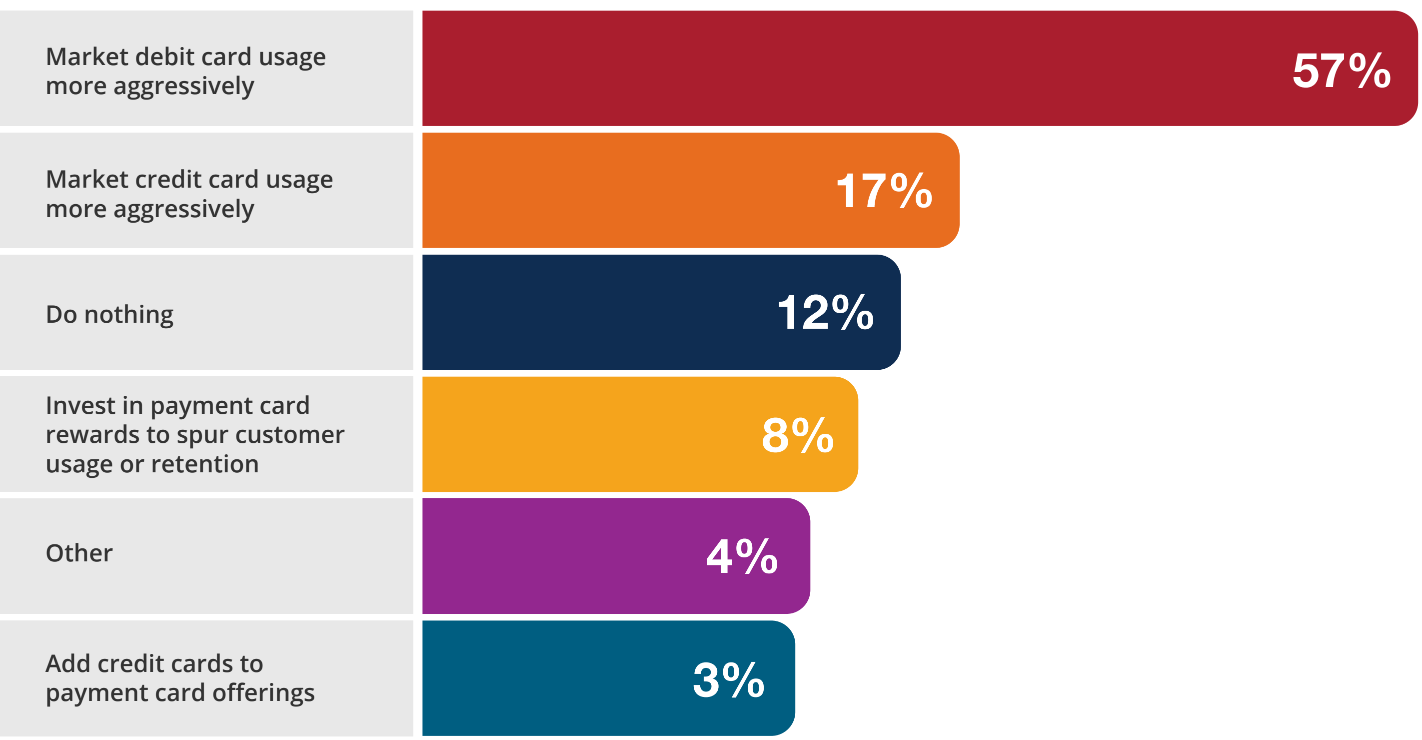


04 What are your action plans to address slow/no growth payment card interchange fees?

(select up to 3 top actions)

Our View: Overwhelmingly trying to get consumers and businesses to use their debit cards more is the obvious top answer here. Since there seems to be very low interest in investing in rewards to spur debit card growth, it has us wondering what is going to be offered to get the usage increased.

One untapped opportunity we know is small business debit card usage. Currently for most FIs, this usage is only 2-5% of total debit card swipes. But these small business debit swipes account for 15-20% of total debit interchange revenue. Make sure your officer biz dev program (from question 3) includes getting a bonus for increased small business debit card usage along with their new loan and deposit quota.

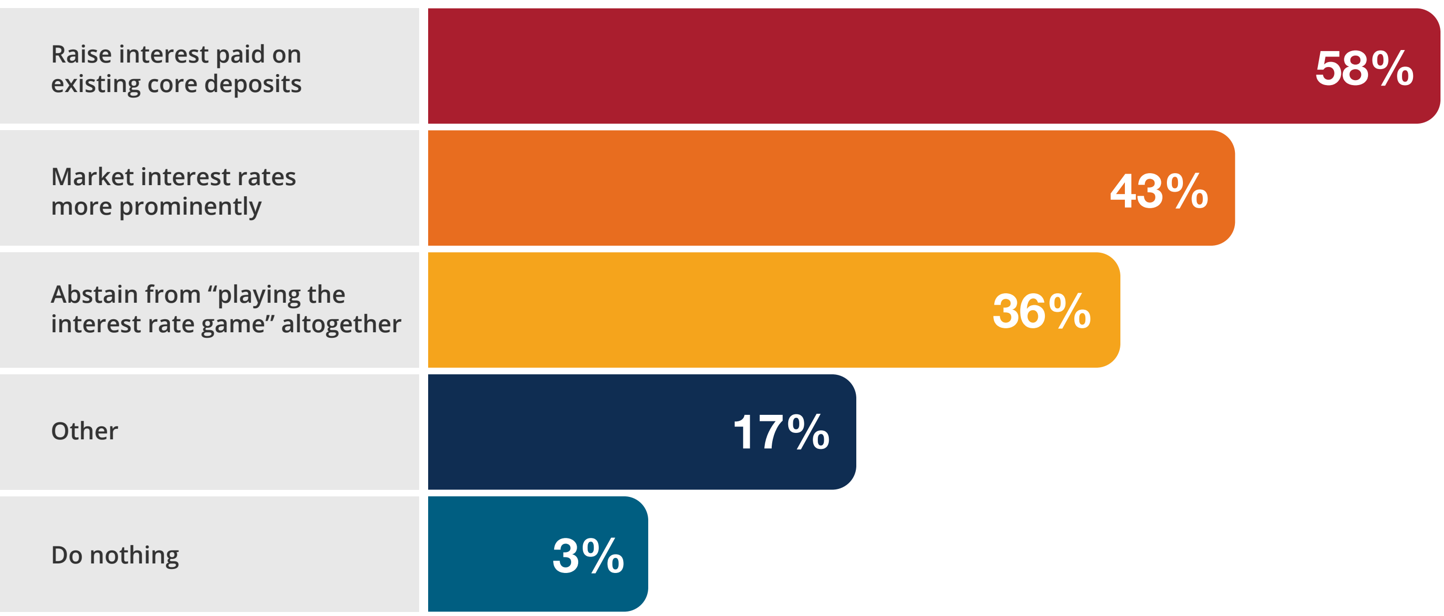


05 What are your plans to address the higher cost of core deposits?

(select up to 2 top actions)

Our View: Looks like the marketing messages of FIs promoting high-rate savings accounts that rely on "paying interest at 20x the national average" is starting to actually result in a material interest rate for consumers to act upon. The top two popular plans should cause a major deposit runoff concern for FIs still offering a few basis points as the top two plans call for increasing the cost of low-cost deposits.

On the flip side, for the 36% of bankers who believe in abstinence is the best policy, betting on your customers/members "loyalty" to you and your lower interest rate is likely more a bet on customer/member inattention and lethargy. It will be interesting to see as the Fed continues to raise interest rates, how many actual FIs chose to sit on the sidelines of the interest rate game. Our bet is it will be well under 36% who say they won't play the interest rate game.

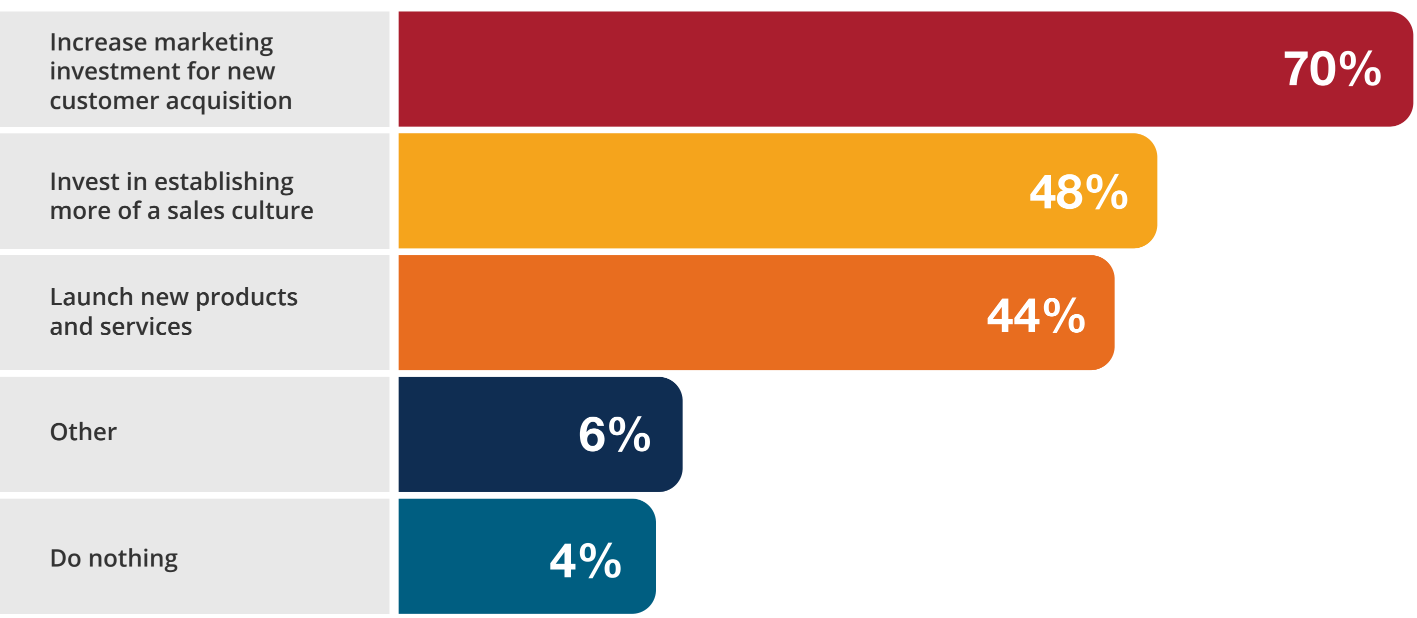


06 What are your action plans for new customer growth?

(select up to 2 top actions)

Our View: We're continuously surprised by bankers placing so much emphasis on new customer acquisition rather than trying to expand the relationships of existing customers. We get it, cross-selling is hard and few FIs do it very well, but with only 11% of consumers switching primary banking relationships per year and every FI trying to land a switcher, growing from the outside is even harder. Mega banks can and do out market nearly everyone and they're getting 80% of new account openings. Optimizing the existing book of business merits more prioritized attention, especially for community FIs.

Whether your FI looks for new customers or expands the business of existing ones, without better (and differentiated) products and services and a strong sales culture to sell more, just increasing investment in marketing commoditized products is not an effective use of resources. You have to market AND sell your way to more revenue with at least slightly differentiated products. You can't do just one or the other and expect to grow revenue.



07 Please tell us your area(s) of responsibility

(check all that apply)

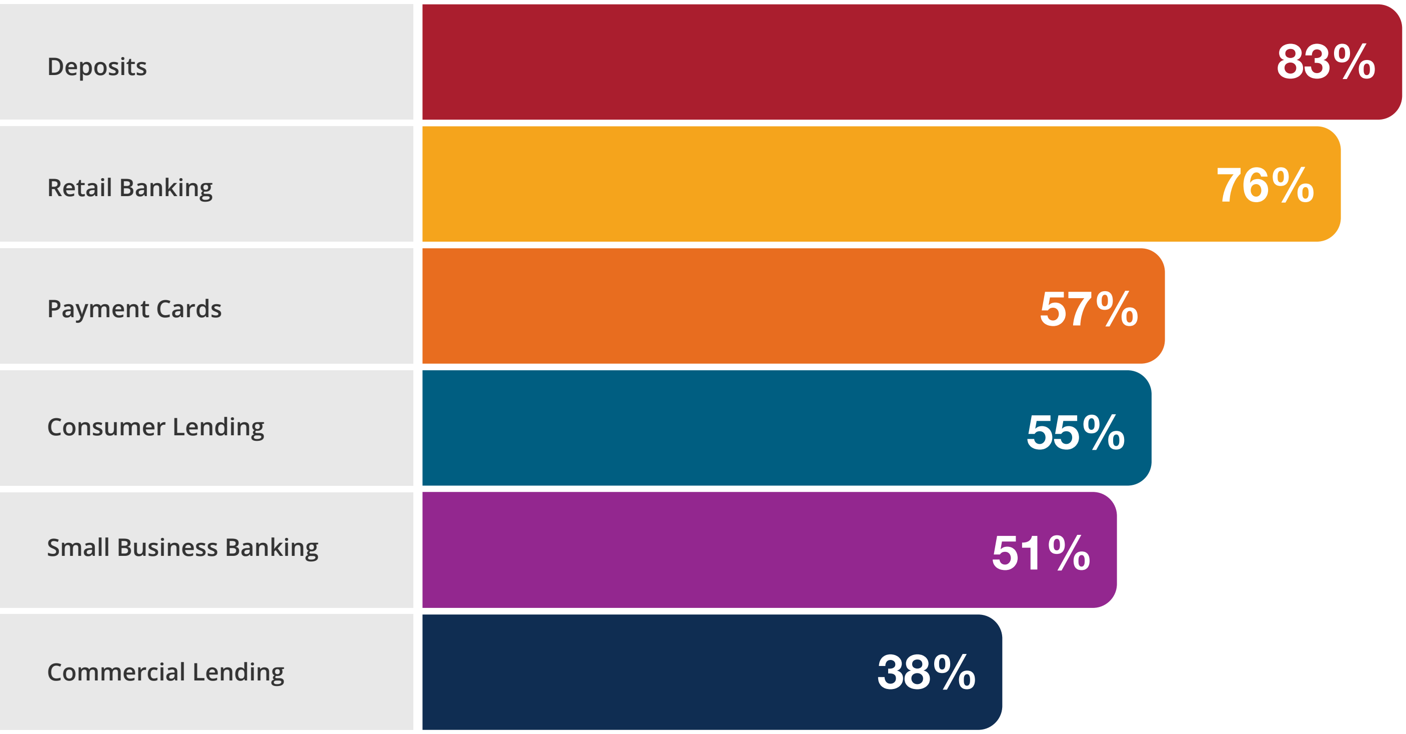
Our View: Our respondents were a fair representation across all major areas of banking (relatively speaking, commercial lending responsibility was a bit less), so the takeaways from the responses are insightful in terms of how bankers are thinking about these 2023 revenue challenges. Thanks to all for participating!

Where some see challenges, others see opportunities.

We at StrategyCorps feel that in 2023 FIs need to

- Prioritize and optimize what revenue opportunities are in place with existing customers/members
- Judiciously invest in new customer/member growth
- Find ways to firmly manage expenses without "cutting into muscle" and see what arises during 2023 (we all know some rises will be continuing interest rate hikes by the Fed).

2024? – let's hope for less revenue challenges!



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